

Response to Ofgem consultation on Market Facilitator Policy Framework (February 2025)

About Energy UK

Energy UK is the trade association for the energy industry with over 100 members – from established FTSE 100 companies right through to new, growing suppliers, generators and service providers across energy, transport, heat and technology. Our members deliver nearly 80% of the UK's power generation and over 95% of the energy supply for 28 million UK homes as well as businesses. The sector invests £13bn annually and delivers nearly £30bn in gross value - on top of the nearly £100bn in economic activity through its supply chain and interaction with other sectors. The energy industry is key to delivering growth and plans to invest £100bn over the course of this decade in new energy sources. The energy sector supports 700,000 jobs in every corner of the country. Energy UK plays a key role in ensuring we attract and retain a diverse workforce. In addition to our Young Energy Professionals Forum, we are a founding member of TIDE, an industry-wide taskforce to tackle Inclusion and Diversity.

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Context and proposal summary

In December 2024, Ofgem published a [consultation on the market facilitator policy framework](#)¹. This followed on from its decision in July 2024 to appoint Elexon to the role and stakeholder workshops held between August and October 2024.

The NESO's CP2030 report suggests a need for 16 GW demand-side flexibility in 2030, and up to 70GW by 2050. Ofgem expects Elexon as the Market Facilitator (MF) to facilitate this through activities such as aligning DNO and NESO flexibility market arrangements. The consultation sets proposals relating to:

- Ofgem's forward workplan to end 2025, publications, roles and responsibilities.
- Enduring scope: DNO flexibility, most ancillary services and non-operational BM
- Enduring roles and responsibilities for Elexon, NESO, DNOs and other key actors
- Parameters for key deliverables, including delivery plan, budget, technical outputs
- Performance arrangements, including assessment and financial incentives

Energy UK has responded to past consultations on the development of this new role here

- [Energy UK response to Ofgem's consultation on the Market Facilitator Delivery Body](#)² (Feb 2024)
- [Energy UK response - Ofgem's consultation on the Future of Local Energy Institutions](#)³ (May 2023)
- [Energy UK response to Ofgem's Call for Input on Distributed Flexibility](#)⁴ (May 2023)

¹ <https://www.ofgem.gov.uk/consultation/market-facilitator-policy-framework-consultation>

² <https://www.energy-uk.org.uk/publications/energy-uk-response-to-ofgems-consultation-on-the-market-facilitator-delivery-body/>

³ <https://www.energy-uk.org.uk/wp-content/uploads/2023/05/Energy-UK-response-to-Ofgems-Consultation-on-the-Future-of-Local-Energy-Institutions-and-Governance-v1.0-Clean.pdf>

⁴ https://dev.energy-uk.org.uk/wp-content/uploads/2023/05/EUK_response_OfgemCfIDistFlexFinal.pdf

The consultation closes 11 February with Ofgem to respond in Spring 2025, and two further consultations planned for 2025:

- i) Non-statutory (summer)
- ii) Statutory: licence conditions on DNOs and NESO to comply (autumn)

Summary of Energy UK response

We thank the Ofgem team for its work in this space. It will be a challenging role for Elexon, Ofgem, NESO and the network providers but we welcome the proposals as sensible, well-considered and robust. We are pleased at the level of industry engagement in developing these plans and how the team have incorporated suggestions made on industry calls.

In the past, we have criticised Ofgem for not paying sufficient regard to the ‘customer proposition’ and its centrality to customer acceptance (and therefore take-up) of demand side flexibility. We are, therefore, pleased to see the customer proposition playing a more central role. An example is this new energy trilemma posed by Ofgem in the publication:

1. Digitalising the system for a distributed energy system
2. Consumer uptake of electric vehicles and heat pumps
3. Market leadership through better incentives and propositions for consumers to want to flex

This is a positive shift from Ofgem’s previous ‘enablers-focussed’ approach, which left responsibility for customer propositions with the market. Whilst our flex provider members are ambitious and innovative, the ‘enablers-focussed’ approach overlooked the structural problems that prevent the business case for flexibility from adding up in today’s market:

- the inability of DSR to access most network services (design/ metering issues etc)
- the lack of market coordination and primacy rules, plus the use of exclusivity contracts that prevent revenue stacking, and
- the inability for almost all domestic flex (as well as manual industrial and commercial DSR flex [from process interruption]) from being able to access capacity market support (putting it at a financial disadvantage to other technology classes).

We make three key recommendations in our response:

- For the MF to be empowered to take an agile approach to unlock markets so it can act on opportunities as they arise (rather than being constrained by the scope).
- For the MF to prioritise activity based either on the direct value it would generate for the end-customer or how it would enable a range of customer propositions that support the system.
- For a high-level of transparency. Where the MF can make information easy to access (on both its advice and assessment of network progress in acting on its recommendations), industry will be happy to support as a critical friend.

Response to Consultation Questions

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

EUK response:

Yes. We agree that the proposed approach sounds sensible and robust.

Speed: Whilst the CP2030 timeframe calls for speed, we agree that it is unlikely to be feasible to go faster. For Elexon to be able to deliver in the proposed timeframe though, Ofgem will need to make its framework policy decision in early spring (for example, by April).

Transition: Given the need for speed to hit the ground running, it could be helpful for the MF to begin operating earlier than December 2025 (for example in October 2025). It could do this by starting in a transitional mode (as is with the proposal for the transitional Regional Energy Strategic Planners - RESPs). This would enable Elexon, in its new role as MF, to start establishing the role ahead of the formal start date. Whilst it (presumably) would not have its new powers at this point, an earlier period of 'acting in' the MF role whilst engaging with industry, could help to identify where further planning or powers might be required.

Challenge: Industry acknowledges that the MF will be a challenging role, and that it will take time to establish both the role and proper governance. Market participants urge both Ofgem and Elexon to keep talking to industry, to take an agile approach, (accepting that plans may need to flex and adapt) and to be as transparent as possible (on both recommendations and progress), so that participants and wider stakeholders can continue to support and contribute to the process for setting up the MF.

We note the importance of adding effective obligations to the NESO and DNO licence conditions, and we support the requirement for a senior-named individuals from the NESO and DNOs to be held accountable for their organisations' cooperation with the MF.

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

Whilst we agree with prioritising DNO flex, the NESO ancillary markets and the Balancing Mechanism (BM - where feasible) in the first delivery plan, we do not support the (somewhat siloed) approach (DNOs and NESO in Plan 1 from 2026-7 and then the Capacity Market (CM) and wholesale 'potentially' in Plan 2 from 2028-9) to tackle what is an integrated problem (of uncoordinated markets).

Given this, our preference would be for both the CM and wholesale markets to be included within the initial scope and addressed, where sensible opportunities arise, from the outset.

As unlocking revenue stacking across markets will be key to making flex 'pay' (for both providers and the customer), it may not make sense to limit the activity to what from today's vantage point look to be the easiest 'wins.' It could, instead, be more productive to give Elexon, in its role as the MF, the discretion to use its expertise to identify the best opportunities to unlock stacking in ways that best support both customer engagement and the changing system. This might be in terms of a single revenue stream (e.g. by unlocking a relatively high-value market such as the BM) or, by focussing on a lower potential revenue

such as the CM, which, if it became more accessible, could then support a wider variety of customer propositions based on more fluctuating network service revenues.

We agree that these early wins are *likely* to be in the DNO and NESO balancing and ancillary markets but would not like to limit action elsewhere if that seems more profitable.

Similarly, whilst we acknowledge the challenges, we do not support the exclusion of Active Network Management (ANM) from the scope. Customers can be excluded from supplying flexibility if they are located in an ANM area. This can negatively disrupt FSP stacking models by excluding customers and by complicating consumer communication. It might be that, in due course, FSPs and the MF, agree that ANM can be deprioritised until the late 2020s. On the other hand, it might turn out that unlocking participation from demand-side customers in ANM areas has a significant impact in helping FSP propositions to add up or supports take-up in another way. Our point here is that we think it is too early to make this call. The nascent state of the sector means that that 'how' will not always be clear at this stage and a wider scope would support agile working from the MF.

The [Europe DSR Network Code](#)⁵ states that any active kind of flexible connection agreement (ANM is a flexible connection agreement), must not unduly restrict the respective parties from participating in a flexibility market, and that this should be assessed by an impartial / independent body. Whilst this Code will not apply in GB, it could be a useful approach to adopt with the MF acting in the role of the impartial assessor and supports our view that ANM should not be excluded from the scope.

Given the likely change in energy markets over the next five years due for example to:

- emerging system tensions due to the faster deployment of variable renewables
- the wholesale market opening up to aggregators as a result of P415, and
- action to make the CM more accessible to domestic DSR

the 'quick wins' or best opportunities to improve the revenue stack for DSR may change and therefore we should not exclude aspects that may support greater MF agility.

This will also ensure that changes (for example, on metering arrangements and any new data requirements) are reflected across all relevant markets (to prevent the additional complexity of different requirements in different markets).

If the proposed Flexibility Market Asset Register (or the NESO's Single Market Platform), or private sector options (such as Piclo Max) can provide a single (or simplified) gateway(s) to access markets, the need to streamline market requirements will accelerate.

In conclusion, we would support a wider scope for the MF, across both delivery plans (with ANM included where it impacts stacking) but with the DSO and NESO balancing and ancillary markets prioritised - and Elexon empowered to act as it sees fit.

Transparency

A key point that EUK members wish to emphasise is the need for transparency so that parties can scrutinise and support the process. For example, where the MF makes recommendations, market participants/ wider stakeholders need visibility so they can monitor the impact and support where necessary. Similarly, if there are barriers outside of the MF's remit and it makes recommendations to the relevant 'owner,' the market needs

⁵ <https://acer.europa.eu/documents/public-consultations/pc2024e07-public-consultation-draft-network-code-demand-response>

visibility of this. Unless there is a strong case for not providing the information, the default should be that Elexon's advice and monitoring data is public (and easily accessible).

Without this transparency, there will be a risk of reinventing the governance issues that beset the ENA's Open Networks project.

Q3. Do you agree with 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 that the proposed roles are sensible and support the proposal for the MF involvement in the NESO and DNO performance assessment.

We note some concern from members with network interests on the that the MF will be able to provide full and impartial feedback in the early stages of its role. We would however, expect this to build, and we also note the strong engagement that Elexon is building through its industry workshops. As an initial measure we recommend that *the MF participates in existing stakeholder initiatives here such as the DSO Stakeholder Satisfaction Survey.* We note though, that the MF role is an inherently challenging role, particularly in the short-term, as the MF works to establish effective governance. Unlocking network/ other services, that were built around thermal plant, to include DSR, is difficult.

Our experience of this 'unlocking' process to date (for example, the NESO's initial design for its Slow Reserve service and DESNZ's proposals for opening up the CM to domestic DSR) is that the work is as much preventing new barriers (e.g. onerous data requirements), as it is about removing existing barriers. Every change needs to be weighed against risk, and the networks and the NESO are inherently conservative (given their primary function to safeguard the security of supply). The MF can only be effective if it can support the networks to identify ways to reduce the risk/perceived risk of changes to their established ways of working. This may require support/ additional resources (from Ofgem or DESNZ).

We agree that since the BM is both an operational tool for managing security of supply and a balancing market, that the NESO will need to retain more control over design. For example, to keep ahead of tensions as the system changes, the NESO may want to (and should be able to) run pathfinders and work with industry to identify new solutions to emerging challenges. We support this, but note that the MF will need to ensure that these proposals complement rather than undermine other flexibility services/ markets, and that the design, registration, data collection and metering arrangements align with other services.

Given its reduced role over NESO service design, it will be important for the MF to have sufficient visibility to distinguish between valid operational reasons and less valid ones.

As previously, we support as much advice and monitoring data being open to the market as possible so that participants and wider stakeholders can support the MF.

The NESO provide monthly/ bimonthly updates on its progress in reforms its balancing and ancillary services and make this easily accessible on its website ([here](#)). Since these dates regularly slip, it is a crucial tool for market participants seeking to track potential revenue streams for their assets. The shortfall in the current NESO approach is that only the updated target is published – meaning that slippage is hard to monitor. We would support an approach similar to the NESO Market Roadmap but with a requirement to publish both

original and revised timelines. This will provide a running commentary on the network and the NESO's performance and help to drive performance.

Where there are issues that Elexon wants to flag to the market, it might be best to consider a separate channel / approach to ensure that it gets the attention and input of relevant stakeholders.

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 support the proposals as outlined so far.

The plans for the consultation and stakeholder survey look sensible. We are comfortable with limited detail here as we would anticipate scope for industry to input into these as relevant year-on-year as the MF role embeds.

We see the role of the stakeholder advisory board as critical and would welcome more detail on the proposals.

We would support the stakeholder advisory board being representative of industry parties (as with the BSC panel) with replacements allocated on this basis. We would also welcome consideration of whether input from external stakeholders (from industries that have undergone equivalent digital transformations such as telecoms or banking, or else consumer representatives) would add value and, whether the board should be voted for by industry parties.

On the Appeals process, we note that the timeframe for the appeal will be important - including how long Ofgem has to hear an Appeal and then report back to industry. There was previously a requirement for Ofgem to respond to final code modification reports within 25 working days. This could serve as a useful precedent.

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?

Yes. In general, we support the proposals including the two-year timeframe with an annual delivery schedule to promote agility. We also agree with the role for market participants to scrutinise the plan.

Our key message here is for the MF to keep engaging with industry on an ongoing basis (as opposed to just engaging for more formal 'set pieces'). It is a fast-moving area, ongoing engagement will ensure that planned interventions remain relevant and resources are well-directed.

Alongside this need for engagement and agility, the MF may need to plan in longer timeframes than 2-years particularly in relation to large-scale IT changes (such as the NESO's current dispatch upgrade, the Open Balancing Platform, which is being phased-in over 3 years). The MF will have a key role in ensuring that market participants are ready for the changes and the choreography between parties functions smoothly.

On engagement, whilst the ENA Open Networks programme was criticised for not engaging enough, the team often struggled to get the input they needed. The BSC panel can face similar difficulties. Given the importance of getting quality input in a context where industry is struggling to manage the rate of change, it will be important for Elexon to consider 'how' to get the meaningful input.

A metric around industry engagement might be useful here since limited engagement could indicate a need for the MF to review its approach.

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?

Yes. We agree with the proposals, and that they strike an appropriate balance between agility and scrutiny.

We are comfortable with the proposed level of control for Ofgem and support the role for industry scrutiny.

It would be useful to set a expected timeframe for the publication of the key documents to ensure that stakeholders have sufficient time to input (for example, the draft budget to be published in Q3 of each year).

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

Yes – we agree that the proposals sound sensible

As noted earlier, a monthly/ bimonthly tracker similar to that used by the NESO for their Market reform would help stakeholders to monitor the outputs. Unlike the NESO tracker though we would like regular monthly updates with the original dates to be kept alongside the revised delivery dates so that any slippage (and emerging issues) is straightforward to monitor.

On the recommendations and strategic advice – it is important that industry has visibility of the MF's strategic advice. Unless there are reasonable grounds for an exemption (private or confidential), the default should be for this advice to be shared with industry and retained in a publicly accessible location (e.g. on a dedicated page on the Elexon website).

We would support a larger role for flex providers to prioritise the potential opportunities, based on the difference that different actions could have for customer propositions.

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

Yes – we support the proposals.

As with the industry discussions over the how to incentivise the NESO in its new role as a not-for-profit entity, members agree that the key lever will be reputational. Transparency and industry scrutiny will be the main routes to ensuring that this reputational lever operates effectively (hence our focus on the MF being as transparent about its advice and network progress as it can be).

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

We agree that the proposals look sensible. As with our previous suggestion, we would support some discretion for the MF to revise the performance indicators (and a role for the stakeholder panel to propose changes).

It could be useful to have a performance indicator on the diversity of technologies in a market. Whilst we note that a market will sometimes be dominated by one technology for economic reasons (for example, BESS dominance of dynamic response), often market dominance is a useful indicator of barriers in the design/ other areas. Where there is market dominance for legitimate economic/ other valid reasons, this could be noted.

On the utility of a Performance Indicators (PI) on 'the number of providers', we note that there could be a large number of providers but a low volume of flex overall (for example, as with the current iteration of the Demand Flexibility Service). The low volume is a better indicator of the success of the service than the number of providers here. This highlights the importance of using the selected PIs in context to avoid incorrect assumptions (as with the assumption that customer switching serves as a proxy for consumer engagement in the retail market, for example).

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

Members would welcome more clarity on the 2028 expectation – for example, the *level* of revenue stacking that Ofgem expects by this date.

Given the ambition of the Government's Clean Power mission, we would support Ofgem's setting the MF a challenge to aim to exceed the 2028/ other timeline targets wherever possible.