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Ref : Coordinating flexibility: the market facilitator blueprint

Thank you for the opportunity to respond to "Coordinating flexibility: the market facilitator blueprint".

Please find below E.ON UK's response to the consultation. We would be very happy to discuss any of our feedback in further detail.

Executive Summary

We welcome Ofgem's efforts to set out not only how the Market Facilitator (MF) will be governed, but also the interlinkages between the relevant BSC P flows, System Operator licences, Ofgem's Governance Framework Document and Elexon's own literature.

E.ON is largely supportive of the changes outlined within the Market Facilitator blueprint consultation with the exception of the following:

- There are no proposed quantifiable metrics against which its progress/delivery will be assessed; and
- The revised wording relating to licensees' obligations (which is a change from comply with to engage in relation to the Market Facilitator specifically).

Whilst we appreciate there are risks associated with inadequately designed and/or applied metrics, the complete omission of any quantifiable metrics makes measuring success extremely challenging, and subjective.

The Governance Framework Document clearly states in the Performance Objectives listed on page 21 that the MF is tasked with increasing "liquidity" and "increasing participation for flexibility service providers". We believe it is highly feasible to measure this via the volumes of flexibility being procured under a given service, and at what £/unit rate. If Ofgem and/or Elexon do not feel able to implement metrics from Day 1 we would urge that a snapshot of these values be taken at this point in time to allow for the future implementation of such metrics.

Clearly, whilst there are so many energy industry initiatives being delivered alongside the MF (plus there will be wider variables outside of its control – e.g.

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macro-economic drivers), it is not possible to isolate the full extent to which values such as the volumes of flexibility procured/£ rates would be directly influenced by its actions. This does not mean, however, that no endeavours to track impact should be made.

We would also like to note that Ofgem's recent (Jan 25) announcement to reverse their prior approach of not having meaningful flexibility metrics in place - via DSOs' "regularly reported evidence" (RRE) requirements - reinforces the need to avoid a similar oversight for the Market Facilitator. Whilst it is necessary to have in place a minimum quality of data, as we have outlined in the above paragraph, we do not believe this is insurmountable. On the other hand, having no metrics at all poses a far greater risk to both the MF's, and Ofgem's, ability to hold organisations to account, as well as for the benefits of the MF to be objectively measurable.

The removal of the wording under the Licence conditions –from an obligation to comply with the recommendations of the MF, to a sole requirement to engage with the MF - also places a single-handed reliance on the Flexibility Market Rules (FMRs) being fit for purpose. E.ON is of the view that this is a significant risk and therefore advocate for this change to be reversed and the original wording reinstated.

We would also like to take this opportunity to comment on Elexon's Market Facilitator webinar engagement which we believe should look to become more inclusive, with a more accessible format used where possible. This will be of particular relevance for newer flexibility entrants and/or consumer facing engagement.

We note that, in these webinars, there is an over-reliance on terminology with an IT-bias (e.g. "meta data") which will not be meaningful for large segments of the stakeholders with whom Elexon need to be engaging. Similarly, we do not find Elexon's online repository of information - the "github" - to be an easy to navigate repository of information – it is too complex (too many sub-folders) and navigation is non-intuitive.

If the Market Facilitator is to fulfil the engagement element of its role successfully, it is essential that information is relayed/stored in an inclusive and accessible format.

To address this, we would suggest Elexon engage further across a wide range of stakeholders – including laypeople and/or consumers - to gather feedback on the format in which they present MF updates, (including FMRs).

Responses to Questions:

Q1. Do you agree that the Draft Governance Framework Document clearly defines the scope, roles & responsibilities and deliverables of the Market Facilitator? If not, what would you change and why?

E.ON agrees that the Draft Governance Framework Document goes some way to defining the scope, roles & responsibilities and deliverables of the Market Facilitator. However, as we have previously relayed, many of the deliverables are subjective.

For example – “will look for alignment where it is appropriate” and “simplifying access”.

Building upon our commentary in the Executive Summary, if we have interpreted the document correctly, it appears that setting a performance objective will only take place prior to the start of the second delivery plan period (1 April 2028 to 31 March 2030) which we do not believe is sufficient, especially given the broader Clean Power Mission. Whilst we understand some of the rationale stated – i.e. that the scope will, by then, include the wholesale market – we do not believe that this is reason in and of itself to delay the inclusion of a performance ambition until this point in time.

As we have also outlined within the Executive Summary, since the objectives of the MF lend themselves to measurable deliverables - such as volumes of flexibility procured and at what £/unit - we believe these should be in place from the onset of the MF. If Ofgem do not feel comfortable that such metrics should be explicitly linked to the performance assessment of the MF, they can nonetheless be used as a baseline and non-performance related KPI.

Q2. Do you agree with the appeals process and the proposed performance arrangements for Elexon as the Market Facilitator? If not, what would you change and why?

We agree with the appeals process and the proposed performance arrangements for Elexon as the Market Facilitator, notwithstanding our earlier comments around the absence of performance metrics.

Q3. Do you have any other comments on the Draft Market Facilitator Governance Framework Document?

E.ON supports the inclusion of the FMAR, and key FMAR deliverables, within the Draft Market Facilitator Governance Framework Document.

Draft impact assessment

Q1. Do you agree that we have, to a reasonable extent, identified and understood the potential costs and benefits of implementing the Market Facilitator?

We agree that Ofgem have, to a reasonable extent, identified and understood the potential costs and benefits of implementing the Market Facilitator based on all available data/research at the time.

However, due to the absence of flexibility metrics under DSO's RRE requirements until Apr 25, this hampers the ability of the Impact Assessment to accurately and

fully appraise both the value of flex, and the corresponding impact of any flexibility not materialising.

Q2. Do you agree that we have, to a reasonable extent, identified and understood the potential impacts of the introduction of the Market Facilitator? Are there any unintended consequences of implementing the Market Facilitator that we have not identified?

E.ON agrees that Ofgem have largely identified and understood the potential impacts of the introduction of the Market Facilitator.

The key unintended consequence we see at risk of materialising is the possibility there will be a “failure to deliver anticipated outcomes” which we believe is relatively high risk so long as there are not sufficient performance metrics in place. This, in turn, also increases the likelihood that there will be “low-quality deliverables”.

We also have concerns that many of the stated risk mitigations such as those relating to “stifling of innovation and/or missed opportunities” include activities such as “constant monitoring of deliverables to identify implementation issues” and “ensuring sufficient benchmarking and horizon scanning”, both of which are also undermined by the fact that the deliverables are subjective and/or unquantifiable due to the lack of fit for purpose metrics.

Licence changes

Q1. Do you agree with the updated proposed Definitions to be added to the Standard Conditions of the Electricity Distribution Licence and the ESO Licence? Are any changes required?

No comment.

Q2. Do you agree with the updated proposed licence condition clauses for Flexibility Market Rules to be added to both licences? Does the current drafting deliver the policy intent? Do you have any suggested changes?

We agree with the updated proposed licence condition clauses regarding Flexibility Market Rules with the exception of the change of wording from “engage and comply with the Market Facilitator in its role to align and standardise flexibility markets” to solely “engage”.

Whilst we appreciate that the assumption is that compliance is presumed to follow based on the subsequent clause that “The licensee must comply with the Flexibility Market Rules, subject to 55.4”, this relies on the FMRs being 100% effective at delivering the aforementioned objective (aligning and standardising). As the FMRs are likely to be imperfect, and will need frequent updating as flex markets evolve, we believe this weakness should be addressed through reinstating the original wording that licensees comply with the Market Facilitator.

Q3. Do you agree with the updated proposed licence condition clauses for implementation monitoring to be added to both Licences? Does the current drafting deliver the policy intent? Do you have any suggested changes?

Instead of “the licensee must, within a reasonable timeframe, provide Market Facilitator Information to the Market Facilitator, as and when reasonably requested by the Market Facilitator”, E.ON is of the opinion that it would be more meaningful to provide indicative timeframes according to a level of urgency – for example: for urgent requests, the timeframe could be no later than 3 weeks, with a timeframe of no later than e.g. 3 months being applied to non-urgent requests.

In view of the difficulties Ofgem seem to have encountered in their endeavours to gain DSO flexibility data with which they are comfortable under the RRE/ED2 framework (until Apr 25), having as SMART as possible implementation monitoring clauses is essential.

Q4. Do you agree with the updated proposed licence condition clauses for Market Facilitator input into NESO service design to be added to the ESO Licence? Does the current drafting deliver the policy intent? Do you have any suggested changes?

We have proposed one modification to this updated clause. Instead of:

“The licensee must fully engage and consult with the Market Facilitator in the service design for new and existing NESO Services prior to implementation decisions being made and prior to formal consultation (required under Condition C9 of this licence and Article 18 of the Electricity Balancing Regulation) by the licensee, for NESO Services”

we would suggest Ofgem add in supplementary wording per the bold underlining below:

*“The licensee must fully engage and consult with the Market Facilitator in the service design for new and existing NESO Services, **and ensure alignment with the Market Facilitator’s objectives as set out in their Governance Framework Document**, prior to implementation decisions being made and prior to formal consultation (required under Condition C9 of this licence and Article 18 of the Electricity Balancing Regulation) by the licensee, for NESO Services. **In instances of disagreement between NESO and the Market Facilitator, this should be escalated to Ofgem to mediate**”*

Q5. Do you have any additional comments or suggestions?

As we have elaborated upon above, E.ON has an over-arching concern that the Market Facilitator’s objectives are not sufficiently measurable and/or SMART meaning they are open to interpretation and risk not delivering Ofgem’s intent. We note that the MF workplan is shortly due for publication, and so will review this for any assurances in relation these concerns.

As we have also relayed in our responses to prior consultations, we have significant concerns around the Market Facilitator’s ability to efficiently and effectively unlock

CLF without all flexibility markets being in scope from Day 1, and so would reiterate our view that Ofgem should look to rectify this as soon as possible.

It is also worth emphasising that there is a need for Elexon/Ofgem to ensure that the MF's "Strategic Leadership" function can be used to ensure traction on wider actions to deliver flexibility which may not be directly within its scope. This is essential on two levels: 1) it ensures that any gaps in its scope/formal objectives can be mitigated – for example, where key flexibility markets such as the Capacity Mechanism have been omitted and 2) it will ensure the second part of the equation required to unlock flexibility – namely sufficient price incentives – is more likely to materialise alongside the MF's stated goal of improving market access.

We are of the opinion that, without addressing the economics of taking part in flexibility at the same time as widening market accessibility, the 12GWs of CLF required to meet the UK's CP2030 target will not be delivered.