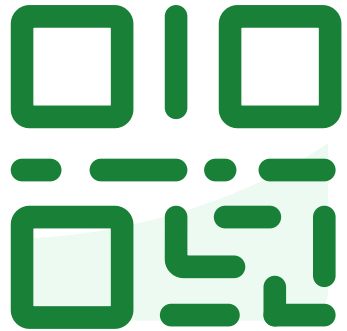


Market Facilitator Workshop 7 Digital Meeting Etiquette

- Welcome to the Market Facilitator Workshop 7 – we'll start shortly
- We encourage attendees to **use video**, where bandwidth allows, especially when speaking
- **Mute when not speaking:**
 - Minimise background noise to maintain focus
 - Use the Teams chat if you are having problems with the camera
- Stay on topic: Keep contributions relevant to the agenda
- This meeting is being recorded solely for the purpose of creating a written summary of the discussion. The recording will be retained only as long as necessary to finalize the summary and will not be shared with external parties. By remaining in this meeting, you acknowledge and consent to this recording. If you do not wish to be recorded, please inform the organiser or exit the meeting.

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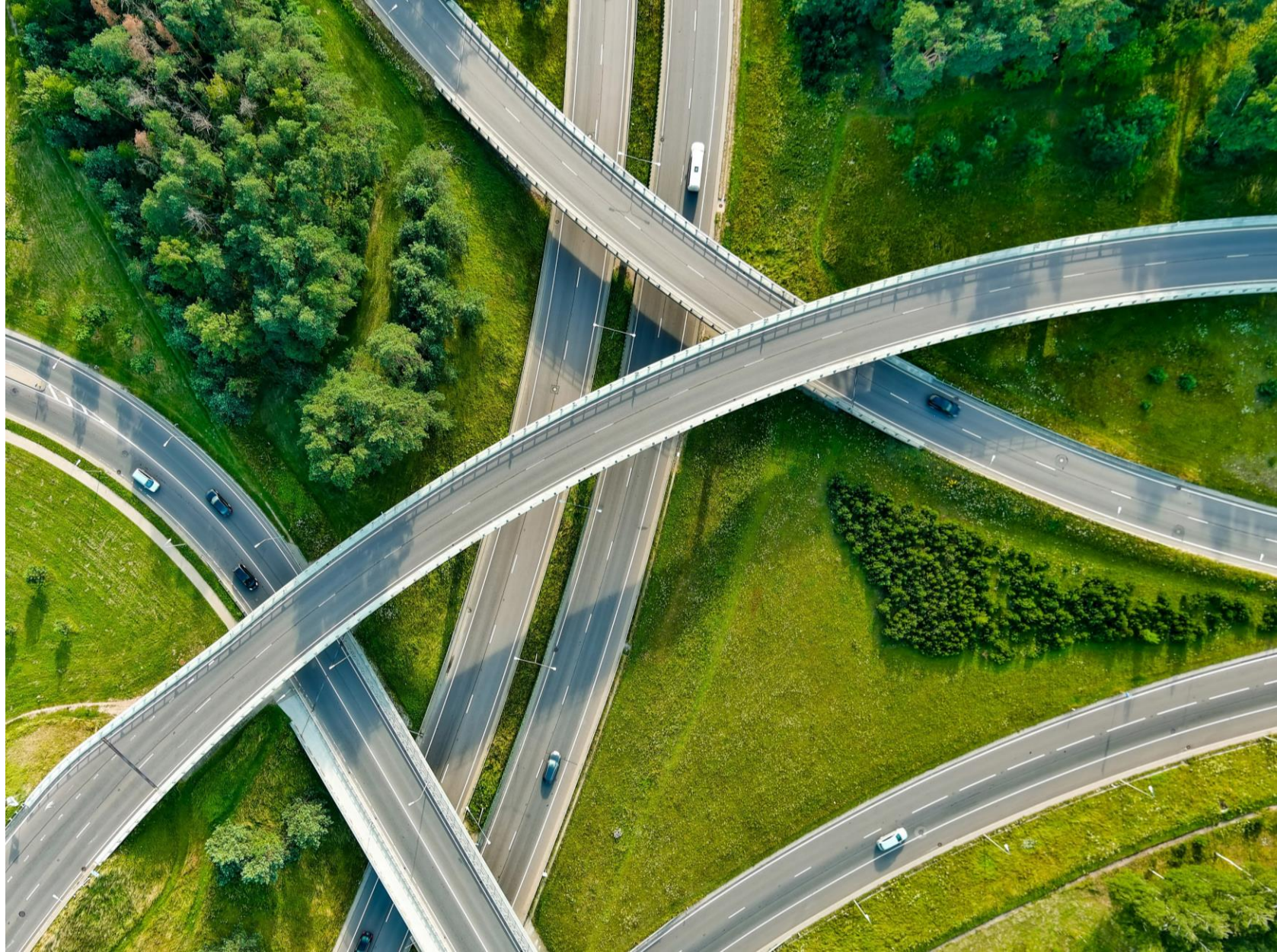
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27 March 2025

Market Facilitator

Workshop #7 – Cost Recovery,
Flexibility Market Rules and 'wash-
up' of remaining Governance topics



Funding, Flexibility Market Rules & Wash up

Welcome to Market
Facilitator Workshop #7

Our objective today is
gathering feedback on
our proposed approach
to ...

1

**Provide an update
on FMAR**

2

**Funding and cost-
recovery**

3

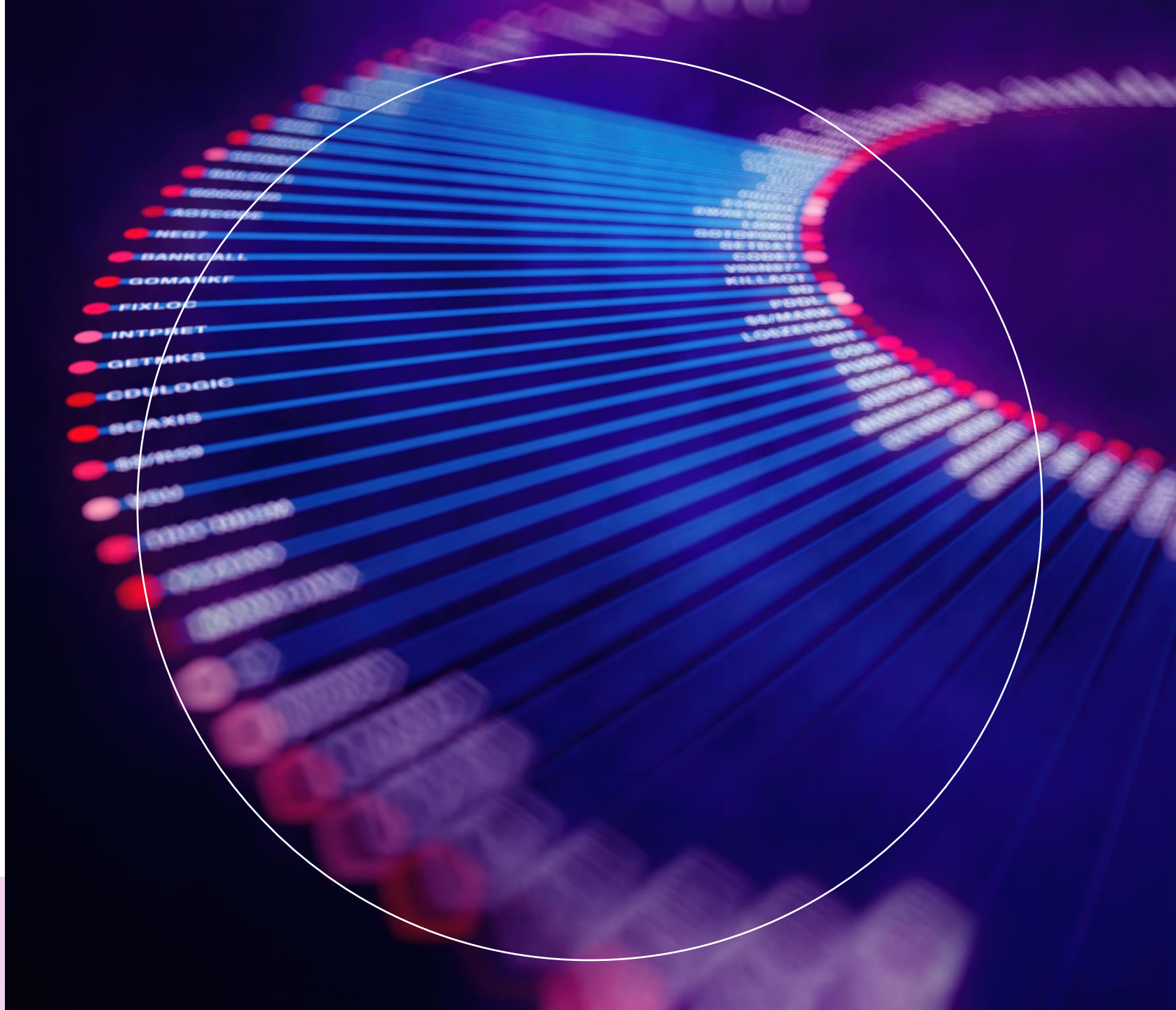
**Technical Outputs –
Flexibility Market
Rules**

4

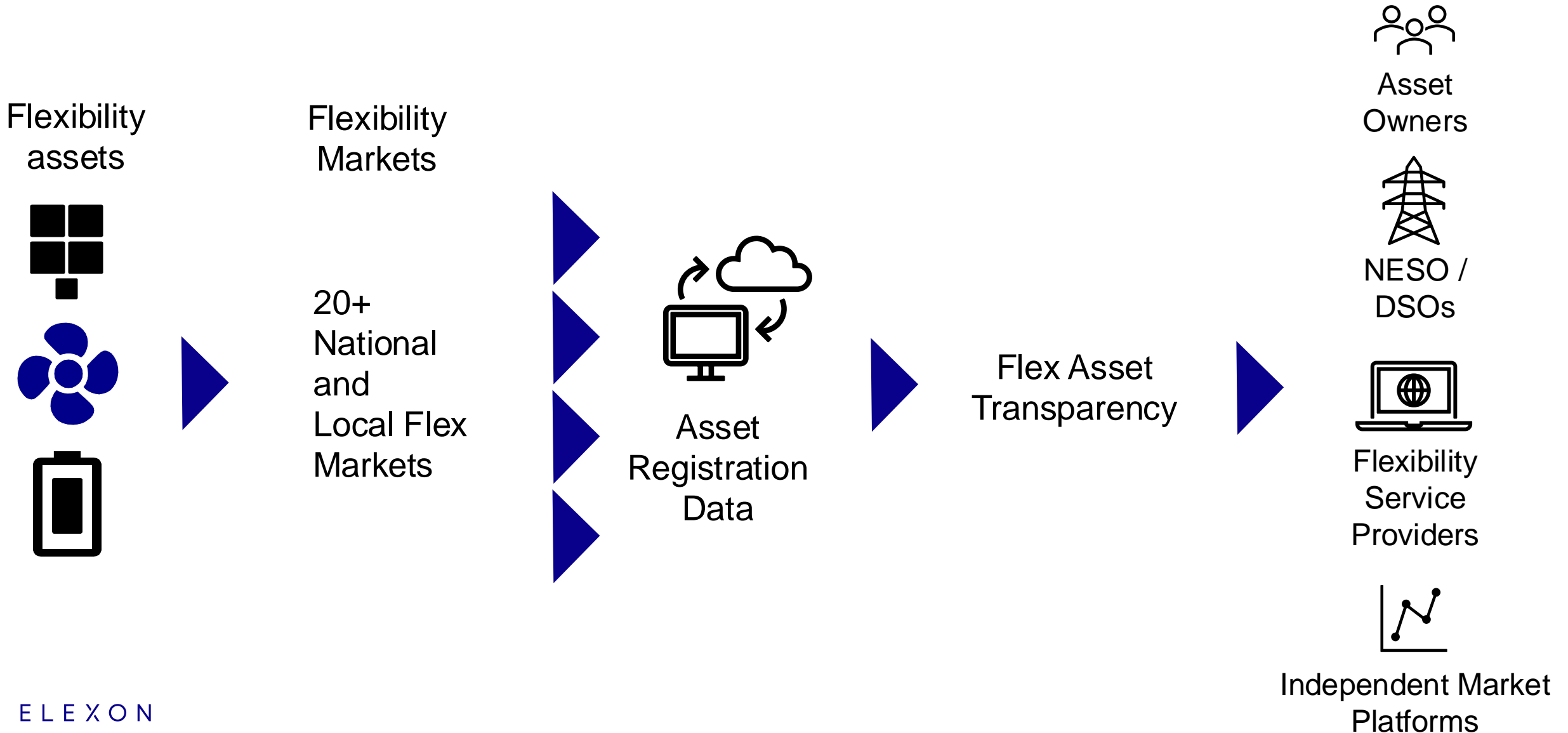
**Minor outstanding
topics &
Next steps**

01

FMAR Update



Flexibility Markets Asset Registration

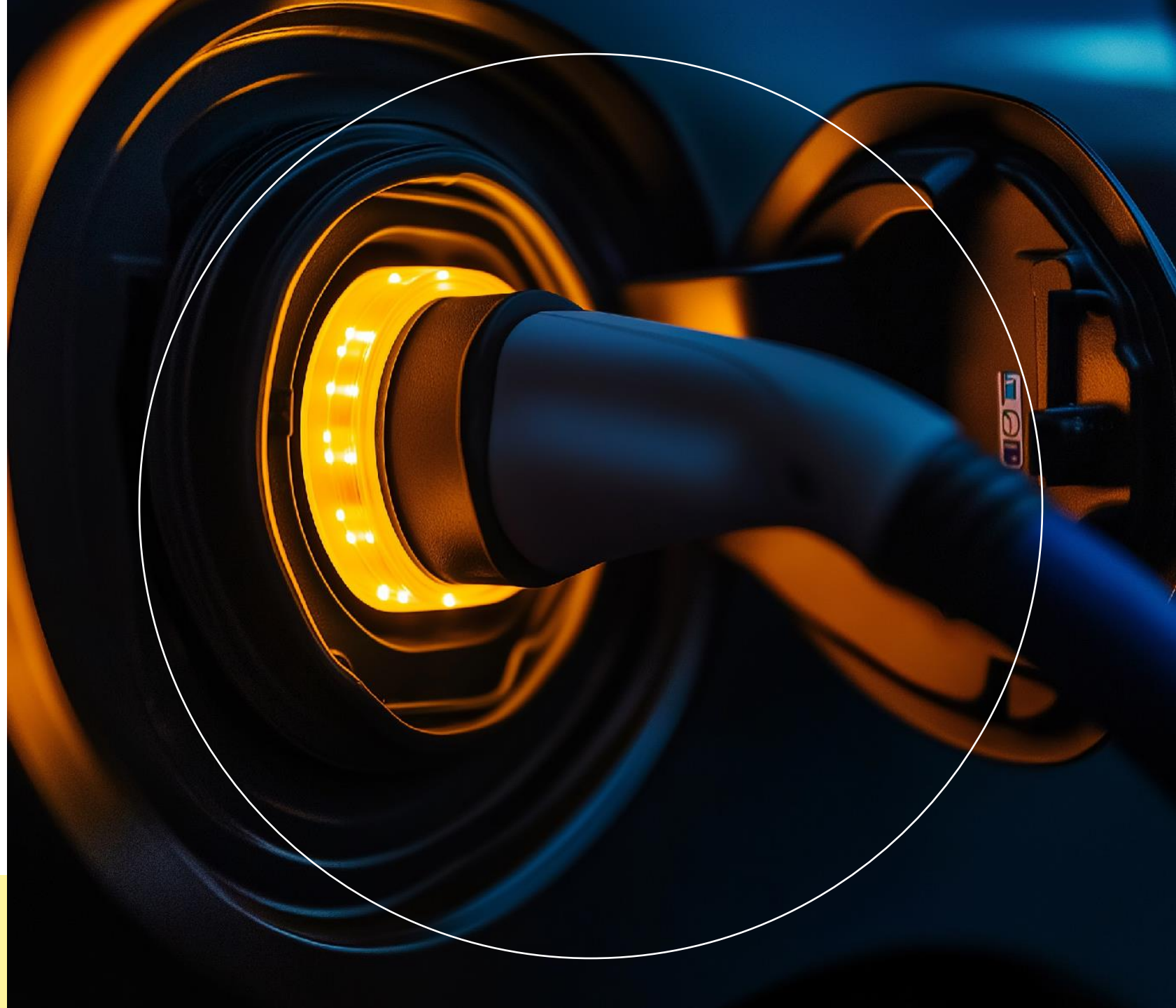


FMAR forward plan

- We are still in the early stages of defining FMAR
- First key step is to undertake business analysis to define its requirements
- We are keen to avoid “solutionising” at this early stage
- Once the requirements are captured, we will procure a delivery partner and develop a solution
- Therefore exact costs are uncertain at this stage
- Due to the tight time scales for delivery FMAR’s initial work, we are commencing this financial year

02

Cost Recovery





Market facilitator cost recovery

Ofgem's current thinking

27 March 2025

Background

- Elexon presented its proposals for who should fund the market facilitator on an enduring basis at its second detailed design workshop on 18 December 2024, considering 3 classes of parties:

System Operators: as these will be the primary users of the service and are driving the need for the MF

- **DSOs and NESO** – makes sense in principle, but it impacts both DUoS and BSUoS arrangements, and doesn't have any advantage to consumers (compared to a NESO-only option)
- **NESO only** – most of the markets we'll be facilitating (measured by volume) are ancillary services funded through BSUoS
 - Most flexibility is procured by NESO
- ~~DSOs only~~ – We have ruled out DSOs only as most flexibility is procured by NESO

Suppliers – as ultimately any costs borne by other classes of party will be passed back to Suppliers, but there may be impacts on the Price Cap

BSC Trading Parties – as this would be the lowest cost to implement and operate and is a proportionate solution for the sums to be recovered



Background

Elxon recommended '**NESO only**':

Option 6 – Fixed cost on NESO

- Recover annual amount from NESO spread across 12 months
- Process needed to be developed for cost recovery / non-payment / default etc, if we don't hook into Section D/H processes
- Good cost certainty and predictability
- Transparent and simple
- Low cost to implement and operate – no system changes needed
- Reduces impact on Suppliers, as costs would pass through existing BSUoS mechanisms and included in Price Cap calculation
- Annual reconciliation
- NESO will be entirely funded by consumers who will ultimately pay

Justification

- We understand NESO would recover these costs via BSUoS
 - most of the markets we'll be facilitating (measured by volume) are ancillary services funded through BSUoS
- NESO operate GB wide, larger user of ancillary services
- NESO have a dominant role in the market and are critical to the success of flexibility markets
- Significantly larger than DSO flexibility services



Background

- Since then Ofgem's market facilitator policy team have been engaging with internal Ofgem teams to understand the impact of implementing each of the proposed options
- Elexon will consult on funding as part of its detailed design consultation and submit to Ofgem for consideration and sign-off, subject to the proposals meeting our requirements



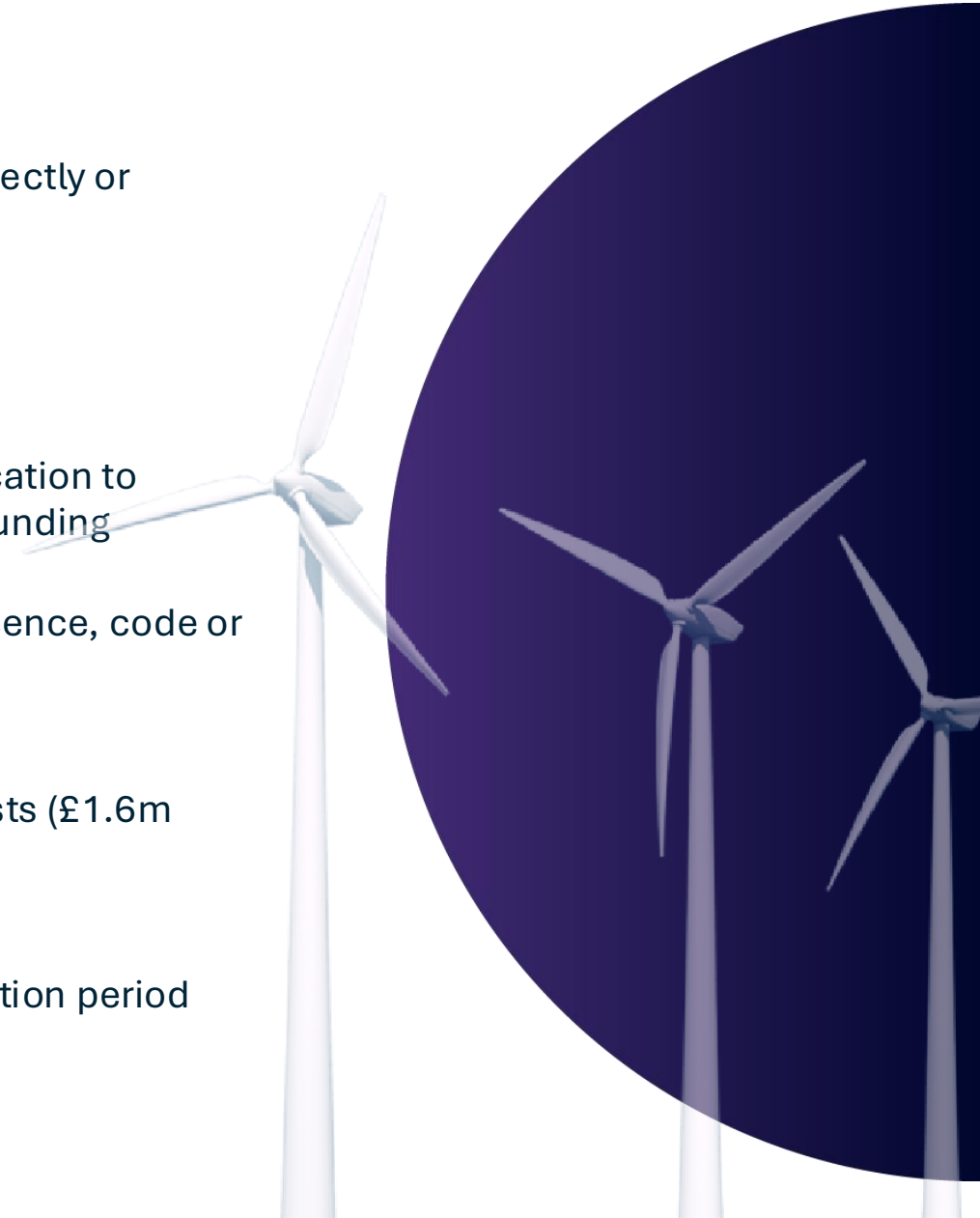
Current thinking

- We do not agree with Elexon's recommendation of a '**NESO only**' option:
 - It is not a **low cost option** to implement as several changes are required to NESO documents. A cost recovery / default process would also need to be developed.
 - **Costs are ultimately borne by suppliers** (recovered via BSUoS) but with limited benefits relative to a 'Supplier-only' option, despite additional costs and complexity.
- Our current thinking is that **BSC Trading Parties** should fund the market facilitator on an enduring basis:
 - It is the **lowest cost to implement and operate** and is a proportionate solution for the sums to be recovered
 - **Spreads the costs** across a larger number of parties, minimizing the impact on suppliers
- Our assessment of the different options is on the following slides



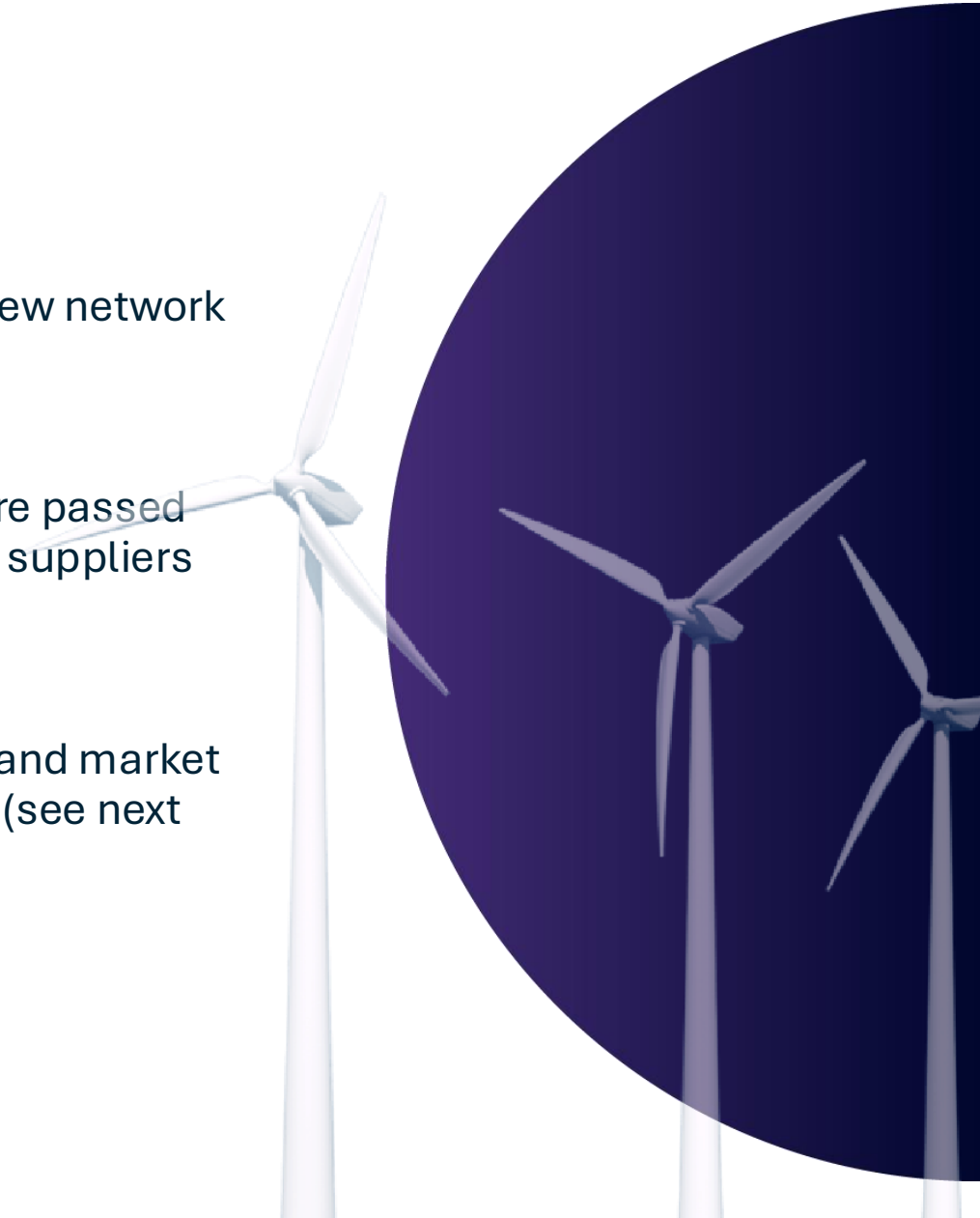
BSC Trading Parties

- All market participants benefit from better facilitated markets, either directly or indirectly
- The **least complex and least costly solution** overall:
 - Lowest cost option for Elexon to implement and operate
 - Any BSC changes required can be included in second BSC modification to embed the market facilitator ongoing governance, operation and funding arrangements in the BSC
 - Low impact for Ofgem and market participants as no additional licence, code or document changes required
- Is **appropriate and proportionate** given expected market facilitator costs (£1.6m forecast annual budget, approx. 1.5% of Elexon's 2025/26 budget)
- Consistent with how market facilitator is funded during the implementation period and how the majority of Elexon's activities are funded



NESO & DNOs

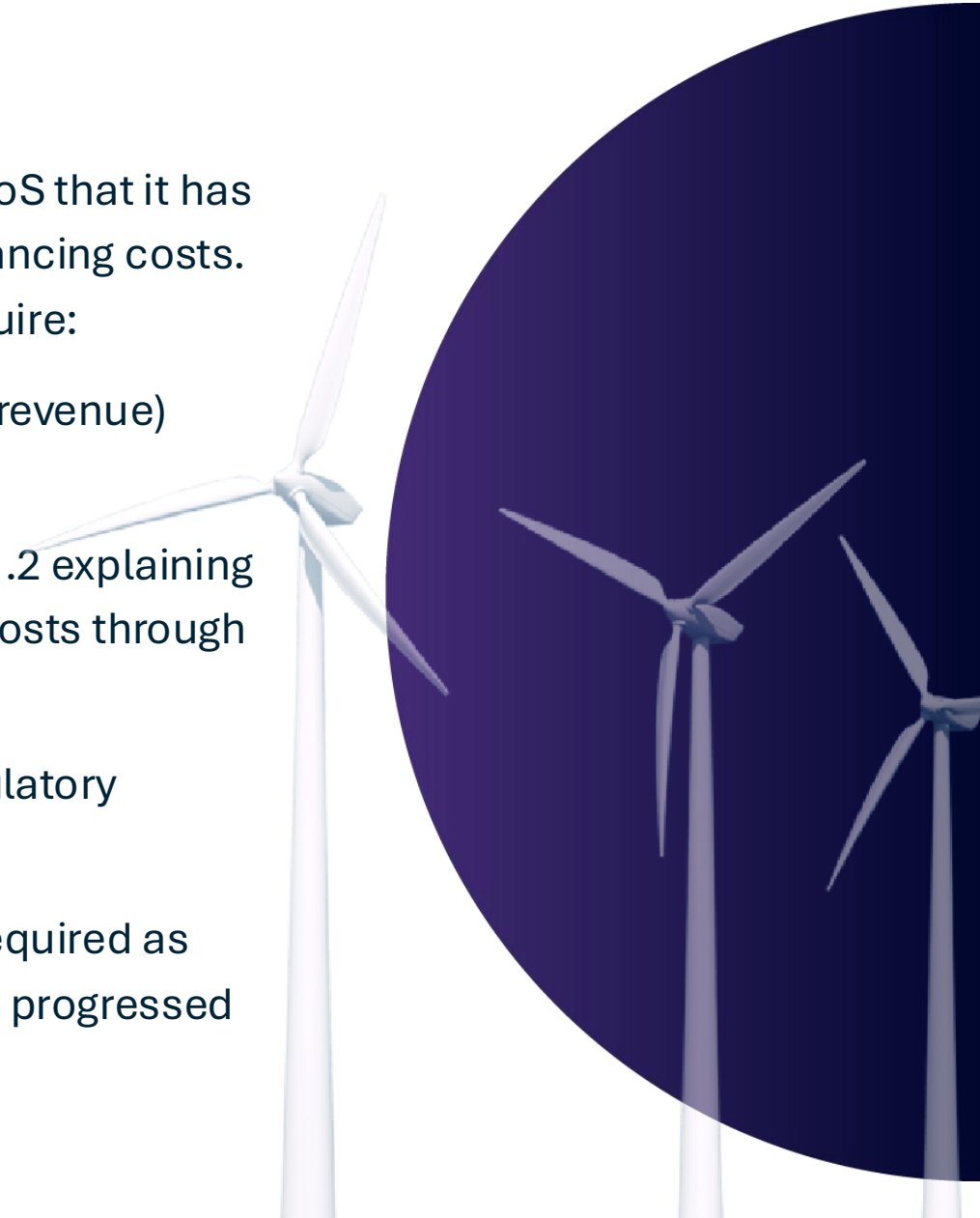
- As procurers of flexibility, both will be beneficiaries of flexibility:
 - NESO – constraint management and balancing services
 - DNOs – constraint management and delaying or avoiding new network build
- However, if NESO and DNOs fund market facilitator, the costs are passed onto suppliers through BSUoS and DUoS. Ofgem is unclear why suppliers alone should fund the market facilitator.
- Complex and costly to implement with impacts on both Ofgem and market participants to introduce licence, code and document changes (see next slide for NESO impacts)



NESO document impacts

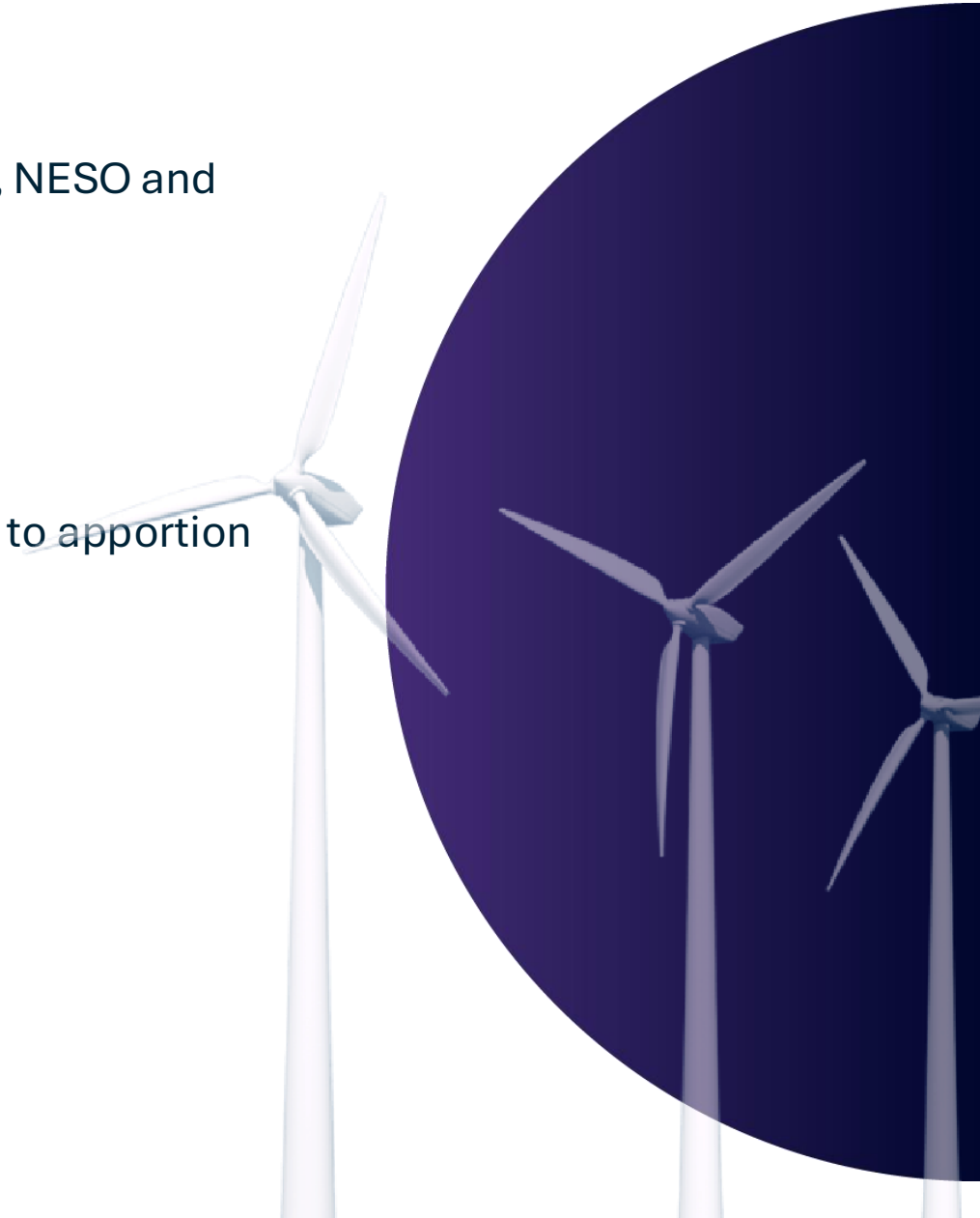
NESO's ESO Licence only enables it to recover costs through BSUoS that it has incurred itself, primarily internal operational costs or external balancing costs. Funding the market facilitator through BSUoS would therefore require:

- Change to ESO Licence Condition F1 (expenditure and allowed revenue) requiring non-statutory then statutory consultation
- A need to issue public consent under ESO Licence Condition F1.2 explaining why we consider it reasonable for NESO to recover non-NESO costs through BSUoS
- Potential changes to NESO financial handbook /model and regulatory instructions and guidance documents (RIGs)
- Potential CUSC modifications – potentially two modifications required as any changes to Section 14 (Charging Methodologies) need to be progressed separately to an associated CUSC modification



Suppliers only

- Ultimately system-operator cost recovery methods (NESO-only, NESO and DSOs, DSOs-only) are borne by suppliers
- Are not primary beneficiaries of market facilitator activities
- For Elexon to implement this option, would require calculations to apportion costs between suppliers, either:
 - By funding share, based on MPANs
 - By funding share, based on metered volumes
 - Via a specified charge



About Ofgem

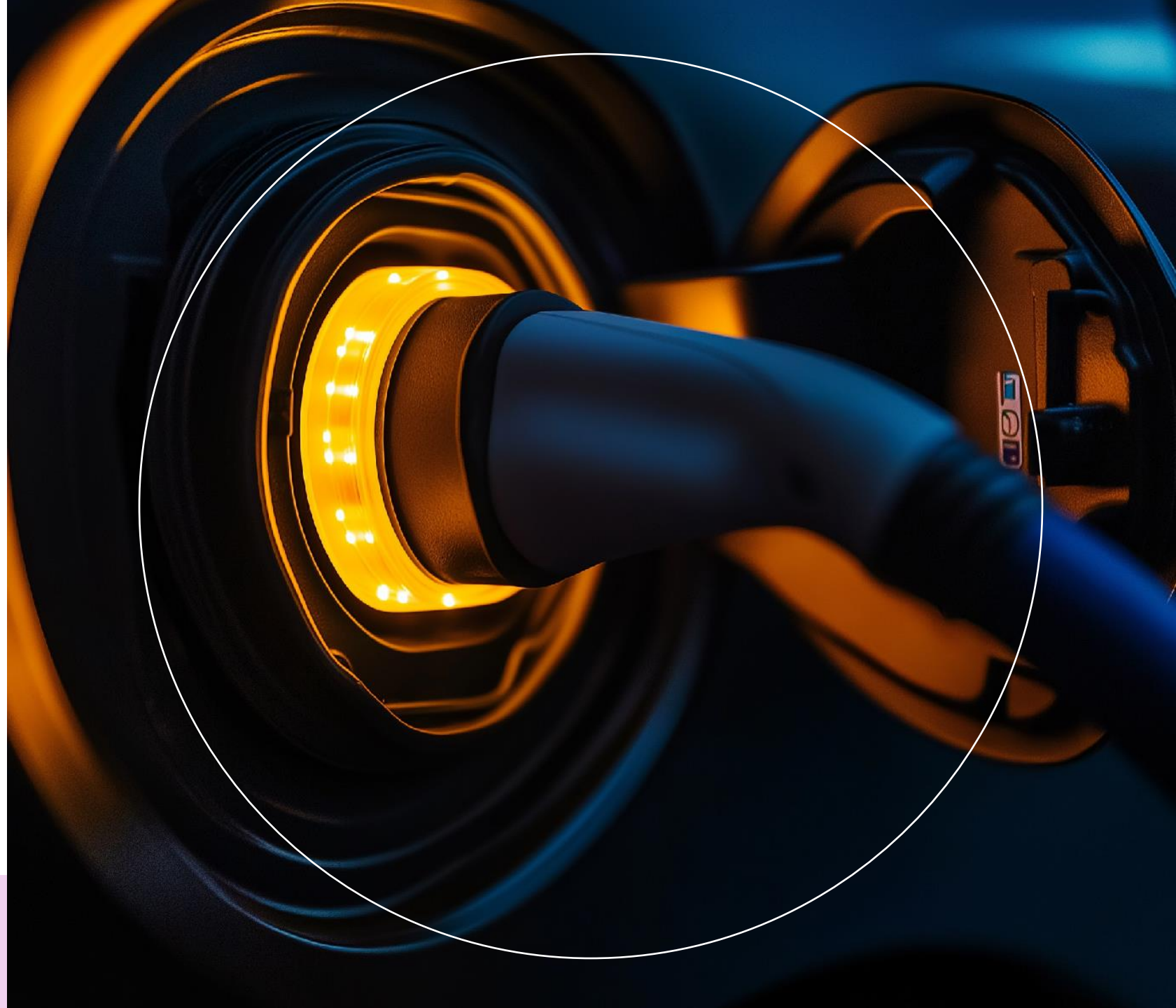
Ofgem is the Office of Gas and Electricity Markets. We are a non-ministerial government department and an independent National Regulatory Authority, recognised by EU Directives. Our role is to protect consumers now and in the future by working to deliver a greener, fairer energy system.

We do this by:

- Working with Government, industry and consumer groups to deliver a net zero economy at the lowest cost to consumers.
- Stamping out sharp and bad practice, ensuring fair treatment for all consumers, especially the vulnerable.
- Enabling competition and innovation, which drives down prices and results in new products and services for consumers.

03

Technical Outputs – Flexibility Market Rules



What is a Flexibility Market Rules?

A Flexibility Market Rule is an artefact owned by the market facilitator that System Operators will be license bound to follow by Ofgem.

Ofgem have used the term 'Technical Output' in their policy framework. Moving forwards, we will adopt the term **Flexibility Market Rules**, as this better conveys their broad nature. They will be broad and cover a diverse set of formats such as calculation methodologies, technical standards, or even commercial agreements.

Alongside the core 'rule', each Flexibility Market Rule will be structured to provide key contextual information, including:

- **Why?** A clear articulation of the expected benefit of the Flexibility Market Rules.
- **How?** Clarity on the implementation requirement (e.g., how the Flexibility Market Rule should be used and whether variations are allowed).
- **Who?** Identification of impacted stakeholders.
- **When?** A defined Implementation Timeline.
- **How will we know it is working?** A structured approach to monitoring implementation and assessing whether the Flexibility Market Rule is delivering its intended benefits.
- **Version history, change log and key dependencies** to track updates and interdependencies.

Flexibility Market Rules will continue to evolve and be subject to the enduring change process to accommodate future developments. Notably, there will not be a one-to-one relationship between ON technical working groups and market facilitator Flexibility Market Rules (or change processes).

Our Framework for Flexibility Market Rules

We need a robust framework for defining and documenting flexibility market rules. It must frame the characteristics of a rule, as well as how they all fit together, to drive a cohesive market design

This must be sufficiently detailed to capture and align the various requirements of a well functioning, coordinated markets whilst also being clear, concise and accessible to various stakeholders (ranging from new market entrants, to market platform developers).

The framework is necessary to ensure that the rules are as useable and scalable as possible.

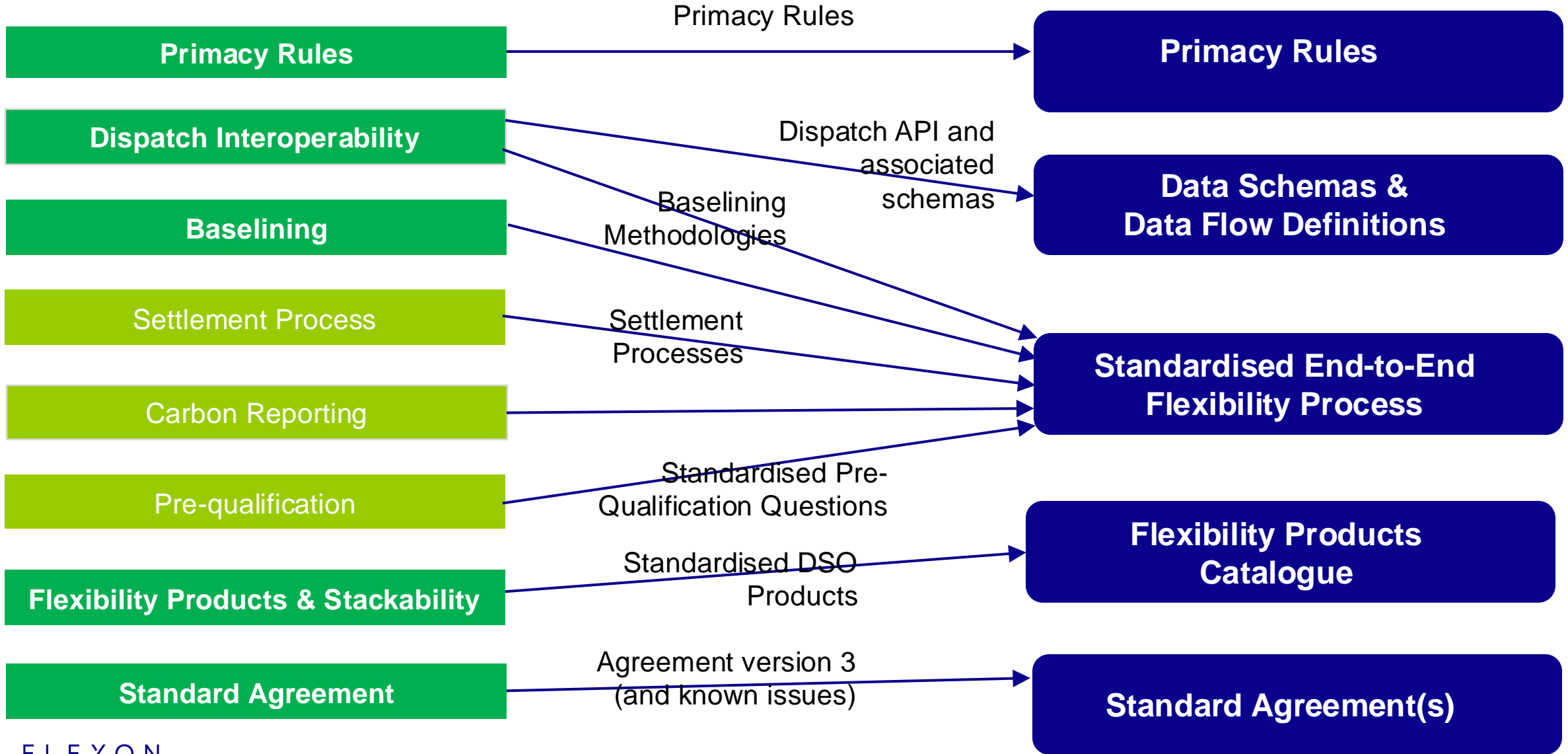
This includes:

- What format a flexibility market rule can take, to ensure they deliver the right technical and contextual information
- How we record and share the flexibility market rules, so everyone is clear on what is required of them
- How they tie together to create a clear and coordinated market.

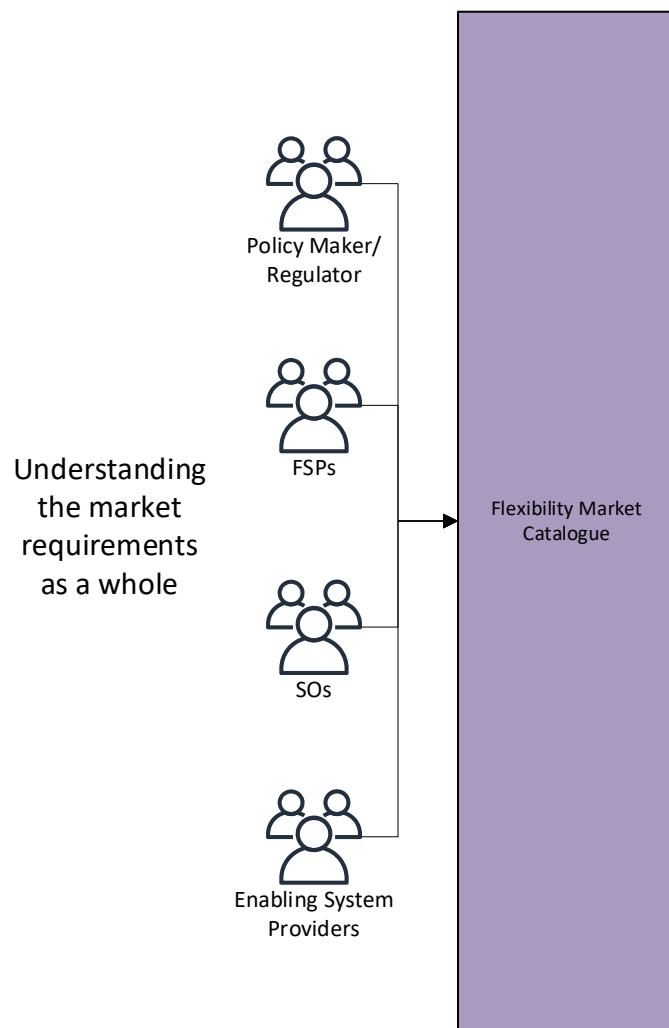
This work sets out a key foundation for the ongoing delivery of the market facilitator. Robust definition early on, will reduce complexity, and admin overhead in the future.

It will also support the identification of gaps that new flexibility market rules, FMAR and subsequent FDI can address.

Previously shared mapping



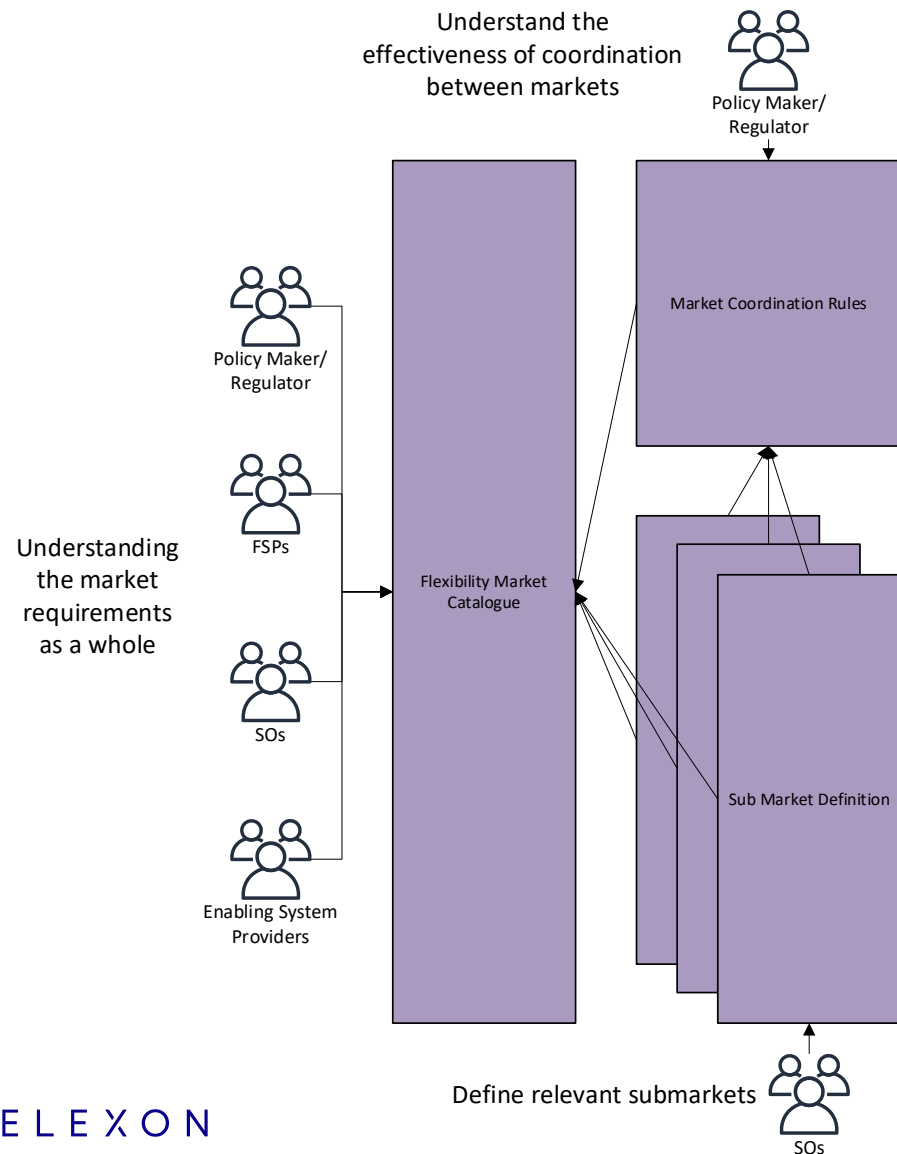
An updated view on how the rules sit together (1.)



- A key output for the market facilitator is in providing an overview of the market as a whole via a Flexibility Market Catalogue
- This is would resemble a combination the Open Network's [All Product Technical Requirements](#) & ["Revenue stacking assessment tool"](#).
- To ensure this remains up to date, we propose this is a view of some lower components.

Category	Service Requirements	Requirement Description	Response			
			Static FFR	Dynamic Containment	Dynamic Moderation	Dynamic Regulation
User			ESD	ESD	ESD	ESD
Strategic Direction	Strategic Direction	The high level plan for the service in the near future. (Enduring, medium term, or non-enduring).	Enduring	Enduring	Enduring	Enduring
Structure	Payment Structure	How the service is structured (i.e. what is the DSO asking of the FSP)	Availability Only	Availability Only	Availability Only	Availability Only
Structure	Procurement Method	The type of mechanism used to procure the service	Pay as Clear (Capacity)	Pay as Clear (Capacity)	Pay as Clear (Capacity)	Pay as Clear (Capacity)
Structure	When Prices are Set	Time before use that prices are determined		Day Ahead Auction	Day Ahead Auction	Day Ahead Auction
Structure	Generation/demand turn down se	Does the service require the provider to export or import power to the grid	Export or reduce demand	BOTH	BOTH	BOTH
Pre-qualification	Required to be a Balancing and Settlement Code (BSC) Party	The rules and governance arrangements for electricity balancing and settlement in Great Britain.	NO	NO	NO	NO
Pre-qualification	Non-BM Party Accessible	Participate without being a Balancing Mechanism Party	Yes	YES (via ASDP)	YES (via ASDP)	YES (via ASDP)
Pre-qualification	Asset Location Grouping Requirement	Requirement for where multiple assets within a unit must be located	National aggregation is permitted	GSP GROUP	GSP GROUP	GSP GROUP
Pre-qualification	Aggregation /Virtual Lead Party (VLP) Route Available	The option of having more than a single asset within a unit	YES	YES	YES	YES
Pre-qualification	Minimum MW Delivery Required (also referred to as Minimum Aggregated Unit Size)	The minimum MW delivery rate that a unit must exceed to enter the service	1MW	1MW	1MW	1MW

An updated view on how the rules sit together (2.)

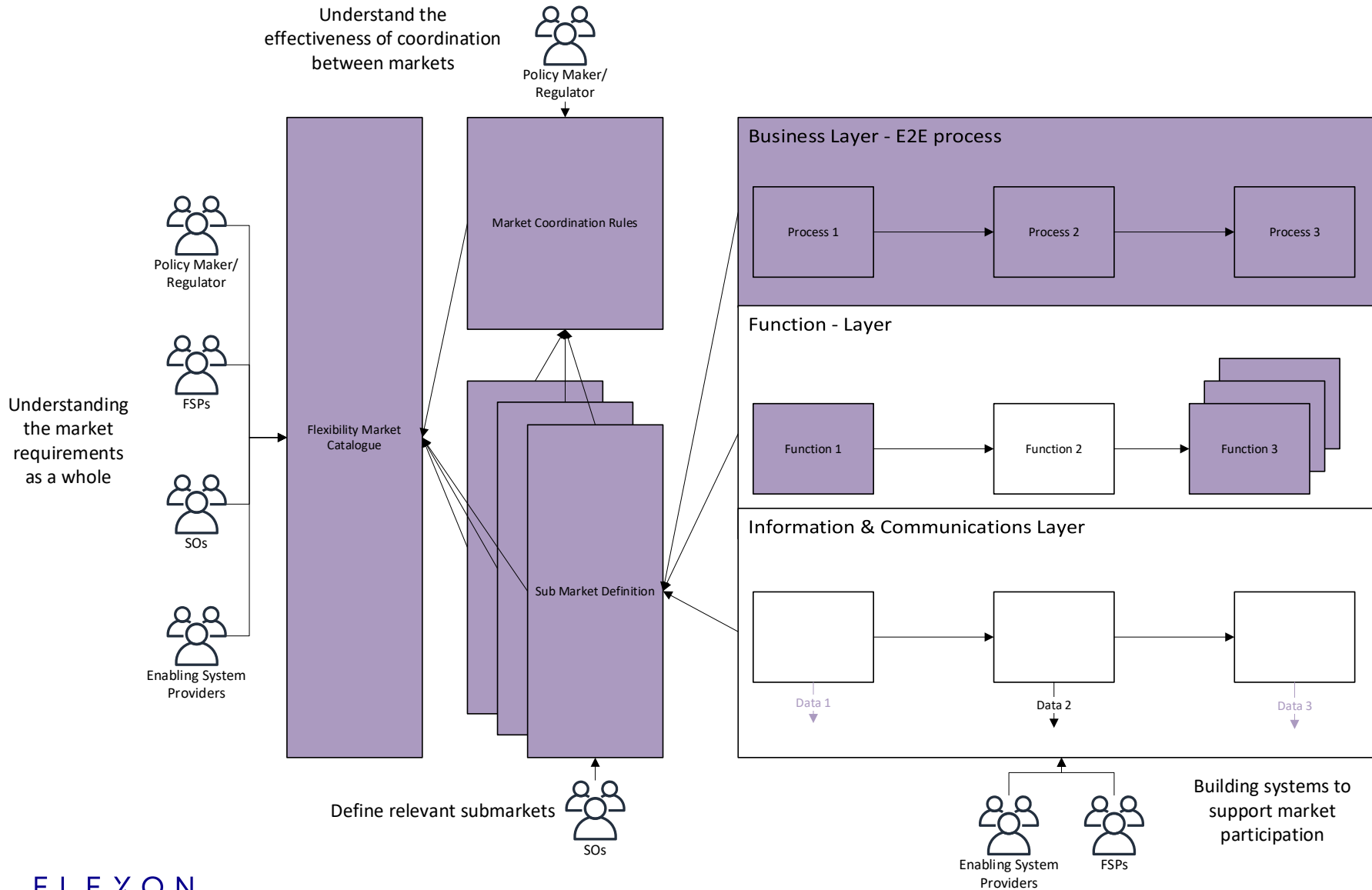


The Flexibility Market Catalogue will be fed by two lower-level components:

- Definitions of each sub-market:
 - These pull together all the different components of a market (who the buyer is, the timings, the pricing structure, the baselining requirements...)
 - Some will be owned by the market facilitator (DSO markets) and others by the NESO
- A clear definition of the coordination rules between sub-markets:
 - These build on the revenue stacking and primacy concepts and look at how the sub-markets work together to form a cohesive whole.

To drive alignment within sub markets, these will be built up of lower components.

An updated view on how the rules sit together (3.)



- To support the sub-market definitions we need a number of lower components.
- These range across different SGAM, from a cohesive E2E business process, all the way down to common APIs (dispatch).
- Users interested in the details will access these rule directly
- Not all elements will be covered by flexibility market rules, we will focus on where the greatest value can be delivered.

Examples on how flexibility market rules could be used

These are used to highlight how the framework sits together not to specify individual rules. They also assume a level of coverage that may not be available on Day 1.

Metering

An OEM wants to understand the metering requirements for different markets, so they can be factored into their products.

They can review the Flexibility Market Catalogue, highlighting a few different options, depending on whether they want to support frequency response services or not.

They can then drill down into those detailed metering requirements in a Metering Specification highlighting exactly what they must comply with. Once incorporated into their product, they are confident that and FSP can use their products to participate in the associated markets

Baselining

NESO want to amend the baselining approach for a market

This is done by raising a change, and adding a new type of baseline in the “Baselining Methodology” rule, and the associated link in the Sub-Market definition.

This flows up to the Flexibility Market Catalogue, where all users can see the new requirements, and understand how it improves revenue stacking across markets.

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We have identified a number of key ways people will use the Flexibility Market Rules, do you agree with them? Have we missed any?

① Start presenting to display the poll results on this slide.

04

Wash-up Topics

Outstanding topics or questions

- At Workshop 1, we set the scope of the ensuing governance design and the questions to answer
- We believe we have addressed the scope and questions during the previous six workshops, except the following. We additionally considered Stakeholder Advisory Boards, which were originally out of scope.
 - Any changes needed to formal BSCCo governance?
 - Processes relating to strategic guidance
 - Role of Market Facilitator in innovation

Any changes needed to formal BSCCo governance?

- Currently Section C of the BSC gives BSC Parties (including NESO and DSOs) certain rights over BSCCo (e.g. to call General Meetings, to vote on Binding Resolutions to remove Directors from the Board). Would any change to these arrangements be appropriate (e.g. to reflect that BSCCo decisions relating to Market Facilitator impact different constituencies)?
- Given the proposal to include MF funding arrangements in the BSC, NESO, DNOs and any other BSC Party will be able to hold the BSCCo Board to account through existing BSC mechanisms, such as the Resolutions process for removing Board Members.
- Additionally, we propose that any interested party will be able to appeal the MF budget, providing a strong check and balance for non-BSC Parties with an interest in flexibility
- Similarly, appeals will be permitted for MF decisions on Flexibility Market Rules and material governance changes
- The MF Delivery Plan, budget, and proposed changes will also be subject to scrutiny by the Stakeholder Advisory Board
- Taking all these factors into account, we do not believe changes to BSCCo governance arrangements are necessary, as MF participants will have robust avenues to scrutinise and challenge MF decisions that may impact them

Processes relating to strategic guidance

- In Ofgem's Policy Framework Consultation, Ofgem explained that it expects the MF to:
 1. Provide strategic advice to Ofgem and DESNZ; and to
 2. Recommend to Ofgem any strategic updates to the MF role
- The strategic advice could be:
 - In response to a request from either organisation
 - To flag a policy or regulatory barrier it has identified that is not within its remit to resolve
- It is expected that this will be an ad hoc rather than regular activity
- The recommendations to Ofgem on the MF role are expected to be ad-hoc and not for some time
- We do not therefore believe any MF rules or processes are needed to meet these Ofgem requirements. They will form part of our Flexibility Strategic Leadership core function
 - They could be detailed in Ofgem's Governance Framework Document, which will oblige the MF to fulfil these duties

Role of Market Facilitator in innovation

- At our first workshop, on setting the scope of the MF design, we put forward these questions related to innovation:
 1. How do we mitigate the risk that Market Facilitator processes stifle innovation by DSOs and NESO?
 2. Should Market Facilitator have a role in coordinating innovation?
- In its Policy Framework Consultation, Ofgem proposed that innovation is not in scope of the MF role
 - But that the MF should be aware of key developments, interdependencies and their impact on the its role
- Therefore, we are not proposing any formal role for MF in innovation in line with Ofgem's requirement
- However, as part of our strategic guidance role, we would signpost areas of innovation interest

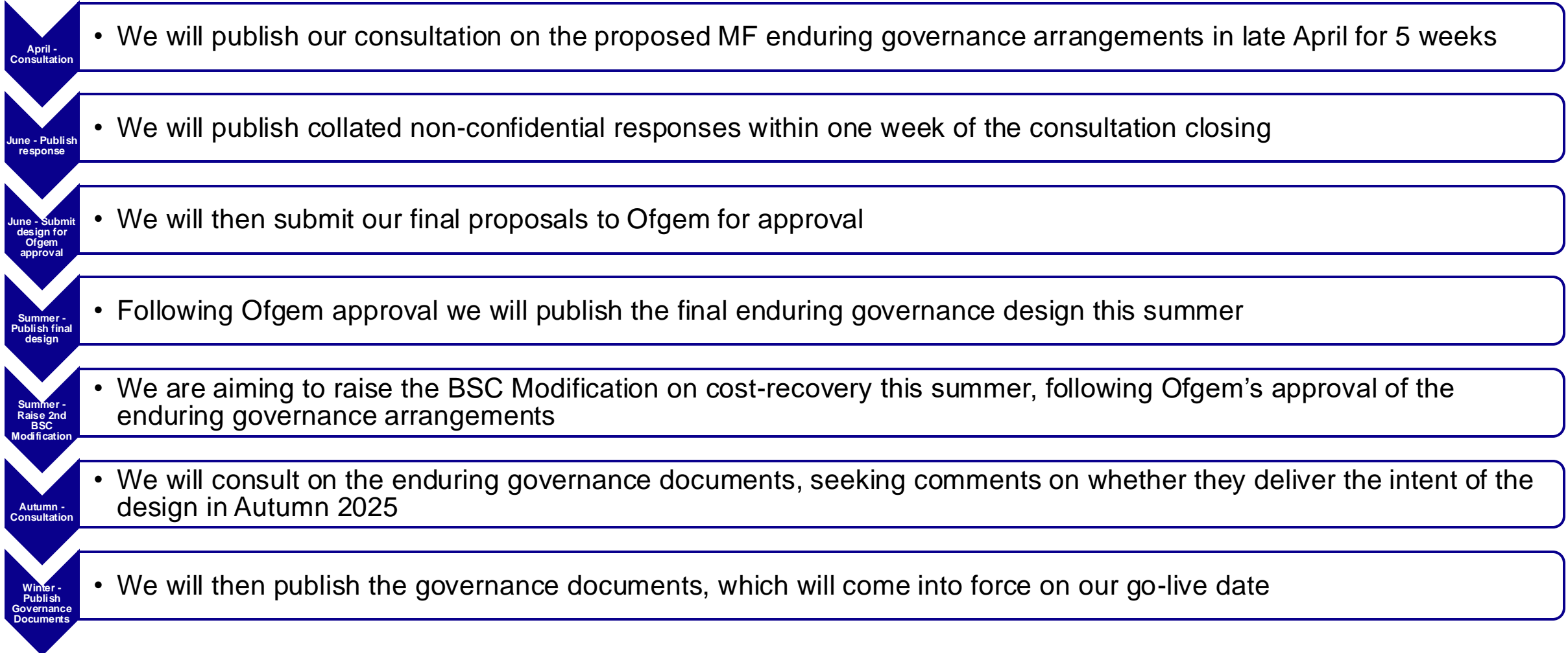
05

Next steps and implementation of the enduring governance

Next Steps

- We will share a high-level summary of this meeting and publish it on our website within the next week
- This was the last design workshop
- We will issue a consultation on our proposals for the enduring governance arrangements in late April 2025
- Ofgem will approve our enduring governance arrangements this summer

Consultation on enduring governance arrangements and next steps



What enduring governance documents do we propose?

Proposed Document	Covered at Workshop #
Market Facilitator Delivery Plan	3
Market Facilitator Implementation Monitoring	4
Market Facilitator Change Management	5
Market Facilitator Stakeholder Advisory Board	6

- Cost Recovery will be included in the BSC via a new Modification Proposal
 - Cost recovery was covered at workshop 2 and 7

Thank you!

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