

## Appendix 1: Consultation question responses

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

We support the proposal for the market facilitator to be fully operational by the end of 2025. DSO Flexibility Services, their development, and their interactions are a fast-moving area, and we believe operation starting beyond late 2025 would create a risk the Market Facilitator role acts as an inhibitor rather than an enabler.

We welcome the high-level action plan in the consultation, however, we do note to allow Elexon to act as the Market Facilitator there is significant amount of change required to various industry processes, codes and licences. This includes modification to the BSC, DNO Licenses and supporting the development of Technical Outputs all of which will require input from a wide variety of stakeholders and ourselves. These administrative changes are resource intensive for numerous parties in the industry, therefore need to be balanced with a continued focus on development and growth of Flexibility Services.

We also encourage continued coordination between the Market Facilitator and Ofgem as evidenced in the outline of the workplan. This will allow work on the development of the Market Facilitator functionality to keep going at pace, whilst the industry (including DSO functions of DNOs) continue to deliver on other commitments associated with Flexibility.

We do note that we continue to see a role for the Electricity Networks Association, both in covering areas that are not within scope of the Market Facilitator and supporting some elements of coordination between networks. As the Market Facilitator role develops we believe it will be helpful for all parties to continue to work together and explain their differing responsibilities to external stakeholders.

### **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 broadly support the scope outlined by Ofgem and welcome the inclusion of NESO ancillary services as we feel the development and evolution of these with consideration of DSO Flexibility Services is important to maximise the Whole System Benefits being delivered. We further support extending the Market Facilitator to considerations around the Capacity Market and Wholesale Markets at a later date.

We feel the description of what is included as in and out of scope with respect to the Balancing Mechanism needs further clarification as the distinction between procurement and operation is not clear. We support NESO maintaining control and responsibility for the Balancing Mechanism, however we believe that the management of potential conflicts, and risk of conflicts, needs to capture the decision-making logic that occurs during the usage of the Balancing Mechanism and this aspect should be included. We would suggest looking at models such as our Operational Decision Making publication<sup>1</sup>, which could be used to help clarify the scope further.

Similar to this aspect, we support Active Network Management being out of scope, as we believe the development, installation and need for Active Network Management should remain the whole responsibility of the relevant network. This is because ANMs are access management tools (i.e. modification to connection agreements) and not a market-based solution. We expect the technology we use to manage our network will evolve significantly over time, with adoption being specific to a local network requirements. Therefore instead of focusing on the technical solution, focus should be on what the solution is trying to achieve and ensuring this is

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<sup>1</sup> [SSEN Operational Decision Making ODM](#)

standard. For example, the impact of curtailable connections and the operation of the control systems should be considered when looking at standardisation of rules and primacy. Currently, being on a curtailable connection may limit a Flexibility Service Provider's ability to participate in services but how and which services is variable and standardising this and understanding and sharing how real time curtailment may impact other services delivered should be considered as part of work on Primacy.

We support innovation being out of scope, however, recognise that there will be innovation that is taken by the network operators that may impact the Market Facilitator function with learnings from the innovation driving changes. Further, we would anticipate the Market Facilitator may wish to support innovation into certain new aspects that may inform the future development of the services. Therefore, we believe, in undertaking Market related innovations projects and design decisions it is critical that the Network Operators are fully integrated and consulted in these initiatives. This is to allow the impact of these market solutions (in terms of stability, demand profiles, system interactions, protection, safety, License and statutory obligations, financial impact, etc) to be fully understood. In designing the deployment of these markets, the projects will need allow for the DSOs to define, assess, design and cost the appropriate mitigations thereby allowing Market development to progress smoothly and efficiently.

Finally, we would draw attention to our role as system operator in remote areas of our network when 'islanding' (disconnection from the mainland due to outages) occurs. This applies in regions such as the Shetlands, the Orkneys, the Western Isles, and the Inner and Outer Hebrides. In these cases, we assume responsibility for the System Operation of the network and in most cases have permanently installed generation to support this approach. When operating these islanded networks, or preparing for the contingency of doing so, we use our permanently installed generation fleet in combination with Flexibility Services and innovation to achieve this. For example, our planned procurement for a stability service in the Western Isles, and our RFI<sup>2</sup> in this region focuses on the specific challenges of Flexibility in these areas. The Shetland HVDC link went live in 2024. This will bring some changes in the Shetland Costs and Recovery. Following a Consultation in July 2022, the Hydro Benefit Replacement Scheme (HBRS) was updated to include recovery of the Hydro Benefit paid to SHEPD by ESO along with a Shetland Allowance of £27mn (2021, indexed). A further review of HBRS is expected to be instigated in July 2025, The timing determines that the resultant charges are likely to be recovered in 2026-27. The materiality of these changes is unknown at present. It seems appropriate that the Market Facilitator is aware of these inputs to DNO costs, which may influence Supplier behaviours in offering discounted energy and consequential network impacts

The unique nature of our responsibilities in these areas and the individual communities they serve means we recommend these are given particular consideration as to when they are in or out of scope of the activities of the Market Facilitator. The services we create and procure for these unique situations may be best treated in the same way as the identified NESO Stability Services and Reactive Power Services.

**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 agree with the majority of the proposed enduring roles and responsibilities but believe there are areas that need further consideration of clarification. For example, 3.22 outlines the Market Facilitator as being responsible for leading the development process of any new process, service, rule or standard. Within DSO Flexibility Services much new development has been driven by innovation, or learnings from innovation. It is unclear how the Market Facilitator will interact with innovation from DSOs in any aspect of developing or accessing flexibility. While we agree innovation is out of direct scope, market facilitation should be designed to not prohibit or impede innovation.

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<sup>2</sup> [feedback-from-flexibility-service-providers-on-scotlands-islands-rfi\\_external.pdf](#)

Further to this, as previously mentioned, there is a need to allow deviation from standards for unique network needs, such as our management of the island networks. This initially appears to be allowed for under 3.22 where usage of the term 'common' indicates that for needs and processes that are not common, the responsibility would be retained by the DSO. However, the second sentence expands this to 'any new', making the treatment of services that are assessed as network-specific unclear.

We would also highlight the consultation appears to not consider all DSOs need for compliance with the Utilities Contracts Regulations (UCR) 2016 and Utilities Contract (Scotland) Regulations (UC(S)R) 2016, which will be replaced in February 2025 by the Procurement Act 2023. Therefore, the Market Facilitator function needs to allow for capturing regional differences in procurement processes already started by February 2025, as well as ongoing compliance with the UCR, UC(S)R and the Procurement Act 2023 as applicable.

We support the Market Facilitator feeding into the DSO incentive process, using the existing mechanisms built within the incentive (e.g. the stakeholder survey and the RFI) to allow all stakeholders to contribute to the performance assessment of individual DSOs.

**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 agree with the roles and responsibilities outlined for the DSO and we look forward to engaging in the development of the technical outputs.

We also ask for consideration of when certain aspects of the assessment occur, particularly around the Stakeholder Survey. It is expected that there would be significant overlap between the participants of the DSO Stakeholder Survey and the Market Facilitator Survey. Timing of the Market Facilitator should be considered to manage the burden on Stakeholders and minimize the risk of stakeholder survey fatigue.

We further highlight there needs to be consideration of who is responsible for the oversight of interaction between FSPs and households. We wish to ensure access to and participation in Flexibility Services is open to all, including vulnerable customers but also messaging and communication is clear so that everyone can make an informed decision about what is best for them. Our Homeflex Code of Conduct initiative developed this idea further and highlighted certain market gaps. Some of these items have been fed into the DESNZ work on Smart Secure Electricity Systems however there appears to be further gaps in terms of business practices and protecting the most vulnerable within Flexibility Markets that the Market Facilitator role could positively influence.

**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 support the proposed 2-year delivery plan and believe this will be helpful for giving a clear vision of priorities and activities. Consideration is needed of the timeframe for the plan being published, such that industry has sufficient time to react to new delivery plans before the delivery period begins. It should therefore be specified that delivery plans are available at least 3 months before the relevant period begins such that industry has sufficient time to digest any implications of the plan.

We do agree that Ofgem does not need to have a formal role in approving the delivery plan. However, we would emphasise the formal role Ofgem and government have in setting direction; for example through the Strategy and Policy Statement under the Energy act. The Market Facilitator should then be informed by this direction.

The combination of Mission Control, Clean Power 2030 and new price controls may make it difficult for DSOs to complete the implementation of everything the Market Facilitator has asked for if there is not alignment in priorities between Ofgem and the Market Facilitator team. This is particularly critical if the Market Facilitator becomes responsible for some or all the Flexibility Digital Infrastructure programme.

**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 agree with these proposals.

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

We support the high-level market facilitator deliverables, however we note that to fully understand the impact of these decisions more detail on the timing and the proposed mechanism for achieving the outputs need to be considered.

We look forward to collaborating with the Market Facilitator on the development of the Flexibility Services. Some of the areas that need further development include IT tools, APIs and the Flexibility Market Asset Register; these will require collaboration particularly around timescales of implementation, recognising for DSOs and Flexibility Service Providers there will be variation in the level of IT development and integration that would need to occur. The move towards common technical outputs needs to be considered such that Flexibility Service Providers are not excluded from the services. For example, our preference would be the majority of dispatch to be done via API. However we do allow email dispatch in some instances as we do not want to exclude a potential provider from the market unnecessarily.

**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 do not have a position to share on these proposals at this time.

**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 support an annual performance assessment process. We think it is critical this aligns with a common understanding of the purpose of the Market Facilitator function. Our current understanding is that the creation of the Market Facilitator is intended to increase participation in Flexibility Services to support the Clean Power 2030 vision, and thus performance assessment should be conducted through this lens.

It is expected the alignment of market arrangements will support the above aim. It is therefore critical for the successful delivery of this goal, that throughout there is engagement from Flexibility Service Providers and potential providers. Our work on the HomeFlex Code of Conduct established that the business structure of Flexibility Service Providers, particularly aggregators, is incredibly complex in some cases, with multiple companies between the company contracted by the DSO and NESO and the actual asset changing electricity consumption/ generation. This complexity and the size of individual companies means there must be multiple routes to provider comment on the proposed changes and that there is potential need for bodies like the ADE to represent those who are unable to track all the deliverables.

The quantification of metrics within the Flexibility Service area is difficult, due to the number of external factors that influence market participation that would be outside the Market Facilitator control. As such we would recommend taking a similar approach as what has been proposed for the DSO Incentive Governance RRE7 (also out for consultation). By using several different metrics it is possible to achieve an understanding of the maturity and the development of the markets which couldn't be achieved from one individual assessment.

**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 support the proposed 2028 objective and agree with the alignment of the markets being a significant initial focus. We do feel there are potential missing elements around the work being completed as part of the ENA Open

Network's programme, particularly with respect to Dispatch Interoperability and Primacy. Both these elements are critical to the successful implementation of Flexibility, in that it is supporting management of the network. It is not clear where in these objectives this work falls, as it is not clear if this is captured within the market alignment scope as it is described.

We further note, there is a need to keep developing Flexibility at pace. Over the past few years there has been significant development and success at creating new markets and delivering end consumer benefit. These markets now need to mature with more standardisation but we do not want to lose in the process the ability to quickly innovate and respond to emerging issues.