

ELEXON

11 February 2025

By e-mail to: flexibility@ofgem.gov.uk

Dear Joseph Cosier,

Re: Market facilitator policy framework consultation

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

Elexon is an independent, not-for-profit delivery body that has been operating for 25 years, playing a critical role opening up markets and supporting the transition to a net zero energy system. We provide governance, settlement and data platforms (Elexon Kinnect), and specifically manage the Balancing and Settlement Code (BSC). This enables the smooth and effective operation of the electricity market, which includes energy suppliers, generators, flexibility service providers and network companies across Great Britain. Over the past year, we have helped around 50 new companies enter the market, enabling a more flexible and innovative energy system.

Our end-to-end expertise in governance, assurance, technology platform development and electricity market data is available to support the industry, Government and Ofgem, as the energy sector transitions to net zero. Building on our purpose of serving the industry, the electricity market data we hold is open, and available for anyone to access, analyse and distribute. As a trusted, independent and reliable market expert, we continuously look to evolve and innovate for the benefit of our customers and consumers.

Ofgem has appointed us as the market facilitator for flexibility markets across both local and national markets. The market facilitator will focus on reducing friction for all parties, aligning system, transmission and distribution arrangements, and developing these markets, ensuring better coordination and alignment. The market facilitator is planned to be operational by the end of 2025, with transitional arrangements already underway and continuing across the year. Ongoing engagement with all the network operators is critical to ensure that aligned and coordinated flexibility markets are effectively adopted to facilitate the connection of low carbon technologies and distributed energy resources.

Ofgem has also appointed us as the Implementation Manager for implementing the Market-wide Half Hourly Settlement (MHHS) Programme, a key enabler of the flexibility required for the transition to net zero. Once MHHS is live, Elexon will manage up to 38m energy readings daily. Half-hourly data is an important enabler for demand side response, and used effectively, can encourage more flexible use of energy – reducing household bills and rewarding customers. Ofgem estimates half hourly settlement will deliver up to £4.5bn of net benefits to consumers by 2045.

We have limited our response to areas where we feel we can add value. If you would like to discuss any areas of our response, please contact Steven Gough, Head of Flexibility (Steven.Gough@elxon.co.uk) or Hussein Osman, Market Intelligence Advisor (Hussein.Osman@elxon.co.uk).

Yours sincerely,

Peter Stanley
Chief Executive
Elxon

Ellexon's consultation response

Developing a more flexible energy system is an essential component of the drive towards Clean Power 2030, alongside investment in capacity and infrastructure. Currently, there is only around 2.5GW of demand flexibility available, which needs to be rapidly scaled up to 12GW in just five years¹ – to help meet the Government's Clean Power target. Given this backdrop, we are fully committed to maintaining delivering at pace to ensure the market facilitator goes live by the end of the year and are therefore fully supportive of Ofgem's proposals to bring the market facilitator go-live date forward.

As the market facilitator for distributed flexibility, we recognise the important role we will play, alongside industry, in tackling the barriers that market participants face, which are preventing flexibility from scaling up. We are committed to working with stakeholders to create more open, coordinated, and transparent flexibility markets, supporting their growth.

We have been working collaboratively with Ofgem since being awarded the role in July 2024 and will continue to do so. We hope that the consultation clearly articulates and sets out the distinct roles and responsibilities between Ellexon and Ofgem, both during the transitional period and once the role goes live.

While we are fully supportive of most, if not all, of Ofgem's proposals within the consultation, we have made a few small suggestions and recommendations in our response. These are largely based on feedback gathered through our stakeholder engagement, particularly the detailed design workshops we have been running since November 2024. We also note that while we have provided a response to each question and shared our thinking, some aspects may evolve as we progress with the detailed design workshops and incorporate further input from industry and Ofgem.

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

We are fully supportive of the proposed workplan and the assigned roles and responsibilities for establishing the market facilitator. Given the Government's recent commitment to achieving a clean power system within the next five years, it is essential we maintain momentum. We support accelerating the market facilitator's go-live date to the earliest possible date of late 2025. This ambition aligns with our commitment to deliver at pace and ensuring the market facilitator plays a vital role in enabling distributed flexibility.

The consultation demonstrates the significant amount of progress that has been made since Ellexon's appointment to the market facilitator role in July 2024. We have sought to pivot quickly to enable Ellexon to take on the role, as well as further collaborate with a wide range of stakeholders to prepare for the 2025 transition. Ellexon has been actively involved across all three workstreams, including embedding ourselves across all levels of ENA Open Networks (chairing the Challenge Group, Steering Group representation, and taking part in relevant Technical Working Groups). The enabling modification P481 'Enable Ellexon to be the market facilitator Delivery Body' was delivered at pace, being raised in September and implemented in November 2024. We have also been leading on the detailed design work in collaboration with key industry stakeholders, running four workshops at the time of this consultation submission, and continue to shape the

¹ <https://www.neso.energy/document/346651/download>

processes around how the deliverables will be delivered.

As we move into 2025, we are committed to maintaining this pace of delivery, particularly as we scale up resources to fulfil the role effectively. We welcome Ofgem's transparency in providing a forward workplan that not only outlines delivery timelines but also highlights how stakeholders can engage in the development of the market facilitator role. This kind of transparency helps stakeholders understand what to expect and how they can participate, which stakeholders value.

One challenge we foresee, and which is often raised during our engagement forums, is ensuring the right representation is in the room for discussions. Smaller stakeholders like Flexibility Service Providers sometimes struggle to participate consistently due to limited resources, particularly given the volume of activity running alongside the market facilitator workstream. To ensure an inclusive leadership approach that enablers wider participation from the diverse range of flexibility market stakeholders, we have taken this into account for the detailed design working groups by implementing measures to make engagement more accessible. These include sharing slides and inviting comments ahead of meetings, providing summarised outcomes of discussions, and consulting to gather feedback. As we move into 2025 and beyond, we will need to bear in mind how to balance the need for progress at pace with the importance of inclusive representation. Making it easier for smaller stakeholders to contribute—even when they cannot engage in every aspect—is critical to ensuring diverse and meaningful input into these processes.

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

We are supportive of the proposed scope, including the proposal to include most Commercial Ancillary Services. Driving alignment between transmission and distribution market arrangements is one of the key functions of the market facilitator, and that requires us to have a broad role with real influence over the design of ancillary services. However, we will not pursue alignment for its own sake, but will work with NESO to align market arrangements where doing so brings benefit to consumers and all actors/stakeholders within flexibility.

While we recognise that incorporating these Ancillary Services into the market facilitator scope presents an opportunity for greater market coordination it also brings a risk of increased complexity. The processes for introducing or changing Ancillary Services are already complex, due primarily to the regulatory requirements set out in Condition C9 of NESO's licence and Article 18 of the Electricity Balancing Regulation. As we develop our detailed governance arrangements, we will seek to ensure that the new processes for amending market facilitator technical outputs work simply and smoothly alongside existing regulatory requirements. If we can identify simplifications to existing licence conditions that would benefit consumers, we will advise Ofgem accordingly (as part of our strategic leadership role). While we agree that excluding reactive power and stability from the initial scope is sensible, we believe it is worth exploring their inclusion in the future. This will be important as the market facilitator evolves, particularly if those services provide added value through some of the supporting aspects like registration process and data alignment.

We agree with the proposal to include aspects of the Balancing Mechanism (BM) within scope, including entry requirements, registration and reporting. The BM could be a significant revenue stream for flexibility service providers, particularly if new systems allow NESO to solve the 'skip rate' issues that have previously limited the dispatchability of some BM Units. Aligning BM processes with those for other flexibility

markets has the potential to increase participation in those markets (as well as reducing obstacles to BM participation and hence reducing balancing costs).

We note that the BSC processes² used by Suppliers and flexibility service providers to register Metering Systems for access in the BM are the same processes used by Virtual Trading Parties (a type of flexibility service provider) to register Metering Systems for participation in wholesale markets (under arrangements introduced by BSC Modification P415 ([‘Facilitating access to wholesale markets for flexibility dispatched by Virtual Lead Parties’](#))). Indeed, a flexibility service provider registering a Metering System for access to the BM will automatically gain access to wholesale markets, and vice versa, provided they have Qualified to access both markets. For this reason, placing registration requirements for the BM within scope will also bring registration for this type of wholesale market access within scope. We see this as a further advantage of including the BM within the market facilitator’s scope. Users of Modification P415 already benefit from having BSC registration processes aligned with those for the BM, and future alignment with additional markets should benefit them further.

We also agree that it is worth exploring the possibility of including the Capacity Market and Wholesale Market within scope for the second delivery plan period. Although the governance and purpose of these markets is different to those already in scope, there may be benefits in aligning aspects of them with other markets (e.g. baselining rules and metering requirements in the Capacity Market). However, the proposal to place these markets within scope without giving the market facilitator any formal role in their governance or the necessary levers to hold relevant stakeholders accountable does potentially reduce the likelihood of achieving real benefits. Before we could propose a delivery plan (for 2028/29) that includes these markets we would need to explore options with stakeholders. If we came to the view that institutional changes to the Capacity Market or Wholesale Markets were necessary, we would raise this with Ofgem (as part of our strategic leadership role).

Q3. Do you agree with the proposed enduring roles and responsibilities for Elexon as market facilitator, in particular on working with NESO and inputting in NESO and DNO performance assessment? If not, what would you change and why?

We agree with the proposed roles and responsibilities.

As explained in our answer to Q2, we note that NESO processes for designing new or amended ancillary services are already complex and time-consuming (due primarily to the regulatory requirements set out in Condition C9 of NESO’s licence and Article 18 of the Electricity Balancing Regulation). There is a risk that introducing the market facilitator into these processes further increases complexity and timescales, which is obviously the opposite of what we would seek to achieve. We believe this risk can be mitigated by NESO and Elexon working together to ensure new and existing processes work together smoothly (including by proposing changes to existing regulatory requirements, if appropriate).

We have no strong views on whether we contribute directly to NESO and DNO performance assessments or not.

² Specifically, the process for MSID Pair Allocation Notification in section 2.1 of BSC Procedure BSCP602, ‘SVA Metering System & Asset Metering System Register’.

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 are supportive of the proposed roles and responsibilities for key actors, as well as the proposals for stakeholder input on the market facilitator. Regarding roles and responsibilities, we fully support the increased role that market participants and other interested parties will play under the market facilitator. We have consistently welcomed more open and inclusive governance and are pleased with the various channels through which market participants and stakeholders can provide input. We also agree with Ofgem's rationale that DNOs and NESO, as key market operators and stakeholders, should justifiably meet the most extensive requirements. Market operators such as DNOs and NESO will be central to unlocking distributed flexibility and ensuring the success of the market facilitator.

Ofgem has excluded innovation from the scope of the market facilitator's deliverables, instead assigning it to monitoring and horizon scanning to ensure awareness of developments in the innovation space. While we understand this decision, we believe there is benefit and scope for the market facilitator to play a greater role in the innovation space beyond monitoring. Greater oversight would help ensure a coordinated approach, addressing the current fragmented landscape and enabling the market facilitator to better track and utilise outputs from key innovation projects. We are not proposing to take sole responsibility for innovation, rather play a key role alongside other actors. We have a strong track record of supporting innovation. Through initiatives like the BSC Sandbox—which allows BSC parties to trial innovations in a live market without having to meet the standard BSC rules—to opening markets to wider participation. We also have supported various innovation trials and projects.

We are supportive of the introduction of a stakeholder advisory board to assist the market facilitator and will work with the industry to shape its design as part of the detailed design. While we also support the introduction of an annual stakeholder survey to gather feedback on the market facilitator, we recommend aligning this survey with others, such as the annual DSO stakeholder survey and ensure any relevant insights from the survey is fed back into the process/market facilitator setup. This alignment would minimise survey fatigue on the sector and streamline processes.

We are also supportive of an appeals process for both technical outputs and the budget, as this offers stakeholders an essential mechanism to address concerns about the accuracy of these deliverables. However, we strongly recommend implementing robust governance measures to prevent overuse or misuse of the appeals process, which could otherwise slow delivery and outputs. Again, we will continue to work with stakeholders to ensure that governance structures are strong and effective.

Q5. Do you agree with our proposals on the market facilitator delivery plan, in particular in relation to the two-year timeframe, adding an annual delivery schedule and Ofgem's role? If not, what would you change and why?

We are supportive of Ofgem's proposal to publish a market facilitator delivery plan on a two-year timeframe, along with an annual delivery schedule that provides a detailed, granular view of the upcoming year. Elexon will take the lead in producing the first delivery plan and annual delivery schedule, despite the absence of a formal

governance framework to guide this process. As a result, these documents will be shaped significantly by input gathered through the workshops we are conducting as part of the detailed design work.

Although Ofgem does not require formal approval of the delivery plan and schedule, we aim to work collaboratively with stakeholders, including Ofgem, through the consultation process, bilateral meetings or other channels, to develop the delivery plan and schedule.

To enhance efficiency and align with key publications, we propose changing the publication schedule of the market facilitator delivery plan and annual delivery schedule from a calendar year to a financial year. This adjustment will facilitate better integration with other strategic directions and help streamline Elexon's and other stakeholders' budgeting processes.

To transition to this new schedule, we propose publishing a market facilitator delivery plan and annual delivery schedule in December 2025. This publication will include a timeline covering deliverables and ambitions from January 2026 to March 2028 (an additional three months). The first annual delivery schedule will span from January 1 to December 31, 2026. The second iteration of the annual delivery schedule, however, will cover the period from January 2027 to March 2028.

Subsequently, the second market facilitator Delivery Plan and third annual delivery schedule will be published by end of March 2028, taking effect from 1 April 2028. This plan will cover the period from 1 April 2028 to 31 March 2030.

The annual delivery schedule will not include a formal consultation phase. Again, we are committed to collaborating closely with stakeholders to ensure the delivery schedule is transparent, robust, achievable, and measurable.

We also acknowledge that there is no formal appeal process for the market facilitator delivery plan or the annual delivery schedule. Nonetheless, appeals related to the budget process or technical outputs could have implications for these documents. In such instances, we intend to prepare and publish amendments to the relevant technical output document in a publicly accessible location and notify stakeholders of the changes. Additionally, we will aim to revise or issue an annex with amendments to the originally published market facilitator delivery plan or annual delivery schedule.

Q6. Do you agree with our proposals on the market facilitator budget, in particular in relation to Ofgem's role and the proposed requirements? If not, what would you change and why?

We are supportive of Ofgem's proposal that the market facilitator should set its own budget, including the need to consult on a draft budget. We agree with the proposed requirements, subject to the detailed design of the appeal process, which we will develop alongside industry and Ofgem.

We believe Ofgem has a key role in providing review and oversight of the budget to assure stakeholders that it is cost-reflective, transparent, and free from uneconomical or inefficient expenditures. We also welcome Ofgem's input during the consultation on the draft budget.

We propose that the cost-recovery, budget, and finance rules and processes be defined in the BSC. We believe the current checks and balances for the BSC budget (primarily the resolution processes) could work for the market facilitator budget. However, we see a key benefit in having a distinct appeals process for the market

facilitator budget, as it would enable market facilitator stakeholders - who may not be BSC Parties - to raise appeals. Without an appeal route, we would need to consider alternative ways for these stakeholders to challenge the market facilitator budget and hold us accountable.

On balance, we believe that focusing efforts on developing an appropriate appeal process is preferable to amending the BSC corporate governance arrangements.

It will, however, be important to design the appeal process in a way that does not hinder our ability to meet our obligations, whether legal or otherwise.

We would also like to highlight two additional considerations:

1. One or more licence changes may be required to facilitate market facilitator funding. A NESO licence change may be required for us to operate the market facilitator on an enduring basis, where cost recovery for the role is from NESO. Similarly, if are DNOs required to fund the market facilitator, it would be important to understand whether a DNO licence change would also be required. More broadly, a NESO licence change may be required for us to operate the market facilitator role on an enduring basis (irrespective of the funding mechanism) as the BSC is established pursuant to condition E1 in the ISOP licence. This will depend on whether the market facilitator provisions in the BSC are considered to be part of the 'balancing and settlement arrangements' described in the ISOP Licence.
2. We believe the distinct appeal process should be included in the BSC alongside the other market facilitator budget and finance rules. Having the market facilitator finance rules in the BSC but excluding the appeal process would be disjointed and add unnecessary complexity from a legal drafting perspective.

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

We support the proposed key market facilitator deliverables and agree that focusing on technical outputs, implementation reporting, and strategic leadership as the three core functions is sensible. Including digital infrastructure, such as the Flexibility Market Asset Register, is also a logical step, ensuring digital enablers develop in sync with market facilitator capabilities. Given their strong synergies, we have consistently advocated for closely integrating the market facilitator role with flexibility digital infrastructure development.

The key deliverables are in line the strategic aims of the market facilitator and therefore closely align with our emerging thinking.

1. Technical outputs will be a core component of the market facilitator to rapidly develop and drive key outcomes. This will be significantly evolved from the Open Networks Programme to deliver key outputs at pace.
2. Implementation tracking will be a fundamental part of ensuring that key technical outputs are being delivered at the appropriate pace and therefore will be a significant part of the market facilitator's delivery.
3. With the market facilitator being in the forefront of flexibility-related decision making and taking an active role in driving thought leadership in this area, having a formalised advice role is sensible. This will enable cohesive early development and direction setting. We will be doing extensive stakeholder

engagement and therefore will be well placed to escalate flexibility related regulatory issues.

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

We are supportive of Ofgem's proposal not to include financial incentives, as Elexon is a not-for-profit organisation, and organisational-level financial incentives would not directly benefit or enhance performance. Elexon's current remuneration policy already incorporates a significant personal and collective Executive performance element based on business/delivery plan objectives. This allows the objectives of the flexibility team and relevant executives to be closely aligned with the overarching market facilitator objectives, ensuring sustained performance, and delivering against objectives.

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

We agree with Ofgem's proposal for a performance assessment to drive and assess our performance, and support the criteria set out in the consultation: plan ambition and delivery, metric performance, and stakeholder evidence.

Elexon is committed to delivering a meaningful impact on flexibility, increasing the adoption and use of flexibility services, and supporting the Clean Power 2030 Action Plan. However, while we align with Ofgem's proposals, we note that flexibility markets are complex and involve many stakeholders. This complexity makes it challenging to define specific metrics for macro aspects of flexibility and to directly link actions to any one organisation. Therefore, any metrics used to assess Elexon's performance should be specific to the market facilitator role and under our control.

Metrics such as flexibility dispatched, procured, or tendered are useful for assessing the overall health of flexibility markets but are beyond the market facilitator's direct control and are more within network operator's control. While we support using these metrics for market health assessments, they should not be used to evaluate the Market Facilitator's performance, as many actors contribute to them.

We believe metrics related to the capacity of registered flexibility across all markets and net volumes of flexibility are better indicators of market facilitator performance. Additionally, metrics on coordination and standardisation, which are core to the Market Facilitator role, and the effectiveness and pace of delivery, would be useful.

We're open to working with Ofgem as thinking evolves to develop metrics that fairly assess our performance and demonstrate our positive impact on flexibility markets.

A qualitative element is also valuable, provided it is gathered from stakeholders directly involved in the decision-making process, who understand the nuances behind those decisions. As mentioned earlier, the stakeholder advisory board would serve this role well, as it is intended to represent a broad cross-section of expert stakeholders actively engaged in the development and delivery of the Market Facilitator. While wider surveys

could offer broader stakeholder input, they may also lead to stakeholder fatigue, potentially skewing the results.

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

We support Ofgem's proposals on performance expectations, and several activities are already in progress to ensure the market facilitator is ready to go live by the end of 2025. While we are confident in meeting the 2028 target, we want to highlight that there are interdependencies that could affect its delivery. Though we are capable of making the necessary decisions and delivering on deliverables within our control, we should be mindful that some deliverables may have long implementation lead times that are outside of our control. It would be helpful to factor this in when considering the 2028 objective.