

Piclo Response: Market Facilitator Delivery Body

Dear Local Governance and Flexibility Strategy Team,

We appreciate the opportunity to engage in Ofgem's consultation evaluating Elexon and the FSO as potential market facilitator delivery bodies. The consultation's focus on assessing their capacity for effective governance is particularly timely, given the evolving landscape of flexibility markets. As stakeholders, we are eager to provide our input and perspectives on the expertise, competence, and capability of these entities in delivering more accessible, transparent, and coordinated flexibility markets. While Piclo has no strong preference regarding the selection of which organisation serves as the Market Facilitator (MF), we firmly advocate for specific characteristics and attributes that the chosen market facilitator delivery body should embody and demonstrate. In this response, Piclo aims to provide constructive contributions to the considerations outlined in the consultation document, particularly focusing on the scope of MF responsibilities and highlighting potential conflicts of interest for both candidates.

While we generally endorse the concept of having a market facilitator, its roles and responsibilities must be clearly delineated. Specifically, with regards to the **scope**, the MF should function as an entity capable of standardising market rules, ensuring simplicity for all participants. Given the inevitable time it will take to create and operationalise the MF, in the interim, Ofgem should also ensure that ongoing efforts of Open Networks continue at pace.

Before any final decision is taken on which organisation should be the MF, both need to demonstrate how they will address potential conflicts of interests. Our concerns on this issue for both candidate organisations are:

Future System Operator

The FSO holds the responsibility for formulating the design, regulations, and facilitation of diverse markets. If the role of the MF is to be a neutral convenor, gathering views from different stakeholders, it will need to demonstrate how it will not simply assert its own view of those markets, and impose decisions on markets that it is not currently responsible for as FSO, such as the DSO Local Flexibility Markets. Consequently, the FSO must adopt a stance of neutrality and democracy in its design approach. Moreover, it might find it prudent to illustrate the segregation of its MF responsibilities from its broader mandate of delivering components within the electricity market. As FSO currently also delivers certain markets through its proprietary platform, it becomes imperative for them to showcase platform agnosticism. We note in the FSO (as "ESO") response to the Future of Flexibility Call for Input, they stated: *".. we would propose extending our current ESO digital infrastructure to deliver digital asset and data sharing capabilities, whilst also collaborating with industry stakeholders to understand their own asset and data systems. The extensions should utilise our existing design templates..."*.

Elexon

With Elexon, we anticipate a potential conflict of interest due to its ownership structure. As Elexon is owned by Balancing and Settlement Code (BSC) funding parties, there is a perceived risk of decisions being swayed by these shareholders. Whilst we recognise the Elexon Board consists of independent non-executives, it is ultimately accountable to BSC Parties. Therefore, Elexon must transparently illustrate the measures in place to effectively manage and mitigate these conflicts of interest, and demonstrate that BSC parties will not affect the activity of any MF function, beyond that of any other stakeholder.

Furthermore, given that Elexon plays a role in delivering aspects of the settlement process, there exists a potential risk of them attempting to influence market design to achieve outcomes aligning with their specific interests.

Consultation Questions

Q1. Do you agree with the proposed market facilitator design principles (in paragraphs 2.22 - 2.28)? If not, what additions or changes do you suggest?

We broadly agree with the proposed design principles.

Q2. Do you think some of the design principles are more important than others? If so, which should we attach greater weight to?

While all the design principles articulated by OFGEM are crucial, we believe that certain principles may require more weightage than others. Notably:

Agility: For the MF to achieve success, it is imperative that it demonstrates dynamism and adaptability to stay abreast of rapid technological advancements and emerging solutions, without impeding innovation and competition. Therefore, possessing the critical characteristic of learning and iterating is essential for the MF. Consequently, agility has been a cornerstone of successful developments to date and will be paramount as we transition towards a truly flex-centred energy system. Key to maintaining agility is not attempting to over standardise the sector. This links to our views as set out in the Future of Flexibility response that focus should be on interoperability across the sector, rather than ossifying on a single approach, technology or platform.

Inclusivity: The MF must promote inclusivity by cultivating a competitive, decentralised landscape that empowers third parties to construct and compete in delivering value-added services. In achieving this, the MF should establish principles to guide intended outcomes rather than designing solutions directly for those outcomes. Additionally, maintaining a high degree of **transparency** regarding their decision-making process will be essential to uphold the integrity of their operations.

Q3. How important is it for the market facilitator to be able to align transmission and distribution flexibility market arrangements? Why?

We firmly believe that it is of utmost importance for the MF to effectively align transmission and distribution flexibility market arrangements to fully harness the flexibility potential in the UK. This alignment necessitates considerations on both economic and technical fronts:

Economic: The establishment of an ecosystem supporting revenue stacking is pivotal. This approach will enable Service Providers to maximise the value derived from their assets. Access to both transmission and distribution level markets becomes crucial in unlocking the comprehensive value of flexibility.

Technical: Central to creating a seamless ecosystem is a more simple approach to primacy - which may not be attempting to codify every possible iteration through specific rules. It is imperative for the MF to institute a transparent decision-making process to mitigate conflicts and prevent system failures, ensuring that actions taken in one market do not adversely impact the other.

Q4. How important is ease of implementation and enabling a smooth transition when considering the market facilitator delivery body? Why?

Ease of implementation is important since the UK is at a critical stage in the flex ecosystem. We cannot afford a slow down, especially if we intend to decarbonise the electricity system by 2035. As such, it is critical for the MF to continue and accelerate the ongoing workstreams under Open Networks i.e. the MF avoids attempting to reinvent the wheel.

Facilitating a seamless transition will necessitate a focus on optimising the ongoing governance arrangements facilitated by Open Networks. Acknowledging that ON will remain operational until the MF is operationalised, the groundwork for the MF's takeover must commence promptly to ensure a smooth and well-prepared transition. Particularly, the following extract from Piclo's [response](#) to the *Future of Local Energy Institutions and Governance* consultation, from March 2023 highlights how existing processes can be maximised to deliver progress before a MF role is implemented.

- *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. 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.*
- *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.*

Q5. Do you agree with our assessment of Elexon's suitability for the market facilitator role? If not, why not?

Elexon could serve as the MF if certain conflicts of interest are addressed. In our view, there are two main conflicts which Elexon will need to demonstrate it has addressed:

- **Ownership interference:** As Elexon is owned by certain industry stakeholders¹, there is a perceived risk of decisions being swayed by these shareholders. Whilst its Board goes some way to demonstrating operational independence, we would be more re-assured if Elexon explicitly addresses this potential conflict.
- **Settlements process / Elexon tasks.** Given that Elexon plays a role in delivering aspects of the settlement process relating to certain electricity markets, as well as undertaking certain other roles in the wider electricity market sector, there exists a potential risk of them attempting to influence market design to achieve outcomes aligning with their specific interests. Elexon will need to set out how any MF function will be separate and independent from Elexon's wider business activities.

Beyond the conflicts of interest, we would raise a further point on Experience in local flexibility markets. Elexon does not have a track record of activity or knowledge in local flexibility markets. Whilst we recognise that Elexon does have wider organisation experience of other electricity markets, the organisation will need to demonstrate how it will address this gap should it be the MF.

Q6. Do you agree with our assessment of the FSO's suitability for the market facilitator role? If not, why not?

The FSO could effectively serve as the MF if certain conflicts of interest are addressed. The FSO holds the responsibility for formulating the design, regulations, and facilitation of diverse markets. Should it assume the role of the MF, potential challenges could emerge if it anticipates conformity from other markets to its established design principles. Consequently, the FSO must adopt a stance of neutrality and democracy in its design approach. Moreover, it might find it prudent to illustrate the segregation of its MF responsibilities from its broader mandate of delivering components within the electricity market.

As FSO currently also delivers certain markets through its proprietary platform, it becomes imperative for them to showcase platform agnosticism. We note in the FSO (as "ESO") response to the Future of Flexibility Call for Input, they stated: *".. we would propose extending our current ESO digital infrastructure to deliver digital asset and data sharing capabilities, whilst also collaborating with industry stakeholders to understand their own asset and data systems. The extensions should utilise our existing design templates..."*

Q7. Do you believe Elexon or the FSO is better suited to take on the market facilitator role when considering the design principles and wider considerations?

Piclo does not have strong views on which organisation is best placed to become the MF, fully endorsing OFGEM's approach that emphasises the effectiveness of the delivery body in demonstrating market

¹ <https://www.elexon.com/2023/03/23/decision-on-future-ownership-of-elexon/>

facilitator design principles. While recognizing the importance of the three identified functions—strategic leadership, market coordination, and implementation monitoring—Piclo firmly asserts that the evaluation of the MF should also encompass their adeptness in managing conflicts of interest arising from their existing responsibilities.

Also See:

1. [Piclo's Response to OFGEM's Future of Local Energy Institutions and Governance Consultation \(March 2023\)](#)
 2. [Piclo's Response to Ofgem's Call for Input on the Future of Distributed Flexibility \(March 2023\)](#)
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Appendix

1.0 Functions of Market Facilitator

Function	Potential activities
Strategic leadership	<ul style="list-style-type: none">• Translate Ofgem and the Department for Energy Security and Net Zero's (DESNZ's) vision for local flexibility markets into a market coordination delivery plan.• Monitor developments across policy, regulation, innovation, and energy markets and proactively identify upcoming challenges, opportunities and risks that may require intervention.• Identify if changes are required to the market facilitator's functions, engaging with Ofgem where necessary to update roles and responsibilities.• Provide advice to government and Ofgem where regulatory or policy gaps are identified or where there is a need for joining-up and coordination.

Market coordination	<ul style="list-style-type: none"> • Propose and manage changes to the processes, rules, and standards in a transparent and collaborative way. • Facilitate open, participative discussions with wide stakeholder representation as part of the change management process. • Decision-making on processes, rules, and standards. • Develop and publish a delivery plan and implementation timetable, identifying the deliverables required for standardised, transparent, and coordinated local flexibility markets and for alignment with transmission flexibility market arrangements. • Commission or undertake market and technical research, analysis or modelling.
Implementation monitoring	<ul style="list-style-type: none"> • Monitor whether and how the agreed processes, rules, and standards are adopted to ensure they are implemented on time and as intended. • Report implementation issues to Ofgem which will assess whether compliance and enforcement action are required. • Assess how the new processes, rules, and standards work in practice, creating a feedback loop to the market coordination function where issues or potential improvements are identified.

2.0 Proposed Market Facilitator Design Principles

Accountable - the market facilitator must take ownership of its decisions and actions. The delivery body's institutional arrangements should be aligned with the market facilitator's remit, with the right incentives and drivers to fulfil its functions effectively. As the market facilitator will be responsible for delivering Ofgem and DESNZ's vision for local flexibility it is essential there are clear mechanisms in place so the market facilitator can be held to account.

Agile - an agile approach to delivery, an ability to quickly adjust its approach and activities in response to the changing needs of the energy system and market are essential attributes for the market facilitator. This goes hand in hand with delivery at pace and is an important attribute for the market facilitator.

Delivery at pace - the market facilitator will be expected to deliver at pace, and to enable this it will be empowered to make decisions and progress tangible outputs and results. A key issue with current arrangements is a lack of clear accountability for decision-making. The market facilitator must be an empowered decision-maker, confident in making decisions at pace and acting decisively to deliver on the vision for market facilitation of flexible resources and unlock the benefits of flexibility at scale. We see this as being key for delivery at pace.

Expert and strategic - the market facilitator's approach, work programme, and decisions will need to reflect the latest developments in the complex and fast changing energy sector. The market facilitator will need to be strategic and proactive to both identify and then manage current and future risks, opportunities, and interdependencies. We believe that the delivery body will need to have strong

flexibility and market design expertise to ensure it fully understands the complexities and interdependencies across the policy, regulation, and energy market landscape.

Impartial - To maintain industry's trust and confidence, the market facilitator must act and be seen to be acting objectively. It must take a whole system approach to guide its decision-making, acting impartially in the best interests of consumers.

Inclusive and collaborative - to inform its decision-making the market facilitator will need to actively seek to build collective buy-in for its actions and decisions. It will need to take a collaborative approach, undertaking open and wide regular stakeholder engagement. This is essential to ensure the rules, standards, and processes it develops are fit for purpose, reflect stakeholder and customer needs and contribute towards growing local flexibility markets.

Transparent - to build trust in the decision-making process, the market facilitator will need to be transparent in its actions and decisions. It will need to clearly document its decision-making processes and outcomes, enabling effective scrutiny, and ensure that all outputs are easily accessible for all.

Wider Considerations - In addition to the design principles there are two wider considerations for the market facilitator that we believe will be key to maximising the benefits it can deliver. The first consideration is the ability to drive alignment between transmission and distribution market arrangements. We believe this is a key part of unlocking the full value of flexibility and therefore an important consideration when deciding which body is best placed to take on the market facilitator role. The second consideration is the ease of implementation and enabling a smooth transition. In other words, the speed and ease to get the market facilitator operational. We believe this is important to avoid a hiatus and ensure the benefits of the reform are unlocked as soon as possible.