

Piclo Response - Future of Local Energy Institutions and Governance

Dear DSO Governance Team,

We welcome the opportunity to respond to Ofgem's consultation on the future of local energy institutions and governance. Governance has an essential role in the energy sector and this consultation comes at a critical time for flexibility markets: the DSOs begin their first year under a new flexibility-focused price control period (RIIO-ED2), new markets such as the Demand Flexibility Service and the Local Constraint Market focus on the value that can be unlocked from distributed flexibility and the need for coordinated and streamlined markets rise in importance.

As Ofgem outline, the progress achieved over the past few years has been significant and has positioned the UK at the forefront of flexibility markets worldwide. It's exciting to see the ambition and progress being achieved across the sector, yet we agree that much more remains to be done to secure competitive, coordinated and streamlined markets, which will play a critical role in the UK's target to have a decarbonised power grid in only 12 years' time, by 2035. The pace of progress needs to be increased, and we cannot wait until the start of the next price control period in 2028; equally, we also cannot wait until the FSO is fully operational.

Consequently, it is essential that the decisions made by Ofgem now take into account and catalyse the progress that is required in the immediate short-term, whilst exploring and evolving the high-level proposal put forward here to work towards an adaptive and dynamic governance set-up, with clear institutional roles, that would play in accelerating this progress in the medium-long term:

1. **The UK is a flexibility market world leader, with innovative UK-based companies which are contributing to this leadership:** progress is happening fast and decisions now must minimise the risk of stalling flexibility market development and enable development to continue uninterrupted¹
2. **Significant progress can be made now:** in the short-term, Ofgem should focus its efforts to unlock key ingredients that will enable flexibility markets to develop at pace. At the core of market progress and development are the regulated entities' activities, incentives and penalties. When these are aligned, action and results are delivered. System Operators will only prioritise flexibility in market procurement and dispatch, coordination and whatever else is clearly set out in their regulated activities and appropriately incentivised or penalised. Ofgem must create a coherent and aligned approach to this across their workstreams. The new price control period has been underway since April 2023, with terms reviewed and agreed upon by Ofgem - it is imperative Ofgem review and understands that the areas where they want to see progress are suitably incorporated into this cornerstone of the energy system.
3. **Take an adaptive and dynamic approach to future governance:** progress and decisions made now will evolve the role and scope of the potential market facilitator role. Ofgem recognises the importance of dynamism (paragraph 6.4), and its decisions must be adaptive to the pace of change happening, particularly within the technology sector, and include a wider assessment of dynamic governance arrangements

We are happy to clarify or discuss any of the discussion points in this response further.

¹ LCP Delta and SmartEn, 2022 Market Monitor for Demand Side Flexibility (Feb 2023), available at: <https://smarten.eu/wp-content/uploads/2023/02/DSF-Market-Monitor-2022.pdf>

Detail

1. The UK is a flexibility market world leader: progress is happening fast and decisions now must minimise the risk of stalling flexibility market development

The UK has established itself as an undeniable world leader in flexibility markets. Whilst more must be done to catapult forward UK flexibility markets scale, coordination and liquidity, this must be done so without putting at risk what has pushed us forward to date, including:

- **Innovative solutions:** an environment that has enabled the fast-paced development of innovative solutions that can be quickly scaled and rolled out business as usual.
- **Competition:** a competitive, decentralised landscape that facilitates third-party parties to build and compete to deliver value-adding services
- **Learning and iterating:** one element to the successful approaches so far has been not assuming our current understanding or approach to solutions in flexibility markets is the final, perfect or complete vision. Consequently, adaptability and iteration have been core to the successful developments to date and will be critical as we shift towards a truly flex-centred energy system.

We agree a shift needs to happen to enable the implementation of scaled, business-as-usual innovative solutions over innovation projects. Key to enabling this is a competitive landscape for innovative developments as well as the right mindset and incentives for key roles such as system operators to adopt these enabling technologies - Ofgem must explore how to align their various workstreams with the price control frameworks. Linked to the competitive landscape, further consideration is required on what services and values are best delivered through centralised in-house developments or decentralised, innovative solutions. Finally, a catalyst is needed to create conditions where successfully collaborative and iterative developments such as the Demand Flexibility Service can become more widespread. Whilst progress is needed across all of these areas, these conditions have driven forward progress at pace to date, and so should be complemented by additional steer from Ofgem, and not put at risk. It is these existing conditions that have contributed to a huge amount of progress over the last few years and this development continues at a significant pace today, including

- **Rapid technological development:** DSO flexibility market platforms were previously fragmented in their functionality, resulting in a suboptimal experience for FSPs that had to use multiple platforms and processes. The above conditions in the UK, investments from DSO clients and investor funding as well as international investment (which has come as a direct result of UK leadership in flexibility markets), have meant Piclo Flex has been able to develop and launch this year the end to end functionality and streamline full access and participation on one platform. On top of this, greater automation in DSO flexibility markets has now been developed, tested and rolled out via [open APIs](#) and short-term market functionality has been developed that will enable a wider set of FSPs to participate.
- **DSO convergence:** The above has resonated with the market, with FSPs able to participate in 3 DSOs and National Grid ESO markets via Piclo Flex.
- **Change in mindset:** The DSOs using Piclo are increasingly collaborative and cooperative - seeking to align and work together. This is in direct comparison to the competitive nature of DSO flexibility markets started with. Examples include regular DSO Forums and the annual co-hosted Flex Forum event between Piclo and the DSOs using Piclo Flex.
- **Coordination:** The National Grid ESO Local Constraint Market development has also led to the first real-world, business-as-usual step towards coordination across TSO-DSO markets, focusing initially on data requirements and exchange to provide visibility.
- **Market progress:** at the market design level, progress is happening and with the right signals could be accelerated forward. This includes areas like process standardisation (particularly asset data and qualification processes), common APIs and product standardisation.

This progress must continue uninterrupted by the ongoing Ofgem workstreams. However, there is a risk of stalling development due to uncertainties regarding the future role and scope of DSOs at the start of their new ED2 process, as well as the scope and remit of the FSO. This could impact areas such as DSO investment and market design progress in existing workstreams. Possible FSP uncertainty as to the direction of travel with DSO flexibility markets both in terms of roles as well as flexibility platforms, causing a stall in progress in areas such as API uptake until more clarity is set out. The outcome of the Future of Distributed Flexibility Call for Input also could have a significant impact on these roles, with the potential for the market facilitator role and digital architecture platform to be centralised to one entity - an outcome that must be considered in greater detail as these workstreams develop as to its appropriateness.

A hiatus in the fast pace of development would have significant ramifications for the development of flexibility markets, investment in the UK and the pace needed for a decarbonised power system by 2035. Ofgem must ensure in the short, immediate term that certainty is provided to the existing areas of progress and workstreams to ensure development continues whilst governance arrangements are established.

2. Significant progress can be made now: in the short term, Ofgem should focus its efforts to unlock key ingredients that will enable flexibility markets to develop at pace

At a high level, the vision as well as many of the problems set out by Ofgem with flexibility market access, participation and coordination are agreed with. A helpful approach that would ensure short-term progress is not interrupted would be for Ofgem to set out specifically what needs to be in place by a specified timeline. Significant progress can be made on these now. Other challenges outlined by Ofgem, such as stacking rules (para 4.07) also need progress now, rather than waiting for a new entity to be established.

Mindset and incentives: at the core of market progress and development are the regulated entities' activities, incentives and penalties. When these are aligned, action and results are delivered. System Operators will only prioritise flexibility market procurement and dispatch, coordination and whatever else is clearly set out in their regulated activities and appropriately incentivised or penalised. Ofgem must create a coherent and aligned approach to this across their teams. The new price control period has been underway since April 2023, with terms reviewed and agreed upon by Ofgem - it is imperative Ofgem review and understands that the areas where they want to see progress are suitably incorporated into this cornerstone of the energy system. Examples of this could include the following:

Contract stacking: primacy rules and the ability to contract stack must be resolved as a high priority for coordination to be meaningful in the energy sector. This market design issue results from exclusivity clauses and contracts, unaligned market timings and processes as well as a lack of established processes and even trust between entities. Ofgem must use the frameworks in place, such as incentives and price controls, to see these resolved quickly. In turn, technology solutions already in development will be able to drive forward at pace. A live example of this includes the Local Constraint Market, which for the first time will see the roll-out of flexibility services to solve constraint issues at both the distribution and transmission levels on Piclo Flex. Consequently, Piclo is developing a technology-based coordination solution that will be iterated and developed on, however, for this to be truly optimised, the contract exclusivity preventing FSP stacking and participation across markets as well as other market design processes also require focus.

If these are resolved and Ofgem set the principles and success criteria they wish to see, the technological solutions (or value-added services) that will enable FSPs to easily participate across multiple markets will more easily develop. Ofgem must prioritise barriers to FSPs, which form the heart of these markets and are often ignored in the TSO-DSO framing of coordination.

Open and common APIs: APIs are critical pieces of infrastructure that will form the basis of scalable, integrated and coordinated markets. Piclo has published all of its [API documentation](#) for SOs and Flexibility Service

Providers and is committed to evolving these in collaboration with the rest of the industry to prioritise ease of access and participant experience. Piclo's APIs currently include dispatch, asset management, bidding, competition visibility, bid management, competition, dispatch, availability, contracts, and competition results, and have benefited from input from SSEN, NG ESO, Enel E-Distribuzione and various FSPs. Piclo is committed to the continuing development of these open APIs and is exploring alignment with existing standards (such as USEF, OpenADR and IEEE) as well as participating in industry working groups (such as ENA Dispatch API).

Standardised processes: More standardisation of what data is collected, in what format, and the process of how and when it is shared across parties would improve access to, participation in, and coordination across markets as well as the availability of market data. This would benefit the end-to-end process in flexibility markets and improve areas such as registration, qualification, bidding timeframes and processes, contracts, market coordination and more.

Industry agreement on market access and data sharing: Linked to both of the above, how market platforms collect and share data could improve in the short term with clear success criteria and facilitate the rise of coordinated and standardised markets.

We believe significant progress can be made in all these areas in the next 12-24 months, with clear framing, strong signals and added weight from Ofgem. Ofgem must work with industry and existing initiatives like Open Networks to progress this at pace. We do not see the reason for any pause or wait for this role to be defined, set up and come into existence before these are resolved. Indeed, with the right attention, many of these could be resolved before such an entity comes into being.

What can be done to get there in the short term?

The consultation did not set out to understand why there was a slow pace in the existing workstreams, nor how these could be improved in the short term (regardless of the long-term governance plan). Ofgem must work with industry and existing initiatives like Open Networks to identify what are the blockers and work to remove them. Whilst some good progress has been made under the Open Networks, we recognise that too often the pace and comprehensive adoption (or lack of), has been dictated by the slowest DSOs and effective vetos, rather than agreements between a majority of DSOs becoming the de-facto standard. Some suggestions:

- Re-engage: add Ofgem's weight to existing processes such as Open Networks. Send clear signals to the market on expectations and success criteria
- Reform: Identify ways existing processes such as Open Networks could be accelerated (quicker review and decision process so that decisions are not impacted by the least ambitious or slowest DSO, more independence, better clarity on what DSOs are implementing the changes and which are not)
- Widen: companies like Piclo have a role to play in this development and we see the importance of this. We will ensure we work effectively with existing processes to implement the changes quickly (e.g. PQQ standardisation)
- Shift the narrative away from competition: DSOs have been driven to try and outdo each other and establish themselves as leaders by doing their own approach. This has led to different approaches and inefficient developments. DSOs using Piclo have now come together to improve the markets together, this would be a beneficial approach to be taken across the entire sector
- Review: ED2 is a key driver of flexibility markets but many of the incentives are not yet tested and so remains uncertain whether they will have the intended effect on behaviour. Frequent, joined-up reviews across Ofgem need to occur during ED2 to ensure the desired actions and priorities are taken, as well as feeding into future network regulation pieces.

3. Take an adaptive and dynamic approach to future governance: progress and decisions made now will change the role and scope of the potential market facilitator role. Ofgem's decisions must be adaptive to this and include a wider possible set of governance arrangements

Governance has an important role and we think it is appropriate there is a greater role for it in flexibility markets. However, there are currently many uncertainties that will impact the scope and responsibilities of the market facilitator role: e.g. future of distributed flex consultation and who might be responsible for building it (should it all sit with one role?), the timing and responsibilities of the yet to be established entities. Equally, there is a lot more progress that will be and could be unlocked before this role could be established and come into effect.

There was not sufficient detail on what the future governance arrangements would look like and how they would be dynamic and adaptable to keep pace with the level of progress happening, particularly in the technology and software sectors. This needs to be set out and established clearly for the market facilitator role to be successful.

Response to specific questions

Q5. Do you agree with our proposal for a single, neutral expert entity to take on a central market facilitation role? If not, why not?

We see the benefits of governance arrangements within flexibility markets, but there has not been enough detail or clarity on how these would be adaptable and dynamic enough to keep pace with fast technological developments and solutions coming forward, and not stifle innovation and competition. Equally, this consultation must be viewed alongside Ofgem's other workstreams, including the Call for Input on the Future of Distributed Flex and the possible new roles surrounding platform development that will come forward. Greater consideration needs to be explored on the interplay between those two workstreams and whether one entity should be responsible for governance and new digital architecture.

Furthermore, we are concerned that setting out a binary decision between existing processes now and the market facilitator role in the coming years would stall development in the short term - there is more nuance and things can be improved in the short term to minimise the risk of a hiatus.

We do agree that some UK DSOs have attempted to develop their own platforms, even though such software development is not within their core competency (para 4.17). We therefore agree with Ofgem, that the optimum value-for-money approach is for DSOs to use independent, market platforms, which can rapidly evolve to address DSO needs - both in the UK and abroad.

Q6. Do you agree with the allocation of roles and responsibilities set out in Table 2? If not, why not?

The table presented is too binary in its distinction between roles and responsibilities - e.g. market engagement should not be solely in the remit of the market facilitator - an updated perspective that recognises these nuances should be presented for further discussion.

Equally, the progress happening now could potentially impact the responsibilities of the market facilitator and so an adaptive and dynamic approach to their role and scope should be designed.

This consultation must also be viewed alongside Ofgem's other workstreams, including the Call for Input on the Future of Distributed Flex and the possible new roles surrounding platform development that will come forward. Greater consideration needs to be explored on the interplay between those two workstreams and whether one entity should be responsible for governance as well as the new digital architecture.

Q7. Are there other activities that are not listed in Table 2 that should be allocated to the market facilitator or other actors?

NA

Q8. What are your views on our options for allocating the market facilitator role?

There remains a lot of uncertainty and a lack of details about the set-up and structure of the future market facilitation and governance role. This role and its structures and processes need to provide confidence that it will be adaptable and dynamic plus provide meaningful benefits in comparison to the state of play currently. None of these have clear answers so it is difficult to comment on the allocation of the market facilitator role. We see it could be done by a number of entities in the energy sector.

Q9. Are there other options for allocating the market facilitator role you think we should consider? If so, what advantages do they offer relative the options presented?

An option that must be explored in the short term is how existing processes can be maximised to deliver progress before a market facilitator role is implemented. Suggestions include:

- Re-engage: add Ofgem's weight to existing processes such as Open Networks. Send clear signals to the market on expectations and success criteria
- Reform: Identify ways existing processes such as Open Networks could be accelerated (quicker review and decision process so that decisions are not impacted by the least ambitious or slowest DSO, more independence, better clarity on what DSOs are implementing the changes and which are not)
- Widen: companies like Piclo have a role to play in this development and we see the importance of this. We will ensure we work effectively with existing processes to implement the changes quickly (e.g. PQQ standardisation) and commit to the vision set out
- Shift the narrative away from competition: DSOs have been driven to outdo each other and do their own thing. This has led to different approaches and inefficient developments. DSOs using Piclo have now come together to improve the markets collectively, this would be a beneficial approach to be taken across the entire sector
- Review: ED2 is a key driver of flexibility markets but many of the incentives are not yet tested and so remains uncertain whether they will have the intended effect on behaviour. Frequent, joined-up reviews across Ofgem need to occur during ED2 to ensure the desired actions and priorities are taken

We see there could be a wider role for industry to play in these processes than currently. This could have some advantages and tap into the expertise (such as from platforms) not currently being optimised or maximised.

Further exploration on alternative governance models could also be explored, this includes open-source governance structures.

Q10. Do you agree that DNOs should retain responsibility for real-time operations? If not, why not?

Yes we agree