



Northern Powergrid's Response to Ofgem's Market Facilitator Policy Framework Consultation

KEY POINTS

- We fully support the development of the Market Facilitator (MF) role and see it as a key enabler to liquid flexibility markets, but the overall objective must be clear.
 - The role was born out of the Future of Local Energy Institution's work and has developed through Ofgem's consultation process to rightly include NESO services in scope.
 - However, a clear purpose for the role must be specified in order to ensure that it is designed to meet its objective.
 - We suggest – "Maximise the value of flexibility to the GB energy system".
- The extent of the MF's scope around "operations" needs to be considered carefully and our view at this early stage is that:
 - The MF's role should be restricted to defining standard API interfaces, standard definitions for data points to exchange on availability of assets etc. and standardised dispatch templates; and
 - The DNOs must retain responsibility for all other aspects of their interaction with the market and the planning and operation of their networks.
- Fast and efficient transition between ENA Open Networks and the MF is key.
 - To enable the 5x uptake in flexibility required for CP2030, a significant change must take place across markets, consumer engagement and the roll out of technology at pace.
 - Preliminary development of deliverables could start ahead of formal governance and licence change implementation.
- We do not believe that the MF should have a formal role in assessment of the DNOs' performance in the DSO Incentive.
 - Implementation of reporting will provide visibility of DNOs' progress.
 - A channel already exists via the DSO Incentive Voluntary Stakeholder Evidence process for the MF to opine on a DNO's DSO performance if it so wishes.
- We believe that the MF must have a role in innovation in order to effectively deliver on its strategic leadership role.
 - The MF should be in a steering position to help define forward areas of innovation funding availability and ensure market innovation is funded.
- The stakeholder advisory board membership should include representation from a breadth of market participants.

Responses to Consultation Questions

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

- 1.1. We agree that the proposed roles and responsibilities for the setting up of the Market Facilitator (MF) role are appropriate.
- 1.2. We would highlight again the need for pace in this transition. Although the MF is working closely with the ENA to define and execute a transition plan for the Open Networks (ON) programme, this already means that some work-programmes have been deliberately paused in order to enable this. The challenge of CP2030 and the '2028 target' set-out by Ofgem are both ambitious and will require significant time and resource. We would propose that, ahead of formal transition, working groups for key priorities are established. Any positive action that has the effect of bringing forward the MF's involvement in and responsibility for the ON programme would be beneficial.

2. 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?

- 2.1. In order to effectively define the scope and roles and responsibilities of the MF the purpose must be clear. The MF role was born out of Ofgem's consultation on the Future of Local Energy Institutions and Governance and was squarely aimed at increasing liquidity within local flexibility markets. Through its development, Ofgem have rightly incorporated engagement feedback around the need to include NESO markets within scope due to the critical interplay between these markets. However, with that broadened scope, the purpose of the MF requires clarification e.g. should the MF impose changes to the NESO markets in order to create flexibility in local markets, whilst reducing value to national markets? We would suggest that the purpose of the MF is clarified as "Maximising the value of flexibility to the GB energy system."
- 2.2. We agree that the MF should naturally have responsibility for the Flexibility Market Asset Register (FMAR). However, we would highlight the numerous other similar or linked initiatives that are ongoing such as General Asset Visibility, Central Asset Register and Flexibility Markets Unlocked and would encourage these to be rationalised into a single coherent landscape with clear responsibility.

3. 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?

- 3.1. We agree with Ofgem's position to exclude Active Network Management (ANM) from the MF's scope, as it is not, in itself, a market mechanism. In future, secondary trading of curtailment obligations may become more widespread and require some consistent market structures for secondary trading could be within scope in such circumstances. However, the technical mechanism for implementing the curtailment (ANM) should remain out of scope. We understand
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NESO's concerns regarding the impact of widespread ANM use on primacy and consider that these concerns would be addressed via primacy work – no separate ANM scope item is required.

- 3.2. We do not agree with the position that the MF should have no role in innovation. This would limit its ability to deliver its strategic leadership function, specifically around providing strategic and expert advice to Ofgem and DESNZ. The MF should have a steering role in innovation to ensure that calls for funding are aimed at key strategic development areas. In addition, Ofgem and DESNZ should ensure that markets are within scope for innovation.
- 3.3. We support the MF tracking and reporting on DNOs implementation of their outputs – this should create a clear, objective measure of DNOs compliance. There is no change required to the DSO Incentive mechanism, in which there is an existing mechanism for the MF to submit evidence to the performance panel. If the MF believes it is appropriate for it to opine on a DNO's DSO performance, the MF can submit voluntary stakeholder evidence to the performance panel. The performance panel can then decide how much weight to attribute to that evidence in its assessment.
- 3.4. Ofgem's consultation states that the MF should consider the full end-to-end flexibility process including "operations (availability and dispatch)". The MF's scope in relation to the operation of a DNO's network must be given careful consideration and our view at this early stage is that the MF's role should be restricted to defining standard API interfaces, standard definitions for data points to exchange on availability of assets etc. and standardised dispatch templates. The DNOs must retain responsibility for all other aspects of their interaction with the market and the planning and operation of their networks. The MF's input must not infringe on a DNO's ability to manage its own network.

4. *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?*

- 4.1. The voice of market participants is key in developing processes that effectively engage them and attract them to participate and, as such, it is important that a breadth of market participants from small start-up aggregators, through to traditional suppliers are somehow represented on the stakeholder advisory board.
 - 4.2. An effective appeals process is critical to effective governance given that licence conditions will bind DNOs to comply with the MF's outputs. We would welcome more detail from Ofgem on the proposed design of appeals process. The appeals process must have clearly set out time frames that allow active participation and must be transparent. Ofgem's position on 'vexatious or trivial' appeals must be clarified in order to not discriminate against or exclude genuine issues.
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5. *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?*

5.1. In general, we agree with Ofgem's proposals in this area. However, we would query whether setting 2-year priorities is the correct time-horizon for a set of markets that are developing at pace, and priorities may become quickly out-dated.

6. *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?*

6.1. We do not have any comments in response to this question.

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

7.1. The "strategic advice to Ofgem/DESNZ" element of the proposed role has the potential to absorb a significant amount of the MF's time, especially during this period of fundamental change in the industry. In order to mitigate this potential distraction from actually delivering on the primary purpose of delivering functioning, liquid markets we would suggest structures, either organisationally or conceptual, are put in place to clearly define the effort available from MF advice.

8. *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?*

8.1. We understand Ofgem's rationale for proposing that the MF is not subject to financial rewards or incentives. This position should be kept under review as the MF's role develops over time.

8.2. Ofgem's proposal to require the MF to link its senior management performance-related remuneration policy with Ofgem's performance assessment is sensible, provided the MF retains the ability to assess individual performance and determine the remuneration for its employees within that framework (e.g., Ofgem's assessment could determine the overall level of reward available and the MF could determine its distribution internally).

9. *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?*

9.1. We agree that quantitative measures are the most effective way to assess performance. However, creation of effective metrics has been a challenge for the DSO incentive because (i) the desired outcomes were unclear, (ii) the elements being measured were nascent, and (iii) what constitutes good performance was not clear. The same challenges present for the MF's role. We would instead suggest a dashboard of measures that allows understanding and interpretation.

9.2. A form of cost benefit analysis to assess the positive impact that the MF has had would be effective. However, it would have to be managed against the complexity and effort to deliver.

10. 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??

- 10.1. In the absence of clearly defined metrics, outcome expectations are appropriate to drive performance. However, having aligned markets as an objective assumes that misalignment is the largest barrier and does not capture the fact that over the horizon to 2028 something more impactful may arise. This links to our answer to question 5 i.e. is a 2-year business plan timeline appropriate in such a fast-moving space?
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