

Guidance

DNO funding of Market Facilitator and Flexibility Market Asset Registration (FMAR) in RIIO-ED2 and RIIO-ED3

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This guidance sets out our expectations on how Distribution Network Operators (DNOs) should fund Flexibility Market Asset Registration (FMAR) related activities in RIIO-ED2 and provide further clarity on how DNOs should plan for Market Facilitator and FMAR related activities in ED3.

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DNO funding of Market Facilitator and FMAR in RIIO-ED2 and RIIO-ED3

This guidance sets out our expectations on how Distribution Network Operators (DNOs) should fund Flexibility Market Asset Registration (FMAR) related activities in RIIO-ED2 and provide further clarity on how DNOs should plan for Market Facilitator and FMAR related activities in ED3.

In summary, we expect DNOs to:

- use existing funding for FMAR in RIIO-ED2 if a Digitalisation Re-opener application has not been submitted
- highlight in ED3 business plans where there is uncertainty on Market Facilitator and FMAR related activities and consider submitting digitalisation reopener applications in the relevant window so as not to impact delivery.

Background

As you are aware the Market Facilitator is responsible for aligning rules, processes, standards and services to reduce friction and increase liquidity in flexibility markets.

DNOs are critical to the successful delivery of the Market Facilitator's objectives, through collaboration to develop flexibility market rules and then to comply with them, to the benefit of flexibility service providers and ultimately consumers. We have been encouraged by DNOs' constructive engagement in the Market Facilitator's work to date, which has contributed to a successful transition from previous arrangements and early progress.

The Market Facilitator currently has two performance objectives:

- align flexibility markets in scope where there is system value by 31 March 2028
- deliver the FMAR digital infrastructure by 30 September 2027

Next year we will set new performance objectives and key priorities for the Market Facilitator, to be delivered in the second delivery plan period from 1 April 2028 to 31 March 2030. We have already set out that the wholesale market will be in scope. The delivery plan will then be developed by the Market Facilitator in mid / late 2027.

DNO funding for FMAR in RIIO-ED2

We have engaged with all DNOs on how they intend to fund FMAR related system changes and activities in RIIO-ED2. Some DNOs reported a lack of funding, however, others have indicated that they have sufficient budget or can reprioritise to support FMAR.

Guidance DNO funding of Market Facilitator and Flexibility Market Asset Registration (FMAR) in RIIO-ED2 and RIIO-ED3

The FMAR go-live date and direction of travel were not known at the start of RIIO-ED2. However, there are mechanisms within the arrangements to request additional funding during a price control period.

As you know, there was a Digitalisation Re-opener window in January 2026, which provided an opportunity to request additional funding. We recognise that additional costs relating to FMAR would not have met the materiality threshold on their own but could have been packaged with other additional initiatives. One DNO took this approach and submitted a digital reopener which included FMAR, which we have provisionally accepted.

DSO Incentive

The recently published [DSO Incentive annual report 2025 to 2026](#) states (in paragraph 3.25) that the existing DSO performance panel criteria already requires DSOs to demonstrate performance in areas that may involve engagement with wider regulatory and industry initiatives.

Reference is made to the scoring guidance in Appendix 6 of the [DSO Incentive Governance Document](#) – “expectations relating to the promotion of wider-system benefits under Delivery of DSO Benefits; the use of common formats, industry standards and standardised APIs under Data and Information Provision; and the adoption of standardised arrangements, support for third-party market services and the reduction of barriers to participation in flexibility market”. These are relevant to FMAR.

The report sets the expectation that DSOs should provide clear evidence of their engagement against these wider initiatives and that we will consider how evidence relating to wider regulatory and industry initiatives (for example but not limited to FMAR) can be gathered and considered in the existing framework, ahead of next year’s assessment.

Our expectation

We recognise the time and effort you have put into FMAR to date. We expect DNOs to continue working closely with Elexon and make FMAR a priority over the coming year, including making the necessary system and market platform changes to integrate with FMAR.

Evidence that you have engaged effectively with FMAR, for instance through an ambitious and proactive approach to FMAR implementation (for example by joining cohort 1) could be considered by the DSO Performance Panel in their next assessment, in line with the guidance referenced above. Conversely failure to support and prioritise FMAR would not be consistent with the guidance and could negatively impact scores in the 2026/27 assessment. We are also considering whether to make specific reference to this in the DSO Performance Panel Call for Evidence to ensure we have the required evidence in this area.

Guidance DNO funding of Market Facilitator and Flexibility Market Asset Registration (FMAR) in RIIO-ED2 and RIIO-ED3

For the avoidance of doubt, participation in cohort 1 is not a requirement and DNOs may determine, based on their own circumstances and evidence, that a later cohort is the earliest feasible implementation pathway. A decision not to participate in cohort 1 will not in itself be viewed as a failure to support FMAR and will not adversely affect DSO Incentive assessment. However, where a DNO is able to participate in cohort 1, this may provide evidence of an ambitious and proactive approach to FMAR implementation and could be considered by the DSO Performance Panel alongside other relevant evidence.

On funding DNO and platform system changes specifically, we understand these costs are comparatively small (relative, for instance, to overall RIIO-ED2 DSO allowances or DSO Incentive rewards). Therefore we expect that any resources and system changes required to support successful FMAR delivery in RIIO-ED2 should use existing funding.

DNO funding for Market Facilitator and FMAR in ED3

We know that when DNOs are preparing business plans for submission in November 2026 there will be some uncertainty around Market Facilitator and FMAR related activities that DNOs will be required to support and implement in ED3.

This uncertainty is explicitly recognised in the [ED3 business plan guidance](#).

In the [SSMD](#), paragraph 4.147 sets out that we expect DNOs to engage fully with the Market Facilitator and undertake enabling and implementation activities.

The business plan guidance recognises that many activities related to market development will not yet be known due to external dependencies (eg Market Facilitator decisions – see paragraph 5.84). DNOs are therefore not expected to provide details of deliverables that are not known, but areas of uncertainty should be outlined. Any funding that is requested through ex-ante allowances must be fully explained.

We also refer DNOs to paragraph 5.93 which sets out that in their DSO Strategy companies should outline implementation relating to Market Facilitator activities and decisions, not limited to but including coordination with NESO and primacy rules.

Our current expectation is that the level of Elexon activity during the second delivery plan will be at least the same as in the first delivery plan, but likely with some growth. On this basis we expect DNOs to be agile and should plan FTE accordingly.

The greatest potential increases in funding for DNOs are likely to be driven by digital and IT relating to Market Facilitator and FMAR related activities, and therefore may need to be submitted through a digitalisation reopener.

Our expectation

We expect DNOs to identify any need for additional funding to support Market Facilitator and FMAR related activities and to consider submitting digital reopeners

Guidance DNO funding of Market Facilitator and Flexibility Market Asset Registration (FMAR) in RIIO-ED2 and RIIO-ED3

applications during the applicable window to ensure no impact on Market Facilitator and FMAR delivery.

If you have any questions or wish to discuss further please contact flexibility@ofgem.gov.uk.

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