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Dear Joe,

### **SSEN Distribution response to the Consultation on MF policy framework**

1. Energy networks are already playing a central role in meeting net zero ambitions. Distribution networks are enabling a local transition, driving economic growth and delivering wider social and environmental benefits. One key contribution networks and system operators must make to achieving Clean Power by 2030 is enabling flexibility- NESO's forecast of the demand flexibility required to enable Clean Power is up to 12GW by 2030, the majority of which will be distribution connected.
2. We are supportive of the introduction of a Market Facilitator framework that builds on existing successes and adds value to current processes. We share the objective of increasing liquidity in flexibility markets, with the purpose of enabling an operable Net Zero grid across all voltage levels. We welcome the agility with which the role is being defined, with a focus on developing the deliverables for the Market Facilitator to focus on, within a defined scope and some areas intentionally deferred until more immediate priorities are realised. There is still significant detail to build through Elexon workshops, which could introduce risk to the process, and we highlight some of the key areas to explore in the next stage of development, which we look forward to collaborating on.
3. Our response focuses primarily on the role of Market Facilitation at Distribution level. Our response represents our views as a Distribution System Operator. In our role, we define and procure flexibility services from a large number of providers to manage our network, in line with our commitments in our ED2 business plan.

### **We recognise flexibility is a key part of Net Zero and many diverse activities enable it**

4. Clean Power 2030 recognises the criticality of flexibility to GB's Net Zero aspirations, with NESO viewing 10-12GW of demand flexibility needed in 2030, 'virtually all' connected to the distribution network. This flexibility will serve different purposes in making the network operable and matching supply to demand; the specific ways flexibility meets these purposes will be mediated by a range of markets to deliver services to NESO, DSOs, suppliers and other market participants. Many of these markets- such as DSO markets for managing outages and constraints- already exist and are growing, with ongoing developments to reduce friction in market participation.
5. Well managed markets are key to increasing liquidity- to bring forward the flexibility required for 2030 and 2050, attractive business models will depend on effective market operation which does not introduce unnecessarily onerous barriers to entry, or unduly prevents stacking of revenues. Equally, markets also provide

confidence to buyers of flexibility; flexibility is being used to meet system operators' legal obligations to safely operate networks and ensure demand is served. A well operated market can thus give buyers confidence and capacity to use more flexibility.

6. Bolstering flexibility liquidity, effective and fair market functioning, and robust system operation require a range of activities. On top of our current wide range of procurement activities across different flexibility needs, we deliver schemes such as HomeFlex, innovation projects, Active Network Management, and evolving planning procedures.
  - (i) Homeflex code of conduct scheme was developed in partnership with FlexAssure, recognising with increasing numbers of participants in Flexibility Services there was the need to articulate what good engagement with domestic customers was. This will serve to protect consumers, and increase trust that participation in domestic flexibility is a positive experience.
  - (ii) We are innovating by investigating services that can replace the mandated Load Managed Areas with Demand Diversification Services. This service design with industry has the potential to resolve some of the significant structural challenges that exist with Flexibility Services at the low voltage level.
  - (iii) When planning through our Strategic Development plans we can better collaborate with local authorities to identify spatial constraints in our future network plans, and potentially identify opportunities to use flexibility to accelerate development plans.

#### **We must keep pace developing market facilitation by mitigating key risks caused by unanswered questions**

7. Flexibility markets are still undergoing significant change- for instance outcomes of the Review of Market Arrangements, and NESOs plans for Enabling Demand Side Flexibility, may impact the best way for DSO flexibility markets to function in the near term. This should not arrest current progress, but governance around market facilitation must be cognisant of the ongoing need for agility. Allowing different market structures to be trialled quickly, setting transparent processes for rule changes with accelerated routes available, and good horizon scanning processes are some example features of an effective market facilitator.
8. A major challenge for the industry is the need for significant engagement of Flexibility Service Providers (FSPs), and the challenge for FSPs of engaging in the multiplicity of flexibility initiatives across the policy and regulation spaces. FSPs vary in size and nature, but resourcing participation in Market Facilitator working groups, NESO forums, and consultations on market reform could be difficult for many industry participants. Design of governance mechanisms should seek the right balance of inclusivity, agility and giving parties the best opportunities to contribute.
9. While the scoping presented is welcome, there will be significant interfaces between in and out of scope markets, innovation and Active Network Management. In the next phase it will be important to explore these interactions, to ensure that in scope market design does not adversely affect other use cases of flexibility. Other out of scope activities will need to be recognised to identify synergies and potential conflicts. This includes: awareness campaigns to increase participation in domestic flexibility; how smart appliance standards interact with market function, and how the NESO may directly access non-BM units such as through the Local Constraint Market trial<sup>1</sup>.
10. The technical outputs of the Market Facilitator will require implementation through the DSOs, and impact how DSOs function and manage their networks; as such the enabling governance will need to manage potential conflicts that could arise from outputs that DSOs find impractical to implement in required timescales or are otherwise counterproductive to delivering DSO licence obligations. This is an unlikely scenario where an effective

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<sup>1</sup> [Local Constraint Market | National Energy System Operator](#)

collaboration mechanism produces the Technical Outputs, as has been seen through outputs adopted because of the Open Networks project.

**Getting this right, quickly, is a priority for industry**

11. The ambitious forward workplan aims to deliver go-live by the end of 2025, which strikes the right balance between ambition and practicality. We therefore welcome the parallel work being conducted by Elexon and Ofgem to simultaneously develop policy and governance arrangements with pace. With the urgent need to increase liquidity ahead of CP2030, it is critical to get the right arrangements in place quickly, with stakeholder buy-in- a challenge for the whole industry, and the consultation recognises this. It is therefore also important that throughout this period our whole range of flexibility enabling activities continue to be supported as required.
12. We will continue to represent the best interests of our customers, on whose behalf we procure flexibility, while recognising and rewarding the critical value Flexibility Service Providers bring to the journey to Net Zero. We look forward to continuing to work with Ofgem and Elexon on this critical aspect of that journey.

Your sincerely,

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Head of Strategy – SSEN Distribution