

Registered Office:  
Newington House  
237 Southwark Bridge Road  
London SE1 6NP

Company:  
UK Power Networks  
(Operations) Limited



Registered in England and Wales No: 3870728

Joseph Cosier  
Decentralised Energy Systems Team  
Ofgem  
10 South Colonnade  
LONDON  
E14 4PU

By email only to: [flexibility@ofgem.gov.uk](mailto:flexibility@ofgem.gov.uk)

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Dear Joseph,

## **UK Power Networks' response to Ofgem's consultation on a Market Facilitator policy framework**

Thank you for the opportunity to comment on the above consultation. This letter should be treated as a consolidated response on behalf of UK Power Networks' three distribution licence holding companies: Eastern Power Networks plc (EPN), London Power Networks plc (LPN), and South Eastern Power Networks plc (SPN).

We have structured our response as follows:

- **This cover letter**, which sets out the context and the themes of our response; and
- **Appendix 1** which comprises our full response to each of the questions in the framework consultation.

## **Our Position on Flexibility Markets**

UK Power Networks has consistently supported the establishment of a Market Facilitator (MF) to drive the alignment and integration of flexibility markets in electricity. Suppliers and aggregators of flexibility assets should be able to easily compete to sell services to purchasers and they should be able to stack services to maximise their value to the system.

On the purchasing side we have always supported appropriate incentives for DNOs to set up effective Distribution System Operators (DSOs). DSOs should facilitate earliest possible connections at distribution level and purchase flexibility both wherever it is the most cost-effective option for provision of capacity and wherever it maximises operational efficiency. For the National Energy System Operator (NESO) also we have always supported an ambitious programme providing improved situational awareness and greater coordination of market design, procurement and operation across NESO and DSOs. All purchasing entities should, we believe, work together to make the markets as seamless as possible.

We have matched our policy representations with our actions. In particular:



- We have substantially expanded our purchasing of flexibility across the board (see chart below)
- We appointed Epex Spot as our new flexibility market platform provider in January 2024 with the binding specification that it must adopt industry standard processes and products agreed through the Open Networks initiative (and in future under the Market Facilitator) and must maximise interoperability with other platforms.
- In January 2024 we were the first DSO to open up curtailment data to full market scrutiny, showing distribution-level spare capacity at each grid supply point and releasing details of connection application volumes by location.
- In April 2024 we were the first DSO to launch day-ahead auctions, aligning our procurement timings with wholesale and NESO markets to facilitate increased revenue stacking.
- We have chaired the Open Networks programme since 2021 and currently lead six of the nine open workstreams, including development of a standard flexibility dispatch Application Programming Interface (API) across the sector.
- In 2024 we launched our MW Dispatch service along the south coast to help generation and storage customers to provide services to NESO to ease system constraints. This is supported by exchange of operational data from weeks ahead to on the day. We are exploring the potential to expand this service across our entire area, enabling integrated management of flexibility resources at distribution and at system levels.



### Importance of Flexibility at Distribution Level

By using flexibility alongside network reinforcement, we can make the transition to Net Zero:

1. **Cheaper** - flexibility minimises the long-term cost of the network by right sizing investments and avoiding unnecessary network build costs;
2. **Quicker** - flexibility provides a solution to quickly connect customers ahead of network build or instead where customers choose not to incur reinforcement costs;
3. **Less disruptive** - flexibility reduces the disruption associated with capex work, such as noise and the need to dig up streets; and
4. **More customer-focused** - flexibility creates opportunities for British consumers, communities and businesses by rewarding behaviour that benefits all.

Importantly, flexibility is not just a means of deferring reinforcement. Its use allows for increased operational efficiency and for the facilitation of connections through load profiling.

Flexibility is also not used simply to defer inevitable reinforcement, but rather to manage capacity pressures where longer term demand is uncertain. UK Power Networks took the lead in proposing strategic investment in capacity in areas off-gas-grid in its 2022 Business Plan because in these areas decentralised heat-related demand for electricity had far greater certainty at that time than in other areas.

UK Power Networks now has over 100,000 active flexibility assets in our markets. We have already saved our customers over £100m to date and over RIIO-ED2 we plan to deliver at least £410m of bill related savings by investing in purchases of flex. Even if we eventually reinforce sites where we previously procured flex, we set 'ceiling prices' for flexibility such that there is still a net benefit to customers. Where forecasts are uncertain and flex enables long-term avoidance of reinforcement, the benefits are significant. The reality is that the benefits are likely to continue to be very substantial, because we have seen a systemic trend for demand to be lower than forecasted due to advances in technology, diversity effects, a strong willingness from customers to participate in flexibility services and growing energy efficiency.

Our analysis of long-term needs to 2050 shows that by investing in flexibility we can avoid c.30%<sup>1</sup> of the required network build versus an approach that solely relies on reinforcement as an option. This is not to say that flexibility is a silver bullet but rather that if we do not make use of it at electricity distribution then we will pay more to deliver the same capacity need. Flexibility also plays a vital role in smoothing out capex needs and managing demand uncertainty. Without flexibility in our toolkit, we would be much more exposed to supply chain shocks or unexpected shifts in customer demand – both of which have been observed in recent years.

### Integration of Benefits at Wider System Level.

In the context of whole system optimisation, we recognise Ofgem's concern<sup>2</sup> that local use of flexibility needs to factor in wider system requirements, but we have not seen any evidence that suggests a lack of distribution capacity across our network area is set to cause national balancing costs to rise. In fact, electricity already bidirectionally flows across electricity distribution and transmission and flex providers sell their services to both DSOs and the NESO. We are confident, based on our experience, that market alignment can be achieved such that DSOs can exploit local flexibility without compromising whole system efficiency.

All the indications are that flexibility at distribution level is likely to add to flexibility at system level, rather than detract from it. In the landmark "Flexibility in Great Britain" report, for example, the authors found that maximising flexibility in greater London would provide benefits of £500m per annum in reduced Distribution costs, but **at the same time** a further £900m of wider system benefits.<sup>3</sup>

The development of distributed flexibility capacity in businesses and domestic premises is also substantially impacted by DSO purchasing. As a matter of practicality, UK Power Networks' initiatives, such as those listed above, establish a reservoir of flexibility capacity which can then be drawn upon by NESO in pursuit of its system operations. Without this prior customer-level

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<sup>1</sup> Under the Consumer Transformation scenario

<sup>2</sup> [Framework consultation: electricity distribution price control \(ED3\) | Ofgem](#)

<sup>3</sup> [Key findings - Flexibility in Great Britain - The Carbon Trust](#)

engagement NESO would find it much more difficult to engage smaller customers and the ambitious Clean Power 2030 targets for flexibility would be even more challenging.<sup>4</sup>

There should therefore be a doubling down of active encouragement for DSO and NESO purchasing of flexibility, wherever cost effective, and ambitious market alignment, aided through the new Market Facilitator, to better link flex markets together to ensure participation is easy and revenues can be stacked in a way that helps both the provider and the system.

We have already signalled to Ofgem that in our view RIIO-ED3 is **not** the time to wind down DSO purchasing of flex. Rather it is an opportunity to build on the successes of flexibility to date, by using the DSO incentive to encourage its use in a way that supports Ofgem's big challenges such as maintaining a healthy headroom across the network both in the short and long term, whilst also supporting lower system costs and accelerating connections.

### **Scope of Market Facilitator's activity**

Our view on the scope of the MF's future activity is shaped by our expectation that DSO flexibility has a significant enduring role and that the need to coordinate with national flexibility needs will only grow in importance.

We therefore welcome Ofgem's proposal for the MF to concern itself with some critical elements of the Balancing Mechanism and "most" national ancillary markets as well as DSO markets in the first phase. We note that Balancing Mechanism "procurement" is in scope, but "operations" is out of scope and would welcome clarification of this division as this will shape the level of coordination the MF will be able to deliver. Based on stakeholder feedback, we believe the greatest value for most service providers is likely to lie in the integration between the regional and national markets, opening up opportunities for 'revenue stacking'. Open Networks has made some progress in alignment across different regions and this momentum must also be maintained by the MF, but alignment with national markets is the bigger prize.

The exclusion of wholesale markets (Exelon's primary area of expertise and a significant source of value for all forms of flexibility) and the capacity market entirely from the first phase of the MF's work therefore looks like a missed opportunity. Integration of work across **all** markets is likely to deliver the greatest benefits and excluding some from the beginning is likely to make them harder to integrate later on, as technical solutions are adopted which could work for some markets, but not others. Greater ambition is called for in view of the very ambitious targets for supply of flexibility which are set out in the Government's Clean Power 2030 plan.

On the other hand, we support the proposed exclusion of Active Network Management (ANM) from MF oversight. This is because ANM does not rely on market mechanisms as such and there is no procurement. There is rather a time-limited, conditional connection offer, which is accepted or not by the connectee in a bilateral contract. It is hard to see how the MF could meaningfully devise technical solutions to integrate ANM offers across different regions or with any flexible connections at NESO level which might be allowed in future.

Any further regulation of the use of ANM in future is therefore a detailed policy issue for Ofgem, linked to connections reform and policy for RIIO-ED3, rather than an issue which can realistically be addressed by the MF.

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<sup>4</sup> CP2030 sets a very ambitious target for batteries and consumer flex purchases by 2030 (from 4.5GW (batteries now) to 23-27GW in 2030 and from 2.5GW (consumer flex now) to 10-12 GW. [Clean Power 2030 Action Plan - GOV.UK](#)

## Delivery Plan and Performance Expectations

We are broadly content with Ofgem's proposed approach to the roles and responsibilities for Elexon, for other key actors, for stakeholders and for Ofgem. We are also content with the proposed approach to incentives for Elexon and its senior management and the proposed approach to performance assessment. We have been reassured by Elexon's approach to date, in particular its timely and ambitious recruitment policy for delivering the increased capability that it will need.

However, as explained above, we would like to see faster progress than is currently planned on integrating and aligning **all** national markets where flexibility could play a significant role.

Ofgem and DESNZ need a wider policy and roadmap for delivering the Clean Power 2030 targets for flexibility and the role of the Market Facilitator needs to be integrated into that vision with appropriate benchmarks for measuring ongoing success and targets linked to market outcomes, not just levels of activity.

Faster alignment of national markets as well as rapid growth of DSO markets may both be needed to deliver the scale of stacked opportunities that will drive market expansion at the speed required.

We would welcome early delivery of a clear plan for transition from Open Networks over 2025 as well as a clear plan for delivery in 2026-27. Open Networks has already delivered important progress, and it is vital that there is no loss of momentum.

The process for publishing plans should ensure stakeholders always have a minimum level of forward visibility (for example six months) for what changes to expect.

On budgets we are content with the process for adopting the MF budget, provided that such costs represent clear value for customers, and are treated as pass through costs from a price control perspective.

We hope that you find our response helpful, and we look forward to engaging with you and your team if you have any further questions.

Yours sincerely,



Suleman Alli  
Director of Finance, Customer Service, Technology and Support Services, Strategy and Regulation



Sotiris Georgiopoulos  
Director of DSO  
UK Power Networks

## **Appendix 1 – Full list of consultation questions**

### **Q1. Do you agree with the proposed forward workplan and roles and responsibilities for setting up the market facilitator?**

We agree with the proposed roles and responsibilities.

We would like to see the workplan focussing immediately on the alignment of **all** national and DSO markets where flexibility could play a significant role. The very demanding targets for supply of flexibility which are set out in the Government's Clean Power 2030 plan do not allow for a delay of three years before alignment of key national markets is even considered.

### **Q2. Do you agree with the proposed scope of the market facilitator, in particular in relation to the Balancing Mechanism? If not, what would you change and why?**

We would like to understand better how the division of Balancing Mechanism activities into "procurement" and "operations" will affect the MF's ability to effectively align national and DSO markets. If the result is that alignment could be impeded and stacking prevented, we would favour widening of the MF's scope.

Excluding wholesale markets (Elexon's primary area of expertise and a significant source of value for all forms of flexibility) and the capacity market entirely from the first phase of the MF's work feels like a missed opportunity. Integration of work across **all** markets is likely to deliver the greatest benefits and excluding some from the beginning is likely to make them harder to integrate later on, as technical solutions are adopted which could work for some markets, but not others. Greater ambition is called for in view of the very ambitious targets for supply of flexibility which are set out in the Government's Clean Power 2030 plan.

### **Q3. Do you agree with the proposed enduring roles and responsibilities for Elexon as market facilitator, in particular on working with NESO and inputting in NESO and DNO performance assessment? If not, what would you change and why?**

We are content.

### **Q4. Do you agree with our proposed roles and responsibilities for key actors and on stakeholder and external scrutiny, in particular in relation to including a stakeholder survey, a stakeholder advisory board and an appeals process? If not, what would you change and why?**

We are content.

### **Q5. Do you agree with our proposals on the market facilitator delivery plan, in particular in relation to the two-year timeframe, adding an annual delivery schedule and Ofgem's role? If not, what would you change and why?**

We are broadly content, but the proposed system of annual schedules carries some risk of lack of forward visibility at the end of each year. The process for publishing plans should ensure stakeholders always have a minimum level of forward visibility for what changes to expect. For example, the delivery plan could be updated annually to provide a rolling two year horizon which stakeholders can take into their plans.

**Q6. Do you agree with our proposals on the market facilitator budget, in particular in relation to Ofgem's role and the proposed requirements? If not, what would you change and why?**

We are content.

**Q7. Do you agree with our proposals on the other key market facilitator deliverables? If not, what would you change and why?**

We are content.

**Q8. Do you agree with our proposal not to include financial incentives and instead require Elexon to link its senior management performance related remuneration policy with our performance assessment? If not, what would you change and why?**

We are content

**Q9. Do you agree with our proposals on performance assessment, in particular do you have views on the quantitative metrics we should consider? If not, what would you change and why?**

We are content.

**Q10. Do you agree with our proposals on performance expectations, in particular in relation to our proposed 2028 objective? If not, what would you change and why?**

We are concerned that the proposed 2028 objective is insufficiently ambitious in view of the urgency of developing markets for flexibility at scale and at speed. The Government's Clean Power 2030 plan sets out the required size of UK flexibility markets in 2030. We are not clear that the proposed progress by 2028 will be sufficient to allow the 2030 targets to be met two years later.

The 2028 Objective for the MF should be aligned with clear milestones on the path to achieving the 2030 targets and if this requires substantial alignment of the wholesale and capacity markets to be advanced by 2028, for example, then the delivery plans need to be changed and a more ambitious objective set. It should not be possible for the MF to meet its targets, but for the UK to still be a long way off delivering the Government's vision.