

Sent by email to:

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Joseph Cosier

Decentralised Energy Systems

Ofgem

10 Feb 2025

Dear Joseph

Market Facilitator Policy Framework Consultation

We welcome this opportunity to respond to Ofgem's Consultation on the Market Facilitator Policy Framework.

This response is written on behalf of the Distribution Network Operators listed below. This response sets out the collective views of ENA members, each of whom may be providing their own company specific responses to the questions contained in the consultation.

If you would like to discuss any of the points raised in this submission, please contact opennetworks@energynetworks.org.

Yours sincerely

Energy Networks Association

On behalf of:

1. Electricity North West Limited
2. Northern Powergrid (Northeast) plc
3. Northern Powergrid (Yorkshire) plc
4. SP Distribution plc
5. SP Manweb plc
6. Scottish Hydro Electric Power Distribution plc
7. Southern Electric Power Distribution plc
8. Eastern Power Networks plc
9. London Power Networks plc
10. South Eastern Power Networks plc
11. National Grid Electricity Distribution (East Midlands) plc
12. National Grid Electricity Distribution (West Midlands) plc
13. National Grid Electricity Distribution (South West) plc
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15. National Grid Electricity System Operator (ESO) plc

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Introduction

The Energy Networks Association (ENA) welcomes the opportunity to respond to Ofgem's consultation on the Market Facilitator Policy Framework. Please note that this response is submitted on behalf of ENA members. Alongside this response, we refer you to individual electricity network company responses for their detailed views.

Executive Summary

- ENA members broadly support the transitional and enduring activities and roles and responsibilities set out in the consultation and note their support and intent of continued collaboration.
- It is a priority for the market facilitator in collaboration with Ofgem and ENA to quickly progress the development of the transition plan from Open Networks to offer future visibility to stakeholders and ensure momentum is maintained in market development across 2025.
- While members broadly support the defined scope, we seek additional clarity on the specifics of including the Balancing Mechanism in scope; the responsibility for educating stakeholders; clear success metrics and definitions for implementation monitoring; and confirming our understanding on the market facilitator's interaction with innovation.
- The market facilitator should feed into DNO performance assessments through existing stakeholder channels.
- Ensuring input from a wide range of stakeholders in the detailed design and delivery phases is critical and additional efforts should be made to engage smaller stakeholders. A coordinated approach across the range of stakeholder engagement activities carried out by both DNOs and the market facilitator is recommended to avoid duplicated efforts and stakeholder fatigue.
- The timeframes for developing and consulting on delivery plans should be in service of delivery and robust governance should not become a hindrance to progress being made. Forward-looking visibility should be consistently available for the industry. There is a need for an overarching strategic vision that guides more granular delivery plans.
- We offer no strong views on the financial incentives proposed. More detail is needed on what will be delivered to provide feedback on targets and assessment criteria, as these are broad and can be interpreted in many ways.

Setting up the market facilitator (Q1)

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

ENA members welcome the progress made to date by Ofgem and the market facilitator on the detailed design, implementation, and transition workstreams in enabling the market facilitator to become functional by the end of 2025. In particular, we welcome the close collaboration of the market facilitator with ENA in starting work on a

transition plan and knowledge transfer of areas progressed in the Open Networks programme and aligning our engagements with flexibility market stakeholders, including the Open Networks Challenge Group.

Our members broadly support the transitional roles and responsibilities set out in the consultation for the market facilitator, Ofgem and other stakeholders, however, we would welcome Ofgem and the market facilitator to share a more detailed matrix of roles and responsibilities. Following learnings from the Open Networks programme, we advise the market facilitator to be aware of the range of stakeholders taking part in detailed design workshops to ensure that the design of the market facilitator incorporates representative views from across the market, for example from small as well as large flexibility service providers. Where feedback is seen to be missing from a particular stakeholder group, additional efforts should be made by the market facilitator to obtain this outside of the scheduled workshops.

We believe that a clear transition plan from Open Networks is key for providing the basis for ENA members as well as other stakeholders to be able to comment in more detail on the activities planned for setting up the market facilitator. We confirm our full support and intent to closely collaborate with the market facilitator and Ofgem in creating a transition plan and supporting communication of the plan to other market stakeholders.

ENA members note that the market facilitator should set up their delivery function as a priority so progress in the market can continue to be made at pace. Some concern is noted on the publication timeline which states that the first market facilitator delivery plan is not due to be published until the end of 2025 with delivery of the plan kicking off in 2026. It will be important to bridge this gap and ENA members note their full support for transitional activities across 2025, including ongoing knowledge transfer and handover of work areas from our Open Networks programme.

Market facilitator function (Q2 - 4)

- 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?
- Q3. Do you agree with the proposed enduring roles and responsibilities for the market facilitator 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?
- 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 broadly support the scope set out for the market facilitator and welcome that stakeholder feedback from previous workshops has been taken on board by Ofgem and the market facilitator in excluding Active Network Management (ANM). However, additional clarity is needed on how the scope touches on innovation.

Our understanding is that the market facilitator's role on innovation will be a component of their Strategic Leadership role and that insights from their thought pieces might feed into other areas such as ensuring calls for funding are aimed at key strategic development areas. We would welcome confirmation from Ofgem that our understanding is correct and that they do not anticipate the market facilitator will undertake a delivery role for innovation, except when rollout may occur and if the innovation affects the market facilitator tools/platform/rules.

The consultation notes that DSO service design should be led by the market facilitator, however, this is an area of innovation for the networks. As part of the Open Networks programme we aimed for an 80-20 split of adherence to standard products and innovation. It will be important for networks to understand the market facilitator's approach to this and how precisely compliance will be assessed. Where an innovation has been successful and generated learnings that should be socialised more widely, we would welcome the market facilitator and Ofgem to share their views on any recommended processes for the transition to BaU.

ENA members would welcome additional clarity on which specific aspects of the Balancing Mechanism are intended to be included in the market facilitator's scope. The BM is involved in primacy and service stacking interactions, and it is therefore important the market facilitator can drive alignment in these areas across both DSO and NESO flexibility services. For example, there may be instances where BM actions (for Voltage Management, Thermal Constraints, and System Inertia) are taken in constrained areas of the distribution network, where the DNOs need to take associated actions to manage these local (demand or generation) constraints. Primacy is aiming to address and mitigate against these conflicts and provide the most efficient whole system solution, ensuring safe & reliable operation of the energy system. Considering the role of the Market Facilitator, this is where this new entity should interfere/ be involved in the process of managing the occurrence of these constraints with the BM.

We are broadly supportive of the enduring roles and responsibilities set out for the market facilitator but note that these are very broad in the consultation document and stakeholders are likely to have more views once more detail on this is available. A key area of feedback we received as part of the Open Networks programme was that there is a need for (new) providers to be educated on entering the market and market standards. We would welcome a clarification on whether this is seen as a part of the market facilitator's role.

The market facilitator could feed into DNO performance assessments through the existing channels for stakeholders, and we do not think a new process is needed to enable this. We do not recommend that the market facilitator be afforded special treatment on the assessment panel as this can cause a conflict of interest with DNOs also needing to retain their ability to appeal the market facilitator's decisions.

A separate assessment of DNO compliance with market facilitator technical outputs is in place as part of the policy framework. Clear success metrics and definitions of implementation will be important for the market facilitator's implementation monitoring function, which should also take into account the fact that DNO markets have varying needs. DNOs are required to take on feedback from their customers, who are from varying demographics depending on the particular license area, for example a rural location or a city. The market facilitator will have a key role in taking on this varying feedback and facilitating agreement on industry standards. International compatibility of the technical outputs and how the market facilitator will engage with international stakeholders should be considered.

We are also broadly supportive of the enduring roles and responsibilities set out for key stakeholders, including DNOs. Co-development of technical standards with DNOs and other stakeholders should be the market facilitator's priority to ensure that standards set are suitable for key stakeholders and avoid a need for frequent use of the appeal process. However, it is important to note that smaller stakeholders or vulnerable customers may struggle to feed in their views with the same frequency and have their voices heard. The market facilitator should offer clarity on how they will ensure these voices are considered. A coordinated diary of industry events aligned between DNOs and the market facilitator is recommended to avoid duplicated efforts and stakeholder

fatigue. Additional clarity should be offered on the roles of Ofgem, DESNZ and NESO, as the different entities are driving different strategies impacting the flexibility market.

Market facilitator deliverables (Q5 - 7)

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

ENA members are supportive of the deliverables proposed for the market facilitator. While the two-year timeframe of the delivery plan with the addition of yearly delivery schedules seeks to strike a balance between a forward view and detail in shorter timeframes, there is a need for an overarching strategic vision for the industry that guides the development of the two-year delivery plans. We have found the best efficiency in the Open Networks programme by developing work plans that take each area of work to a logical conclusion, in comparison to aligning with a set calendar cycle. We found that drafting, consulting on and publishing annual delivery plans took on some occasions resource away from delivery and could delay progressing real world outcomes. Thought should also be given to the optimal time to draft and consult on the next delivery plan to ensure that there is consistent forward-looking visibility for the industry to base their plans on. For example, there should not be a situation where the industry has two-year visibility at the start of the work plan and one month visibility at the end.

ENA members offer no strong views on the budget processes set out in the consultation, however, we suggest that the market facilitator's delivery plans are set on a financial year basis to align with budget years and with the first financial year prorated as needed. This will have the benefit of simplicity and more streamlined governance. It is also noted that there may be a disconnect between annual budgets and two-year delivery plans.

Market facilitator performance arrangements (Q8 - 10)

- Q8. Do you agree with our proposal not to include financial incentives and instead require The market facilitator to link its senior management performance related remuneration policy with our performance assessment? If not, what would you change and why?
- 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?
- 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 offer no strong views on the financial incentives proposed. Further detail is needed on the specifics of what the market facilitator will deliver before we are able to give constructive feedback on the targets and assessment

criteria, which are currently very broad and can be interpreted in many ways depending on the ambition of delivery plans.

We look forward to further discussions on success metrics but note that flexibility volumes may not be an appropriate measure of the market facilitator's success. While these measures gauge how well the market is working, it is not possible to attribute market success to a single actor. In addition, the proposed performance measures are inherently difficult to measure. Therefore, they may not be an appropriate measure of the market facilitator's success, as this is largely down to DNO needs and outside of the market facilitator's direct control. Instead, measures related to the market facilitator's own work smoothing flexibility market "friction" and providing standards/rules for stacking and primacy might be more relevant measures.

Conclusion

We thank you for the consideration of ENA members' views as part of the consultation. Should you have any further questions, please do not hesitate to contact us at opennetworks@energynetworks.org.