

ELEXON

09 February 2024

By e-mail to: FWP@ofgem.gov.uk

Dear Enterprise Portfolio Management Office,

Re: Ofgem's Forward Work Programme – 2024/25

Thank you for the opportunity to respond to your consultation on Ofgem's forward work programme for 2024/25.

Elxon is an independent, not-for-profit company that manages the Balancing and Settlement Code (BSC) for the electricity market. We provide governance, settlement and data platforms (Elxon Kinnect) that enable the smooth operation of the electricity market, which incorporates energy suppliers, generators, flexibility service providers and network companies across the GB.

Our end-to-end expertise in governance, assurance, technology platform development and electricity market data is available to support the industry, Government and Ofgem, as the energy sector transitions to net zero. Building on our purpose of serving the industry, the electricity market data we hold is open, and available for anyone to access, analyse and distribute. As a trusted, independent and reliable market expert, we continuously look to evolve and innovate for the benefit of our customers and consumers.

Most recently, we utilised our domestic and non-domestic half-hourly consumption data alongside our extensive knowledge, to administrate the Government's Energy Price Guarantee and Energy Bill Discount Schemes, processing up to £650m of subsidy payments per week - providing vital support to consumers. We also calculate, collect and distribute payments to Contract for Difference (CfD) generators and Capacity Market (CM) providers, on behalf of the Low Carbon Contracts Company (LCCC).

In our response, we welcome Ofgem's refreshed strategic framework and the three key priority areas it focuses on. We particularly support Ofgem's new Net Zero mandate, which requires Ofgem to consider Net Zero objectives in its decision-making. Within Ofgem's priority areas we have identified several areas where Elxon can offer support, share our expertise and best practices. This ensures that Ofgem can leverage the existing capabilities and skillset already available within industry, particularly as the scope of industry initiatives expands. We believe that there is value in sharing views, and welcome further collaboration with Ofgem.

We have limited our response to areas where we feel we can add value. If you would like to discuss any areas of our response, please contact Hussein Osman, Senior Market Intelligence Analyst (Hussein.Osman@elxon.co.uk)

Yours sincerely,

Peter Stanley
Chief Executive Officer

Elxon's consultation response

Q1. We would welcome your views on our refreshed strategic framework and proposed programme of work for 2024/25

We welcome Ofgem's refreshed strategic framework, which consolidates its regulatory work and core activities into three strategic priority areas. An aspect we particularly welcome is Ofgem's new Net Zero mandate under the Energy Act 2023, which means that Ofgem will now have a duty to factor in net zero targets in decision-making, effectively supporting the Government and industry in achieving the goal of net zero emissions by 2050. Similarly, Elxon's purpose and a key part of its strategy is serving at the heart of the industry and facilitating the transition to net zero. Therefore, we firmly believe it is crucial for key actors within the energy system to integrate net zero principles into their purpose and strategies.

We suggest that Ofgem incorporate an 'update section' in future Forward Work Programmes to track and report their progress on the proposals from the previous year. This addition will enhance transparency and help Ofgem and industry maintain focus on key workstreams. A risk we identify is the expanding scope of industry initiatives and the constrained resources, posing a threat to the timely delivery of crucial workstreams. This is a consideration for Ofgem, particularly as its scope grows with the addition of new activities.

As part of its purpose and as a not-for-profit, Elxon continues to seek ways in which it can deliver more value to industry. We have identified numerous interdependencies and areas where Elxon can provide support to Ofgem, sharing expertise and best practice. Below, we have outlined our thoughts on Ofgem's key priority areas that are relevant to our capabilities.

Shaping a retail market that works for consumers

We fully support Ofgem's priorities in the retail markets, both in the short and long term. The projects within this priority area appear to be in line with the outcomes outlined in the Department of Energy Security and Net Zero (DESNZ) policy paper titled 'Delivering a better energy retail market – A vision for the future and package of targeted reforms,' which was published last summer. We propose that there is alignment between these two workstreams, and they mutually support and inform each other, preventing unnecessary duplication and overlap, and driving collaboration.

In 2022, Elxon managed the Government's Energy Price Guarantee and Energy Bill Discount Schemes, leveraging our expertise in electricity settlement and data management to provide vital support to consumers. We remain committed to supporting the Government and Ofgem on projects that aligns with our expertise and capabilities and to support consumers, while delivering a secure, clean, affordable future energy system.

Enabling infrastructure for net zero

We agree with Ofgem's assessment that reaching the Government's goal of a decarbonised power system by 2035 requires a substantial increase in infrastructure. This challenge is further complicated by the rising demand for electricity due to the electrification of other sectors, such as heat and transport. Ofgem, in collaboration with the industry, will play a crucial role in ensuring that the energy system is not only better coordinated and strategically planned, but also that new infrastructure can be built at pace and cost-effectively, all while ensuring resilience is maintained.

However, we would like to note that Ofgem should leverage and build on existing central markets' infrastructures, expertise, and capabilities, where possible. This approach will lead to efficient outcomes for all stakeholders, while ensuring that the transition to net zero is achieved at least cost. We are committed to supporting Ofgem and the industry when a clear alignment exists between Elexon's capabilities, and the opportunities being discussed.

Local Energy Governance:

We would like to thank Ofgem for their swift progress in driving flexibility initiatives forward last year, not only in local energy governance, but also in other key areas such as developing the enabling infrastructure for flexibility markets and engaging consumers in distributed flexibility. Moving quickly enables Ofgem and the industry to achieve faster delivery and achieve the end goal of creating more open, transparent, and coordinated flexibility markets. This will benefit both the energy system as well as end consumers.

In November 2023, Ofgem highlighted in their decision document on their March 2023 consultation on Future of local energy institutions and governance, that Elexon was deemed a credible candidate for the market facilitator role, with stakeholder support for Elexon assuming the role. In the following month, Ofgem consulted with industry on whether Elexon or the Future System Operator (now known as the National Energy System Operator) would be better suited to deliver the role. Here are some key positions from Elexon's response:

1. Strong support for Ofgem's vision and proposals regarding the market facilitator's role and recognise the importance of ensuring that governance arrangements at the subnational level are fully developed and harmonised to enable a cost-effective transition to net zero.
2. Agreement with Ofgem's design principles, emphasising the addition of "Trust" as a crucial principle. We suggested that Ofgem consider principles holistically rather than in isolation. For example, combining expertise, impartiality, and trust for fair processes and treatment of market participants.
3. Emphasised the importance of impartiality, neutrality, trust, inclusivity and accountability for effective implementation and delivery of the market facilitator role. The absence of these core principles could lead to inefficient outcomes or a conflict of interest.
4. Partial agreement with Ofgem's assessment of Elexon's suitability, highlighting specific principles where evidence may be incomplete on our capabilities. To demonstrate our expertise in areas where evidence may be perceived to have been lacking, we generated a collection of discussion papers covering various principles such as Metering, Governance, Market Design, and others. This was aimed at demonstrating our expertise in those specific areas.
5. Acknowledgement that any entity taking on the role will need to develop distribution level expertise. While we have over five years of experience in collaborating with the Open Networks group and other initiatives focused on sub-national arrangements, we have pinpointed specific areas where our expertise is perceived to be lacking. If granted the role, we are committed to addressing these gaps comprehensively.
6. We propose that Ofgem expands the accountability scope, viewing it as twofold:

the accountability of the market facilitator to Ofgem and the accountability of market participants to the market facilitator.

7. Elexon is fully committed to progressing the areas of work of the market facilitator role and is a suitable candidate to lead the delivery of this role, to get the distributed flexibility markets established and connected with the existing national level markets and arrangements for maximum operational transparency, revenue stackability, and creating a customer-centric, flexibility centric future electricity system.

We are committed to our vision of collaborating with the industry to make significant progress in the energy transition towards achieving net zero. Regardless of the outcome of the consultation on local energy governance, we will maintain this commitment and work openly and collaboratively with Ofgem, FSO/NESO, and the industry.

Establishing the FSO:

We are supportive of the creation of the FSO, and remain committed to supporting Ofgem on this workstream, particularly regarding the transfer of Elexon into industry ownership. We note that FSO will be a not-for-profit body as well as a number of other bodies in the central market arrangements. Several workstreams at Ofgem are considering regulation and holding to account non-for-profit central bodies, namely: Energy Codes Review, future FSO regulation, DCC Review, and the workstream on the market facilitator delivery body (considering FSO and Elexon as potential candidates). In our view, there is a clear need to design a foundational set of overarching performance assessment criteria for non-for-profit entities to create efficiencies and alignment, reduce regulatory and compliance burden (therefore, cost of central arrangements to the industry) and to reduce Ofgem's own effort in performance assessment.

Given the number of new responsibilities and functions that the FSO will have to develop, we believe there needs to be some prioritisation in the FSO's new function development going forward.

In considering the priority areas and functions for the FSO, it is of prime importance to take into account the present market conditions, ongoing major industry-wide projects and resource availability across the industry, including at Ofgem and the FSO itself. The BSC Panel has regularly discussed the need to create market liquidity, which will be required to underpin all three of these objectives, but this is not clearly identified as a priority.

It is also important to recognise that expertise, knowledge and skills are dispersed across a range of central services organisations and regulated entities that will all have to contribute to the ongoing energy industry transformation. Where the expertise and experience needed to transform parts of the industry is found outside of the FSO, we believe it will be faster and more efficient to allow other organisations to undertake and deliver market-wide functions rather than to ask the FSO to develop new expertise or consolidate existing market expertise.

We believe that Government/Ofgem should more clearly define the roles and responsibilities of the FSO and other market participants, and have a caveat in case a market function can be more cost-effectively delivered by another organisation. Government and Ofgem need to consider a full range of potential delivery options and base their decision on a business case and a clear case of cost-benefit analysis.

As previously suggested, we believe that cost effective solutions based on best practices,

existing processes and systems, need to be considered in order to standardise and simplify market functions and deliver consistent experience to all market participants for any industry change to be implemented as smoothly and quickly as possible. This means that the FSO, at least initially, should be focused on developing expertise for its new core functions and delivering its existing activities.

Establishing an efficient, flexible energy system

We express our support for this strategic priority area and acknowledge the interdependencies between this area and the previous strategic priority. Both strategic priority areas complement each other, working hand in hand. For instance, to increase the infrastructure in renewables and flexibility, it is essential to ensure that the market is appropriately structured, and vice versa. We agree that markets should be setup to incentivise market participants and consumers to offer their services, while also ensuring that those who cannot are not penalised. With the increased availability of data, especially once Market-Wide Half Hourly Settlement (MHHS) is implemented, crucial datasets like half-hourly consumption data can offer substantial value if utilised effectively, and will be a key enabler for a more flexible energy system and supporting demand side response.

Used effectively, this data could reduce household bills if companies develop innovative business models that encourage more efficient tariffs, unlock value and reward customers for flexibility.

To unlock this potential, Elexon believes it is important to have better interoperability and agreed, best-practice data standards. This can be achieved through a data exchange platform to enable better communication between energy users and market participants.

We welcome and extend our support to Ofgem in promoting data openness and highlighting use cases where data can contribute to a more efficient and flexible energy system.

Wholesale market reform:

In response to the Government's consultation on the Review of Electricity Market Arrangements (REMA), we expressed our views on the current electricity market arrangements and the reform options proposed by the Government.

Considering the potential impacts REMA could have on Balancing and Settlement Code (BSC), we eagerly await the publication of the second consultation on REMA and remain committed to supporting both the Government and Ofgem in exploring reform options, where possible.

Code governance reform:

We welcome this workstream and Ofgem's latest consultation on the implementation of energy code reform. As longstanding supporters of code reform and consolidation, we recognise the substantial benefits it can deliver.

Market-wide half hourly settlement:

As the Senior Responsible Owner (SRO) for the MHHS Programme, we acknowledge the significant benefits that half-hourly settlement will bring. We understand it will serve as a key enabler in achieving a smarter, more flexible, and decarbonised energy system.

MHHS will lay the foundation for accurate, real-time data from smart meters to become available instantly, supporting stakeholders to tap into demand side response opportunities. We remain committed to working closely with Ofgem and ensuring the successful delivery of MHHS, so that these benefits can be realised.

Customer data access:

We view Ofgem's leadership in this initiative as a positive step towards achieving the objective of sector-wide data accessibility and transparency.

In our response to Ofgem's call for input on data sharing in a digital future, we acknowledged the importance of data accessibility and transparency, especially in advancing towards establishing a smart, digitalised energy system. We highlighted various essential use cases for sharing consumer energy data, emphasising its significance not only from a consumer perspective but also in enhancing the resilience of the energy system.

Given the significant focus on consumer smart meter energy data in the call for input, we shared our views as we are in the process of developing the Data Integration Platform (DIP), a new industry-wide data transfer service. This platform will facilitate the flow of half-hourly smart meter data. As part of the MHHS Programme, we will establish a smart meter data repository, utilising data from the DIP, and subsequently make this data available via our Elexon Kinnect platform.

We believe that there is value in sharing our views and learnings, and welcome further collaboration with Ofgem on this workstream.

Energy system digitalisation:

We are committed to supporting the Government, Ofgem, and the energy industry in the digitalisation of the energy sector. We have actively participated in, and will continue to contribute to, key Government and Ofgem workstreams aimed at embedding digitalisation into the energy sector.

In our response to Ofgem's consultation on Data Best Practice, we highlighted the importance of extending these principles to include other entities in the energy sector, such as Code Bodies. Given our role in managing and providing access to substantial amounts of data to over 10,000 users worldwide through Elexon's Insight Solution, we understand the significance of ensuring energy system data is discoverable, accessible, and interoperable. Consequently, we have integrated some of these principles within the BSC.

In response to the consultation, Ofgem indicated they would address this matter and engage with the industry in the short to medium term. We eagerly anticipate an update on this front and are keen to collaborate on initiatives aimed at enhancing the accessibility and interoperability of energy system data.

Elexon supports further digitalisation of the energy sector and we are also eager to see progress in other areas such as the Digital Spine, which will be a key enabler in achieving a smarter, more flexible, and decarbonised energy system.

We believe that our existing and new data infrastructure will form important nodes in the digital spine that will be critical in setting best practice across the energy industry. Elexon can support to maximise existing infrastructure to accelerate the creation of a digital spine.

Distributed flexibility and energy sector decentralisation:

In response to Ofgem's workstream on local energy governance, we thanked Ofgem for their swift progress in driving flexibility initiatives forward last year, not only in local energy governance but also in other key areas such as developing the enabling infrastructure for flexibility markets and engaging consumers in distributed flexibility.

We actively participated in both calls for inputs regarding the future of distributed flexibility and engaging consumers on the journey to a decarbonised and flexible future energy system. Moving forward, we remain committed to contributing, adding value and sharing our views on both workstreams as each policy evolves.

We particularly welcome the collaboration between Ofgem and the Government aimed at clarifying the vision for distributed flexibility. We also see opportunities internally for Ofgem to align across workstreams. For example, we believe the market facilitator as a neutral entity could provide governance services under Ofgem's 'Flexibility Exchange' archetype in the call for input on the future of distributed flexibility. We strongly suggest that Ofgem consider roles and responsibilities in tandem, which will help identify potential synergies.

With over 20 years of experience in the energy sector, Elexon is well positioned to support the rapid development and delivery of new transparent and impartial local and national flexibility markets. In addition, our data is independent and openly accessible, making it capable of supporting the development of innovative markets and business models.