

Public

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**NESO response to Market Facilitator Policy Framework consultation.**

Dear Joseph,

Thank you for the opportunity to respond to your consultation on the market Facilitator Policy Framework.

We look forward to engaging with you further. Should you require further information on any of the points raised in our response, please contact Edwin Tammias-Williams at [Edwin.Tammias-Williams@uk.nationalenergyso.com](mailto:Edwin.Tammias-Williams@uk.nationalenergyso.com).

**Who we are:**

NESO lies at the heart of the energy system as an independent, public corporation responsible for planning Great Britain's electricity and gas networks, operating the electricity system and creating insights and recommendations for the future whole energy system.

At the forefront of our efforts is delivering value for consumers. We work with government, regulators and our customers to create an integrated future-proof system that works for people, communities, businesses and industry, where everyone has access to clean, reliable and affordable energy.

NESO's primary duty is to promote three objectives: enabling the government to deliver net zero, promoting efficient, coordinated and economical systems for electricity and gas and the economy and efficiency of energy businesses and ensuring security of supply for current and future consumers. NESO will take a whole system approach, looking across natural gas, electricity and other forms of energy and will engage participants in all parts of the energy ecosystem to deliver the plans, markets and operations of the energy system of today and the future.

### Our key points:

- Purpose and objectives: It is imperative that the purpose of the Market Facilitator is clearly defined and communicated, and that its objectives do not conflict with NESO or DNO core functions. There is a need to demonstrate that the technical outputs and delivery plans defined by the Market Facilitator demonstrate value both to the market and to stakeholders, and value for money for consumers, contributing to Network and System Operators' obligations to operate secure and reliable systems at least cost to consumers, and recognising the majority of costs incurred through the Market Facilitators activities will be borne through the implementing parties.
- Roles and responsibilities: Further detail on the specific roles and responsibilities for each party (NESO, DNO, Ofgem, Market Facilitator) involved in the market design process should be developed, providing clear delineation reflective of broader accountabilities. We recommend a principles-based approach to the Market Facilitator's input to market design. This can drive positive market outcomes while maintaining the NESO's clear accountabilities and responsibilities with respect to operability needs, system balancing costs, and broader licence obligations. It can also offer flexibility and agility, which is essential for delivering at pace and adapting rules as markets evolve.
- Resourcing, prioritisation and risk management: Great Britain faces a significant cross industry challenge in meeting its Clean Power 2030 targets. This requires agility in planning to accommodate real-life disruptions, the importance of having a formal mechanism for reprioritisation, and the challenges of aligning delivery plans with current priorities, such as those required to meet the Clean Power 2030 objective. We recognise Elexon's experience in this space as a Code Administrator, requiring strong coordination between other industry initiatives to manage dependencies and avoid potential delays, however we want to ensure that prescriptive delivery against a rigorous plan is not pursued in isolation of changing GB priorities.

We look forward to working with the Market Facilitator and Ofgem to ensure that the governance process is clear and that NESO's priorities are balanced with those of the Market Facilitator in delivering greater value to consumers through the coordinated, coherent and competitive development of GB flexibility markets.

Yours sincerely

Rebecca Beresford

Director of Markets

## Section 2: setting up the Market Facilitator

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

We recognise the importance of moving quickly to unlock the benefits of flexibility, and we welcome the proposed consultation process for the 2-year Market Facilitator Delivery Plan. However, the proposed workplan will have an impact on and interact with NESO's regulatory business planning and performance assessment. This means it is important that we have clarity on the exact requirements to be included in our licence, which would lead into the NESO regulatory business plan effective April 2026.

We need to ensure that any changes introduced in the Delivery Schedule do not put us at risk of breaching licence conditions as there is no appeal process for the Delivery Schedule, and so we would suggest that there should also be an opportunity to inform the 1-year Delivery Schedule through a delivery party sign off process.

Additionally, there will be updates needed to our licence conditions to include the role and interactions of the Market Facilitator, and we will need to assess the impact on consultation processes for markets and services as well as the impact on our performance reporting framework.

## Section 3: Market Facilitator function

### **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?**

It is imperative that the purpose of the Market Facilitator is clearly defined and communicated, and that its objectives do not conflict with NESO or DNO core functions.

To effectively coordinate and facilitate markets, a holistic view should be taken to mitigate any unintended consequences. While we recognise the importance of accessibility across the suite of GB electricity markets, we need to remain cognisant of operability requirements, ensuring that the former does not adversely impact the latter.

Further detail on the specific roles and responsibilities for each party (NESO, DNO's, Ofgem, Market Facilitator) should be developed, providing clear delineation reflective of broader accountabilities.

### Initial phase

We agree that all DNO flexibility services and NESO commercial ancillary services (excluding reactive and stability markets) should be in scope, and that the Market Facilitator considers the full end-to-end flexibility process from procurement, to operations, to reporting. These commercial services are those which flexibility service providers are most likely to interact with for assets which are in other markets, and therefore where consistency in the flexibility service provider experience would be most important. The differentiation between operational and non-

operational activities within the BM is not clear within the potential scope of the Market Facilitator's activities, and as such we do not support its inclusion, with the exception of the registration process.

NESO commercial ancillary services are all procured to help maintain system security, and are intentionally different in their ability to meet different operability requirements. These operability requirements are published in our [Operability Strategy Report](#) and [Markets Roadmap](#) annually. We welcome the potential input of the Market Facilitator to these publications and our consultations on the balancing terms and conditions for each product, but believe that it needs to be recognised within the structure of the Market Facilitator the key responsibility of the NESO in determining its requirements and designing services accordingly.

Our recent '[Enabling Demand Side Flexibility](#)' publication in December, reiterated our vision for enabling the seamless movement of flexibility resources between markets, and the removal of barriers into NESO markets to deliver whole electricity system value. Similarly, to deliver whole electricity system value. We believe this aligns with the intention of the Market Facilitator, and within the publication we have made reference to how we intend to work with Elexon in progressing with the implementation of these strategic deliverables, and aligning further with DNO flexibility market arrangements. our [Routes to Market](#) work has also engaged with stakeholders in defining the barriers experienced, and developing the prioritisation criteria to assess these barriers, and has strong stakeholder support for continuing to implement. We believe this aligns with the intention of the Market Facilitator, and within these publications we have made reference to how we intend to work with Elexon in progressing with the implementation of these strategic deliverables, and aligning further with DNO flexibility market arrangements.

We reiterate that the Balancing Mechanism (BM) is the primary balancing tool for NESO and an operational mechanism dictated through the Grid Code & BSC rather than a 'flexibility market'. As such, we agree that as the operational tool used by NESO for balancing supply and demand this should not be in the scope of the Market Facilitator.

We do not understand the distinction between "operational" and "non-operational" aspects of the BM as set out in the consultation. As the BM operates as a utilisation market, the procurement stage equates to dispatch and utilisation, as such, differentiation between operational and non-operational activities within the BM is not clear within the potential scope of the Market Facilitators activities, hence we do not support its inclusion. Further information on how the BM operates is provided in Appendix 1.

In our recent [Routes to Market](#) publication, we highlighted that barriers to entry exist in the registration process. We see the removal of these barriers the removal of these barriers as a cross-cutting enabler that the Market Facilitator and the Flexibility Market Asset Register can play a key role in helping to simplify and improve the accessibility of registration processes across NESO Commercial ancillary services and DNO services. As such, we are supportive of the inclusion of BM registration in the scope of the Market Facilitator, and expect this work to leverage the existing developments we are already making to enhance this customer experience.

For example, we have begun migrating parts of the BM registration process into the Single Markets Platform and have developed APIs to support the bulk upload of MPANs. Moving this process onto the Single Markets Platform enables customers to input and update their own unit data directly for NESO approval. The necessary documentation can be uploaded, and input data validation will be automated to ensure data quality. We are also working to identify process improvements including further automation. Most (if not all) of these other processes fall outside of the suggested scope of the Market Facilitator activities and with regards to Code governance arrangements, it is important to consider these as together and an end-to-end process holistically to provide coherency to the market.

Further consideration could also be given to how Ofgem, NESO, DNO's and the Market facilitator can facilitate the creation of a level playing field between suppliers and aggregators within flexibility markets, to ensure maximum competition and choice for consumers seeking to be rewarded for their flexibility.

## Second phase

We do not agree that both the capacity market (CM) and the wholesale market should be within the scope for the Market Facilitator.

The Capacity Market (CM) governance arrangements are established under the Energy Act 2023, Regulations and the CM Rules, with all roles and associated responsibilities and obligations defined within them. DESNZ is the CM policy owner and any changes to the principles and design fall within their remit, including any changes to remove perceived barriers that are created by the CM design.

The CM is a security of supply mechanism, which means its main function is to ensure capacity where all other avenues are exhausted, and a system stress event is triggered. Care needs to be taken not to confuse barriers with appropriate performance assurance to ensure participants are able to provide the security they receive payments for.

The Capacity Market Advisory Group (CMAG) is a membership only industry group created by Ofgem to develop and provide expert views on proposals made by members and wider industry participants, which helps Ofgem with carrying out its statutory functions, but does not have any formally defined role within the CM governance arrangements. While we believe best practice should be shared across all markets to continue driving innovation and competition, as it is already possible for industry participants to propose changes to the CM rules through the CMAG, we do not believe it should be an explicit part of the Market Facilitator's scope.

With regards to the Wholesale Market, we consider that this should be out of scope for the Market Facilitator in its second phase but are very supportive of a requirement for the Market Facilitator to have regard to wholesale market development and adapt its technical outputs accordingly. Alignment of technical outputs with the pending REMA decision and a review of market requirements once MHHS is implemented will be key to ensuring coherency in GB market arrangements. However, the inclusion of additional markets or expanding the scope of the Market

Facilitator's role would need to be assessed as part of holistic wholesale market governance, that also includes DESNZ and Ofgem, to avoid duplication or confusion, and therefore not something we would endorse at this exploratory phase.

**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?**

The general principles of the proposed roles seem reasonable, however further clarification is required on the specific responsibilities and accountabilities for each party within market activities and processes. We appreciate the inclusion of an appeals process and recognise that there has to be close collaboration between NESO and Elexon. There is a clear need to ensure that the new performance framework aligns with our licence requirements and that Elexon's role, as well as our own, needs to be very clearly defined.

As NESO is both responsible and accountable for the secure and economic operation of its markets, we will continue to lead service design, as required to meet system operability needs. Within our own market design process, we adhere to the market design objectives of: efficient dispatch; efficient investment and value for money.

We welcome Market Facilitator input into our market design process, and the development of technical outputs. In practice NESO must retain accountability for the secure and efficient operation of the system, and therefore retain overall responsibility for technical service design.

Ofgem must account for this in specifying the policy framework, expectations and requirements for each party within the scope, process, and deliverables of the Market Facilitator. This should include, for example, setting out the NESO's requirements for evidencing consideration of Market Facilitator input within service designs. It should include how we account for direct and indirect impact of technical outputs (such as baselining or metering requirements) on technical service design.



*Figure 1: Market design objectives and principles. Source: [Markets Roadmap 2024](#)*

Our existing obligations under retained legislation (European Balancing Guidelines – Article 18<sup>1</sup>) and Licence condition 9 of our Electricity System Licence define the activities, consultations and approvals processes associated with the development and updating of NESO's Commercial Ancillary Services. These obligations may present delivery challenges in our ability to incorporate frequent technical outputs as produced by the Market Facilitator, and forward consideration should be given to technical outputs for service design parameters as described above.

To mitigate this, we would welcome the opportunity to review existing processes for service design and development, allowing for a more agile delivery model, and reducing the duplication of activities undertaken by NESO, the Market Facilitator and subsequently Ofgem. There is an opportunity for the Market Facilitator to provide assurance with respect to market design, and to streamline consultation and engagement activities to reduce stakeholder fatigue and ensure consistency. Details of our existing change processes, and proposed principles and next steps with respect to service design are detailed in Appendix 2.

Additionally, the timelines for adopting new technical outputs should be ambitious yet achievable, with a clear appeals process in place. Whilst the details of the appeals process are not described in the consultation, we would expect that NESO would be able to launch an appeal if we had any serious concerns with the proposed technical output from the Market Facilitator body. However, to mitigate frequent use of the appeals process, we propose that an additional step within the development of the market coordination plan is introduced, that considers the achievability of deliverables by NESO and DNOs as implementing parties.

With regards to performance assessments, alignment is required across NESO & DSO performance and incentive frameworks to ensure we drive collaborative rather than competitive behaviours.

The strategic advice provided to Ofgem & DESNZ by Elexon should also be shared with NESO, DNOs, and the wider industry to ensure transparency and alignment of wider or interdependent initiatives and policy developments that fall outside of the scope of the Market Facilitator.

**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 in principle with the proposed roles and responsibilities, However, the purpose and objectives of the Market Facilitator should be clarified, to allow for a clear measure of performance against the delivery of these objectives. Ofgem will need to work with NESO and DNOs to ensure that this purpose is not conflicting with other obligations on licensees to ensure the efficient and economic operation of the electricity system, and we therefore recommend that these objectives are principles based.

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<sup>1</sup> Article 18 of Commission Regulation (EU) 2017/2195 establishing a guideline on electricity balancing, as amended by the Electricity Network Codes and Guidelines (Markets and Trading) (Amendment) (EU Exit) Regulations 2019 ("EBGL")

We agree with the creation of a stakeholder advisory board, and the delivery stakeholders should have a permanent seat on the Advisory Board, with others being selected based on their ability to guide changes being included in the tranche of delivery. As described in Question 3, the final approval of the market coordination plan requires an additional governance step from an approval board, consisting of the delivery partners and Ofgem to provide assurance, rather than advisory input from the board.

NESO supports the proposal for an appropriate governance and appeals process, and will feed into the development of this. Consideration should be made within the appeals process to how disputes should be dealt with, and wider implications within regulatory business planning and Price Control delivery periods.

It is expected that NESO reporting of implementation status of technical outputs would be reported through a pre-existing reporting mechanism, e.g. Cost Monitoring Framework or performance reporting, rather than creating further regulatory burden with the introduction of any new reporting requirements. NESO published a wide range of industry data and reports already, such as system balancing and balancing service performance reports, and our data portal provides information on ancillary services costs, utilisation and skip rates amongst others. A full list of publications and relevant industry information is provided in Appendix 4.

We also agree with the use of a stakeholder survey, however, NESO believes that there should be some rationalisation and alignment of such forums and surveys to reduce stakeholder fatigue and conflicting priorities. Numerous panels and stakeholder surveys are currently already in place, such as NESO Stakeholder Advisory Panel, DSO panels, Ofgem's DSO Performance Panel, the Markets Advisory Council and the use of surveys that duplicate questions across participating organisations.

Items related to flexibility markets should be carved out to provide clarity and ensure independence, helping to reduce stakeholder fatigue and address the conflicting priorities of the respective stakeholder forums which can be influenced by a few dominant stakeholders.

As the Independent Energy System Operator, NESO has an obligation to maintain independence in its decision making and ensuring that whole-energy system benefits are delivered. There is then a risk that NESO are the only party trying to moderate all market and industry views, as our obligations extend to all market participants rather than the smaller subset of flexibility providers under the Market Facilitator's scope. There will be a need to ensure that the Market Facilitator does not succumb to industry pressure that may impact service efficacy and costs to consumers. Measures should be taken to ensure that any conflicts of interest in panel members are addressed, and terms of reference need to be clearly defined to avoid any conflicts of interest, as this will draw on an already limited pool of industry experts.

## Section 4: Market Facilitator deliverables

### **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?**

NESO is supportive of a two-year delivery plan, recognising that market reforms and implementation plans are often multi-year delivery programmes. The plan should be written in sufficient detail so that it can be used as a reliable input for our annual regulatory business planning process, while allowing for flexibility within the delivery plan to account for re-prioritisation requirements. We need to carefully consider the timings, especially where there is a gap between our business planning process and the delivery schedule.

While the Market Facilitator will require its own budget setting process and proposes to do this via the BSC process, the majority of costs incurred through Market Facilitator activities will be borne by the network & system operators themselves in the implementation and delivery phases, therefore delivery schedules that run in regulatory rather than calendar years would be more consistent.

To further align with existing NESO regulatory business planning and DNO Price Control setting, consideration should be given to the use of reopeners and uncertainty mechanisms where applicable, where technical outputs are defined that would incur significant costs or reprioritisations of other deliverables approved within these periods. While NESO and other industry parties will input and feedback on the draft delivery plan, we believe that delivery partners and Ofgem should provide final sign-off of this plan considering its achievability before Licensees are committed to an implementation plan. This echoes the risks stated under Questions 3 & 4, in that a balanced view is taken of stakeholder and Licensees challenges and opportunities. Any conflicts identified between the Market Facilitator deliverables and other licence conditions should be prioritised and communicated to both Elexon and Ofgem through the development process, and the appeals process if required.

There has been considerable industry challenge on pace of delivery, and NESO itself has been challenged on the pace of market reform activities. It is important that those deliverables deemed highest priority are expedited.

Programmes such as the Single Markets Platform, Open Balancing Platform and Power Responsive are agile in their delivery, responding to the needs of the market and re-prioritising appropriately. NESO would like to build on the success of these programmes, and proposes that a formal path for reprioritisation is developed under the governance framework of the Market Facilitator, recognising the pace of change within the industry. This would follow a principles-based approach to the Market Facilitator delivery plan, mitigating against rigidity and ensuring benefits to consumers are realised.

### **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?**

As stated above, in order to align with NESO and DNOs, we would propose a timeline that reflects regulatory budget setting processes to aid transparency and deliverability.

While we want to ensure that the cost of funding the Market Facilitator is transparent and demonstrates value for money to the consumer, the vast majority of costs incurred in relation to Market Facilitator activities, through the implementation of Technical Outputs, will be borne by the individual organisations and will be considerably higher, and it is these costs that should be considered when defining and prioritising a delivery plan.

We would welcome clarity on the criteria for demonstrable inefficient and wasteful expenditure. The budget should ensure that Elexon has the necessary resources to fulfil its role as market facilitator. Whilst under the current proposals Ofgem do not have a direct role in approving the Market Facilitator's budget, it has a critical role to play in ensuring that the activities it undertakes are transparent, efficient and fully aligned with market needs.

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

We agree that technical outputs are a key deliverable, and the details on timings and scale need to be clearly defined.

The change process must reflect the unique positions of NESO and DNOs. While it is essential that current and prospective market participants voices are represented in defining technical outputs, NESO and DNOs are accountable and responsible for the safe and economic operation of their systems and networks. The implementation tracker should be robust and avoid any overlap with existing regulatory reporting requirements.

There should be a clearly defined process to modify the role as it evolves, such as the consideration of a redefined or expanded scope and how poor performance is to be addressed. As this holds the potential for the role to be transferred in the future, we recommend the role is presented as independent to Elexon.

## **Section 5: Market Facilitator performance arrangements**

**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?**

Elexon is similar to NESO in that it is a not-for-profit organisation, however it is a private organisation funded by market participants. Linking Elexon's senior management remuneration policy with performance assessment is similar to NESO's arrangement. However, we need more detail on how this would impact other activities carried out by Elexon. Minimum performance thresholds and independent assessments could be considered to ensure accountability.

**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?**

As stated in question 4, the purpose and objectives of the Market Facilitator should be clarified, to allow for a clear measure of performance against the delivery of these objectives and a demonstrable benefit to consumers.

While we believe that the objectives of the Market Facilitator should be aligned to wider industry and NESO objectives, we believe that these should be principles based to mitigate against arbitrary targets driving deliverables. The examples provided of quantitative metrics such as flexibility procured, tendered, or associated savings do not account for implicit versus explicit flexibility, and the operability requirements associated with their usage, as DNO needs vary to NESO's, and again to wholesale market balancing requirements. As such, just because these things can be measured and quantified, they do not necessarily represent effective metrics reflective of the performance of the Market Facilitator delivering their role.

The performance measures should reflect the need for close collaboration between the Market Facilitator and NESO. NESO should be part of the Stakeholder Advisory Board, and the level of scrutiny and oversight should be proportionate to the impact on our licence requirements.

Within our 'Enabling Demand Side Flexibility' publication in December, we reiterated our strategic vision to 'enable flexibility resources to operate seamlessly between markets, driven by effective market signals, delivering whole electricity system value to consumers and supporting the transition to net zero', to be achieved through coherent, competitive and coordinated markets. We are developing key performance indicators to remain accountable to these initiatives, which we will share to ensure alignment with both the Market Facilitator policy framework, and the Low Carbon Flexibility Roadmap that we are co-authoring alongside DESNZ and Ofgem.

There is a strong focus on the Market Facilitator feeding into NESO and DNO performance assessments, however we believe that this should be bi-directional, and that these parties should have greater abilities to feed into the Market Facilitator's performance assessment. This will be key in ensuring that the work undertaken supports wider licence obligations, and our delivery of a safe, secure, affordable and reliable system.

**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 agree with the principle of promoting the alignment of experience with regard to flexibility service providers, however as described in question 2, many of our commercial ancillary services differ by design, in order to meet the operational needs they serve, and alignment is not always possible within the confines of retained European law that these services are subject to.

While we welcome the ambition of the first delivery plan, it should be through the robust consultation process that the priorities and any 2028 target is defined, and standardization / alignment should not be prioritized at all costs, although we recognize that alignment is a clearer objective across the 6 DNOs and their flexibility offerings.

Through our [Routes to Market](#) work, we have assessed and prioritised a programme of activities that seek to address the barriers to entry to NESO markets for demand side flexibility. This highlights where differentiation can be beneficial, with respect to the objectives of unlocking our markets, an example being the loosening of operational metering requirements for some services to promote wider market access. Whereas the complete standardization of service requirements or process steps may be extremely costly to implement and demonstrate little value to consumers.

Working with our stakeholders, we have formulated five evaluation criteria against which we would assess actions to remove barriers to participation by demand side flexibility in ancillary service markets: **value; cost and effort; internal alignment; strategic environment; external coordination**. While applying these criteria, we were also mindful that not all flexibility services are suitable for participation by all providers.

We recommend that a similar approach to the prioritisation of Market Facilitator deliverables is considered, to provide a more holistic review of how to further address challenges and barriers related to flexibility market development in the future. Further detail is provided in Appendix 3.

At our [September 2024 Markets Forum](#) event, we provided an updated view of the service updates and developments we plan to undertake in the next few years in NESO markets. Alongside the implementation of existing Open Networks outputs, and our Routes to Market work, we propose to continue to undertake these activities, to ensure that we do not lose any momentum in the removal of these market barriers, and to deliver against stakeholder expectations and our existing business plan commitments.

However, in future our regulatory business plan would be aligned ideally with the expectations of the 2028 objective. We expect to work with the Market Facilitator to ensure the delivery of flexibility services and markets at pace.

We look forward to working with the Market Facilitator and Ofgem to ensure that the governance process is clear and that NESO's priorities are balanced with those of the Market Facilitator in delivering greater value to consumers through the coordinated, coherent and competitive development of GB flexibility markets.

Criteria	Description
<b>Value</b>	Action unlocks a large quantity of cost-effective provision that is valuable to NESO and provides a valuable route to market for demand side flexibility providers.
<b>Cost and Effort</b>	Action can be achieved within a reasonable time and budget (considering also participant costs)
<b>Internal Alignment</b>	Action supports an existing NESO commitment, and/or does not adversely impact an ongoing NESO activity or initiative
<b>Strategic Environment</b>	Action endures and remains useful in the context of government policy, evolving system needs, and future market strategy
<b>External Coordination</b>	Action can be implemented with little dependency or impact on DNOs, Ofgem, Elexon, and other industry bodies

*Figure 2: Barrier prioritisation evaluation criteria.  
Source: [Routes to Market review. Stage 2: prioritisation](#)*

## Appendix 1: Balancing Mechanism

The Balancing Mechanism (BM) is the NESO's primary tool to operate the power system and ensure the secure operation <https://www.neso.energy/electricity-explained/how-do-we-balance-grid> of GB's network. In the Electricity National Control Centre (ENCC), we use the BM to buy and procure the right amount of electricity required to balance the system. We do this minute by minute, second by second, to balance supply and demand in real time. It is governed by the Balancing and Settlement Code and Grid Code, mandating requirements that other flexibility markets are not subject to.

### **Open for auction**

The BM is a continuously open online market with thousands of Bid Offer Acceptances (BOA's) and instructions issued daily. Each settlement period is 30 minutes long.

For every half hour, the BM signals how much it will cost to provide power at that time.

The auction gate opens 60 to 90 minutes before real time. During this window, market participants submit "bids" or "offers" into the BM. A bid is the price they've calculated to either consume more electricity or generate less electricity; an offer is the price to consume less or generate more. What the ENCC needs at any point in time will depend on current system conditions.

### **Decision making**

At gate closure, the market closes for that half hour period. The ENCC then begins to accept bids and offers.

To decide on which participants to choose or which bids and offers to accept, we review the technical parameters of all participants to see what they're physically capable of providing. From those that can deliver what we need, we instruct the ones that are the most efficient regarding both their ability and cost. We go with the most competitively priced bids and offers, taking into account system conditions such as operational and locational factors in our selection.

Once we accept a bid or offer, we issue Bid Offer Acceptances (BOAs), which are an instruction to the participant that we want them to change their output. Participants must accept these BOAs, meaning that they then agree to act on these instructions and adjust their output accordingly. These agreements therefore keep the system operating securely.

The balancing team in the ENCC continuously reviews BM data, reviewing bids and offers and issuing instructions 24/7 to keep the system operating securely.

## Appendix 2: Change processes

Figure 4 below sets out at a high level the steps we take in bringing new services, and changes to existing services, from strategic drivers through to implementation and monitoring.

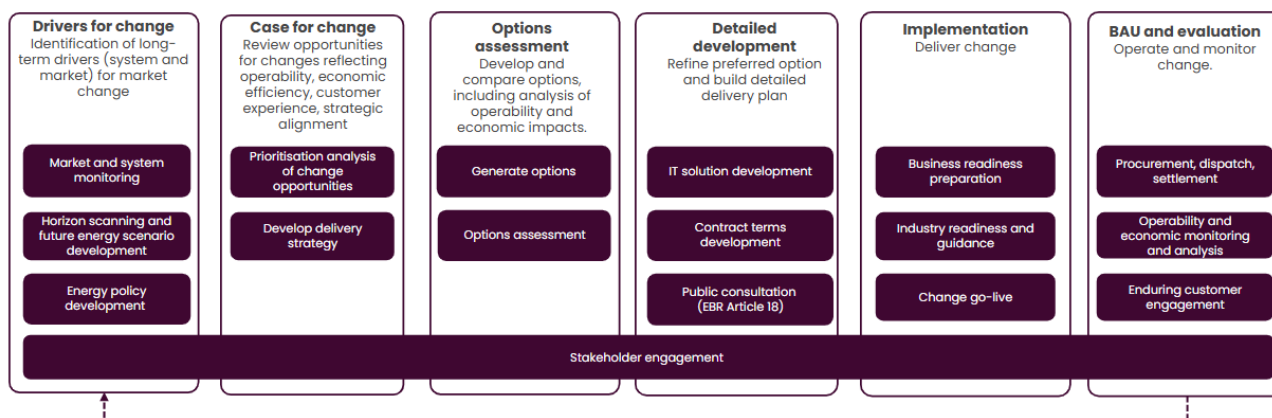


Figure 3: Current change processes for NESO services

While this is necessarily simplified for the purpose of clear illustration, we propose these fundamental steps and activities shall represent a frame of reference for considering how and when we work with the Market Facilitator and embed its outputs.

### Principles and Next steps:

The Market Facilitator offers opportunities for benefits in coherent, coordinated markets and in robust, transparent, and streamlined market development processes. To realise these benefits however – and avoid risks of duplicative or blurred responsibilities – it is essential we have clarity around roles and ways of working. We suggest the following principles should underpin the next stage of design of the Market Facilitator arrangements.

#### **NESO's requirements around MF's input and Technical Outputs must reflect NESO's accountability and responsibility for secure and economic system operation.**

NESO must ultimately be the decision-maker for technical service design. This is essential reflecting our unique accountability with respect to secure system operation.

#### **The scope and objective of the Market Facilitator's input should be clear.**

A clear focus allows the Market Facilitator to prioritise resource on areas where it can offer the most value.

#### **Ofgem must clearly set out how NESO is to demonstrate compliance with its duties with respect to MF inputs and technical outputs.**

We recognise the importance of transparency in our decision-making, and as such Ofgem must make clear how we demonstrate we are accounting for the Market Facilitator input.

## **We should harness the Market Facilitator's role to improve efficiency and effectiveness of existing change process.**

We believe the Market Facilitator offers opportunities for more coordinated engagement, clearer and streamlined roles for Ofgem in approving service design, and more transparent decision-making. But the wrong governance arrangements could mean fragmented and duplicated engagement, blurred boundaries across the MF and Ofgem, and lack of clarity over decision-makers and decision-making.

### **Next steps**

1. **Ofgem to define the scope of Market Facilitator input.** Following from our principles, we think the Market Facilitator will be most effective – and best able to hit the ground running – with a clear scope and objectives.
2. **The Market Facilitator to specify how it inputs into NESO service design.** To ensure effective input and transparent decision-making, we need to have a clear process for when and in what form the MF inputs into our service design and service design framework. We are ready and committed to working with Elexon and wider stakeholders to develop proposals in this area.
3. **Ofgem to specify how NESO demonstrates compliance.** We need Ofgem to set out how we will demonstrate that we have taken account of the Market Facilitator's input and requirements around Technical Outputs, including where there is an interaction with our existing licence conditions.
4. **Ofgem, NESO, and the Market Facilitator to determine effective consultation arrangements.** We are required by retained European Balancing Guidelines and our licence conditions to consult on our service plans and terms and conditions. We need to determine how the Market Facilitator's consultation processes work in harmony with rather than duplicate existing consultation requirements.

## Appendix 3: Routes to Market barrier prioritization review

Within our December 2024 publication of the Routes to Market review, we undertook a prioritisation exercise of the barriers identified with stakeholders during phase 1. We recommend that the Market Facilitator uses this feedback to inform its own market coordination plan, and to demonstrate where priorities have been highlighted outside of standardisation or alignment objectives.

### Service prioritisation key considerations:

We proposed, based on Industry feedback, that we should initially prioritise services delivering the most value to system balancing and where stakeholders believe the majority of “archetypes” can already satisfy service needs and participate with relatively minor changes.

Service Requirements	Service	Consideration
<b>Frequency</b> <ul style="list-style-type: none"> <li>Short response time</li> <li>Fast ramping</li> <li>Short duration</li> <li>Short recovery</li> </ul>	Dynamic Containment	<ul style="list-style-type: none"> <li>Relatively low industry priority</li> <li>Competitive market with steady ESO requirement</li> </ul>
	Dynamic Moderation	<ul style="list-style-type: none"> <li>Relatively low industry priority</li> <li>Competitive market with steady ESO requirement</li> </ul>
	Dynamic Regulation	<ul style="list-style-type: none"> <li>Relatively low industry priority</li> <li>C need is likely increasing in future</li> </ul>
	Static FFR/Static Recovery	<ul style="list-style-type: none"> <li>High industry interest &amp; good technical fit</li> <li>ESO planned reform of service</li> </ul>
	Quick Reserve	<ul style="list-style-type: none"> <li>Technically challenging to meet service requirement</li> <li>Lowering technical requirements would likely lower ESO need for this service</li> </ul>
<b>Frequency + Energy</b>	Slow Reserve	<ul style="list-style-type: none"> <li>Very high industry interest &amp; good technical fit</li> <li>STOR is carbon intensive currently, low carbon flex resources need to be enabled</li> </ul>
	Balancing Reserve	<ul style="list-style-type: none"> <li>Similar requirements to BM</li> </ul>
	Balancing Mechanism	<ul style="list-style-type: none"> <li>Very high industry interest subject to operational metering</li> <li>Carbon intensive currently, low carbon flex resources need to be enabled</li> </ul>
<b>Energy</b> <ul style="list-style-type: none"> <li>Long notice period</li> <li>Slow ramping</li> <li>Long duration</li> <li>Long recovery</li> </ul>	Demand Flexibility Service	<ul style="list-style-type: none"> <li>Service designed to activate demand side flexibility, high industry interest &amp; good technical fit</li> <li>Growing within day flex volume ahead of MWHHS</li> </ul>

Figure 4: Service prioritisation key considerations. Source: [Routes to Market review. Stage 2: prioritisation](#)

### Barrier prioritisation scoring card:

Barrier	Value	Cost	Internal Alignment	Strategic Environment	External Coordination	Total
1MW minimum unit size to participate in services	2	1	3	3	2	11
Decimals of 1MW not allowed	2	2	3	3	2	12
Accessibility of NESO service information	1	3	1	1	3	9
Localised DNO limits on capacity limiting participation	3	2	3	3	1	12
Penalty lack of tolerance	1	2	1	1	2	7
Flexible connections & Active Network Management	3	1	2	3	2	11
Procurement in EFA blocks	2	2	1	2	2	9
Aggregated BMUs cannot assign to a specific GSP	2	2	1	3	3	11
1Hz Performance Metering	2	3	1	1	2	9

Value: 3= high benefit 1= low benefit  
 Cost: 3= low effort 1= high effort  
 Internal alignment: 3= strong alignment 1= weak alignment  
 Strategic alignment: 3= strong alignment 1= weak alignment  
 Stakeholder impact: 3= low impact 1= high impact

*Figure 5: Evaluated barriers based on prioritisation criteria. Source: [Routes to Market review. Stage 2: prioritisation](#)*

The highest 'value' scoring barriers identified were in relation to Flexible connections, ANM and localised DNO limits on capacity limiting participating. We are supportive of the recent RII0-ED3 framework consultation, in its intention to bridge the gap between network and system flexibility in ensuring we adopt a whole system mindset for the connection and operation of flexible assets.

## Appendix 4: Useful Links

The table below includes links to webpages and documents for further information, and as referred to throughout our consultation response.

Document / Webpage	Description	Link
<b>Balancing Services Performance Monitoring Report</b>	At NESO, we have robust processes in place to monitor balancing services performance and hold balancing providers to account against contractual delivery commitments. We publish a quarterly report that will present service-specific performance monitoring data for a number of balancing services. This report is the first in a series of reports on performance monitoring of balancing services.	<a href="#"><u>Balancing services performance monitoring report   National Energy System Operator</u></a>
<b>Balancing Mechanism Wider Access</b>	As NESO, our vision is to meet the future needs of the electricity system by making the most of all resources available on the system in a flexible and economic way. Our service providers are key to helping us manage these challenges, which is why we want to better help them to help us balance the GB system in the most cost-effective way. After listening to these providers, we want to widen access to the Balancing Mechanism (BM), Great Britain's core flexibility market.	<a href="#"><u>Balancing Mechanism Wider Access   National Energy System Operator</u></a>
<b>Balancing Principles Statement, Report &amp; Guidelines</b>	We are required to establish statements and guidelines in accordance with special condition C9 of the statements of the NESO licence. On this page you will find all C9-related documents, including consultations.	<a href="#"><u>C9 statements and consultations   National Energy System Operator</u></a>
<b>Clean Power 2030</b>	This report presents our analysis on the foundations for clean power, the core elements of a clean power system, our pathways, critical enablers and the benefits and costs. The report sets out both the challenging hurdles that need to be overcome and the benefits to consumers, the economy and society, including Britain's energy security that doing so could deliver.	<a href="#"><u>Clean Power 2030   National Energy System Operator</u></a>

<b>Data Portal</b>	Open data from Great Britain's System Operator	<a href="#">Welcome to the NESO Data Portal   National Energy System Operator</a>
<b>Digitalisation Strategy and Action Plan</b>	Our DSAP sets out our strategic ambitions and action plans, demonstrating our expanded roles across electricity, gas and hydrogen in the energy sector. By leveraging emerging technologies, harmonising data standards and maximising the value of data, we aim to foster innovation and collaboration, creating a more interconnected and efficient energy network that benefits everyone.	<a href="#">2024 Digitalisation Strategy and Action Plan Published   National Energy System Operator</a>
<b>Enabling Demand Side Flexibility</b>	Enabling Demand side Flexibility in NESO markets report (originally entitled Flexibility Market Strategy), is a response to the urgent need to mobilise demand side flexibility in NESO markets as Great Britain shifts towards a greener future.	<a href="#">Enabling Demand Side Flexibility in NESO Markets   National Energy System Operator</a>
<b>Enduring Auction Capability</b>	The Enduring Auction Capability (EAC) is being designed to deliver co-optimised procurement for our day-ahead Frequency Response and Reserve products. It is envisioned that this method of procurement will allow us to meet our needs in the most efficient way, while enabling providers to participate in multiple markets.	<a href="#">Enduring Auction Capability (EAC)   National Energy System Operator</a>
<b>European Balancing Guidelines</b>	This Regulation lays down a detailed guideline on electricity balancing including the establishment of common principles for the procurement and the settlement of frequency containment reserves, frequency restoration reserves and replacement reserves and a common methodology for the activation of frequency restoration reserves and replacement reserves.	<a href="#">EUR-Lex - 02017R2195-20220619 - EN - EUR-Lex</a>
<b>Markets Advisory Council</b>	NESO has a central role today in GB energy market design. The MAC has recently been established to inform our approach to strategic market design and delivery, based on robust evidence, international best practice, and the needs of and impacts on wider industry.	<a href="#">NESO Markets Advisory Council (MAC)   National Energy System Operator</a>

<b>Markets Forum</b>	We hold events through the year, as key milestones to engage with a wide range of customers. We aim to reflect on the priorities of the industry and how NESO's role, and in turn Markets, is positioned to deliver against these.	<a href="#">Markets Forum events   National Energy System Operator</a>
<b>Markets Roadmap</b>	The roadmap outlines our market design objectives, principles and plans to reform and evolve our markets. It details our vision for response, reserve, thermal, voltage, stability, restoration markets, and the <a href="#">Balancing Mechanism</a> .	<a href="#">Markets Roadmap   National Energy System Operator</a>
<b>Operability Strategy Report (OSR)</b>	The OSR outlines the future system challenges, and the system requirements to meet those needs. It is to be read in conjunction with the Markets Roadmap that explains how our markets are evolving to meet those needs and ensure electricity system operability.	<a href="#">Operability Strategy Report (OSR)   National Energy System Operator</a>
<b>Power Responsive</b>	Power Responsive is a stakeholder-led programme, facilitated by NESO, to stimulate increased participation in the different forms of flexible technology such as Demand Side Response (DSR) and storage.	<a href="#">Power Responsive   National Energy System Operator</a>
<b>RIIO-2 Business Plan 3</b>	We've published our RIIO-2 Business Plan 3 for the period April 2025 to March 2026 (BP3). This is our first business plan as NESO and the final plan for the RIIO-2 period.	<a href="#">Our Business Plan to deliver net zero and consumer value   National Energy System Operator</a>
<b>Routes to Market Review</b>	This review is a part of the "Identify and remove barriers" workstream, as outlined in the Enabling Demand Side Flexibility in NESO Markets publication. This review aims to identify and prioritise barriers, and set out our approach to removing barriers and timeframes for doing so.	<a href="#">Demand Side Flexibility Routes to Market Review   National Energy System Operator</a>
<b>Single Markets Platform</b>	The Single Markets Platform (SMP) is being designed to help NESO become a better buyer of ancillary services through the transformation of the user experience. The aim of the SMP is to provide frictionless access to NESO markets, from its foundational release of functionality on 10 February 2022, it supports the onboarding	<a href="#">Single Markets Platform   National Energy System Operator</a>

	process for new and enduring day-ahead Frequency Response markets.	
<b>System Balancing Reports</b>	The service reports show the requirements for balancing services and the results of tender assessments. A service-by-service summary of the cost of balancing services is provided in the monthly balancing services summary (MBSS).	<a href="#">System balancing reports   National Energy System Operator</a>