

Consultation on Market facilitator delivery body

National Grid response to Ofgem's consultation

7 February 2024

About National Grid

National Grid Group's operations in the UK include: National Grid Electricity Transmission (NGET), which owns the high voltage transmission system in England and Wales; National Grid Electricity Distribution (NGED), which owns and operates electricity distribution networks in the Midlands, the South West and Wales; National Grid Ventures (NGV), which owns and operates energy businesses in competitive markets, including sub-sea electricity interconnectors; and National Grid Electricity System Operator (NGESO), a legally separate business within National Grid Group which balances the supply and demand of electricity in real time across Great Britain.

This consultation response represents the view of National Grid Group. As a legally separate business, NGESO views are not represented.

This response consists of two sections:

- **Section 1:** Executive Summary
- **Section 2:** Response to specific consultation questions

Executive Summary

We welcome the opportunity to continue engaging regarding the creation of the Market Facilitator (MF) role. We believe the development of efficient markets for flexibility is of vital importance to the GB energy system. As such, National Grid supported the development of the MF role as detailed in our response to the previous consultation on the Future of Local Energy Institutions and Governance (10 May 2023) and continues to do so within this current consultation.

Facilitation focus to drive liquidity value for consumers

We recognise that this new delivery body will help drive further coordination across value streams to maximise the opportunity for both buyers and seller of flexibility, which will ultimately lower the cost of decarbonising the energy sector for consumers. We welcome Ofgem's work in this space and support the desire to move at pace.

Given the many, diverse stakeholders – and their needs – across the space, we believe that the MF will have the greatest positive impact for consumers through its market coordination role and when focussed on genuine facilitation. The MF, as a primary objective, should convene the various actors, understand their requirements, and collaboratively develop solutions that drive long term benefits for the end consumer. This should include driving simplification and standardisation where appropriate, all of which should bring about greater liquidity in local flexibility markets. In contrast, the role should avoid spilling in to top-down market architecture design. We understand that discernment will be needed to drive the maximum benefit to consumers through maintaining the ability to innovate, driving competition where appropriate and reacting to local needs. We stand ready to support the MF both as National Grid and as a member of ENA Open Networks.

Whilst positioned as point for the detailed design, we believe that further consideration should be given up-front on governance arrangements, which will be critical to ensuring the MF operates

effectively. We recognise that the MF will be accountable to Ofgem, and we would also like to ensure that the MF – considering its market-facing role – is equally accountable to the wider market.

Unify all relevant value streams

The breadth of the MF's remit is key to its success. We understand why the consultation and remit heavily emphasises coordination between transmission and distribution. Whilst coordination between these parts of the energy value chain is an essential first step, we'd suggest that coordination across all potential revenue streams for flexibility, including the wholesale market and the capacity market be considered as part of the MF's future remit. Our objective is to ensure that all market signals are developed in a coordinated manner to incentivise FSPs to deliver the most efficient outcome. The MF should have the ability to drive changes across these markets and remove unnecessary barriers to maximise benefits.

Strategic leadership function requires clarity

We have seen from the consultation on Future of local energy institutions and governance (published 1 March 2023) and the Market Facilitator Delivery Body consultation (published 13 December 2023) that a new function of Strategy Leadership has been identified for the MF. We are supportive of this principle and believe a MF strategic function can add value if designed and implemented to a relevant scope.

We understand that Ofgem's consultation is at the principles level and so the detail of the strategic function is to be created. As such, we would like to offer our views. The strategic remit should be focussed on how the market rules and processes will continue to deliver for the needs of flexibility buyers and sellers. As such, strategic thinking should reside within the collation of those requirements and a plan to accommodate them. We agree that the Market Facilitator must be forward looking, proactively developing an understanding of upcoming requirements and challenges, to allow the timely delivery of well-defined solutions. As detailed in the consultation, this should be focussed on the delivery of Ofgem and DESNZ visions rather than activity to establish Ofgem or DESNZ visions.

The MF should also be conscious of the strategic needs of its market stakeholders so that it can develop a market that drives the intended consumer benefits. We ask that Ofgem guards against scope creep that might duplicate, or even confuse work delivered by existing entities. As one of the largest buyers of distributed flexibility, we look forward to and welcome further opportunities to help define the strategic function of the MF during the detailed design phase.

Elexon's impartiality is paramount

Considering Ofgem's design principles and our own views outlined above, we agree with Ofgem that there is currently no perfect organisation ready to take on the role immediately. This is to be expected to a degree given that the MF is a new, unique institution. Both candidates, ESO and Elexon, would need to build new capabilities and expand capacity to undertake the role effectively.

Since it is not possible to make a selection based on past performance and demonstrated competency, our approach is that the choice of organisation must balance the strengths and risks associated with each potential party and look to the long-term benefits that can be derived for customers. As detailed in our responses to the questions below, we believe the most important design principle is impartiality. Being free from conflicts of interest (whether real or perceived) is essential when determining how market rules such as stacking and primacy should be managed, as this will impact the commercial viability of flexibility for both buyers and sellers, as well as the systems needed to support them. To maximise benefits to consumers, decisions should be objective, fair, equitable, and made on the basis of the most efficient outcome irrespective of where the associated costs fall.

Elexon, as the facilitator of the BSC, was founded on the principle of impartiality, and though not easily quantified, we believe the culture and values upon which Elexon was established are key advantages. Also operationally, Elexon would not need to manage conflicts of interest through, for example, internal business separation measures which the NESO would need to put in place to manage its real or perceived conflict given that it is a significant procurer of flexibility. We also believe that Elexon has a strong record against almost all the design principles (see our response to question 5), and a culture that balances the collaboration and delivery needed to successfully fulfil the role.

Conclusion

We look forward to supporting the successful organisation appointed to the MF role as we continue our involvement and dedication in helping shape and deliver coordinated markets for flexibility aimed at ensuring the most affordable route to decarbonisation of the power system and net zero.

We are keen to remain engaged with Ofgem on this topic. Should you have any questions about the points raised in this consultation, please contact Paul Branston at pbranston@nationalgrid.co.uk.

Response to specific questions

Q1: Do you agree with the proposed market facilitator design principles (in paragraphs 2.22 – 2.28)? If not, what additions or changes do you suggest?

We agree that the proposed design principles are relevant and appropriate. We support a MF to build liquidity in flexibility markets, and to do so successfully, the MF will have to drive trust, both in its decision-making process of and in its ability to implement.

Regarding the “Expert and Strategic” function, we believe it should be focussed on how the market rules and processes will continue to deliver for the needs of flexibility buyers and sellers. As such, strategic thinking would reside within the collation of those requirements and a plan to accommodate them. We agree that the MF must be forward looking, proactively developing an understanding of upcoming requirements and challenges, to allow the timely delivery of well-defined solutions. As detailed in the consultation, this should be focussed on the delivery of Ofgem and DESNZ visions rather than activity to establish Ofgem or DESNZ visions.

The MF should also be conscious of the strategic needs of its market stakeholders so that it can develop a market that drives the intended consumer benefits. We ask that Ofgem guards against scope creep that might duplicate, or even confuse work delivered by existing entities. As one of the largest buyers of distributed flexibility, we look forward to and welcome further opportunities to help define the strategic function of the MF during the detailed design phase.

Q2: Do you think some of the design principles are more important than others? If so, which should we attach greater weight to?

We believe there is value in all the design principles. Each has their role to play, and some work in synergy. We do believe that some should carry more weight than others. The design principles which we believe should have more weight than others, in order of importance, are impartiality combined with transparency and then accountability.

We believe that impartiality is paramount. Being free from conflicts of interest (whether real or perceived) is essential when determining how market rules such as stacking and primacy should be managed, as this will impact the commercial viability of flexibility for both buyers and sellers, as well as the systems needed to support them. To maximise benefits to consumers, decisions should be objective, fair, equitable, and made on the basis of the most efficient outcome irrespective of where the associated costs fall. Transparency is the design principle which would work alongside and bolster impartiality. In particular, a transparent approach to decision-making would build trust and efficacy.

The accountable principle is the other principle which we would highlight as accountability drives performance. It is important to view accountability in both directions, MF accountability to Ofgem and MF accountability to the wider market. A poorly performing MF will lead to limitations in opportunities for FSPs, which will limit the benefits that can be derived from buyers of flexibility. We seek a MF that is accountable to the market so that NGED DSO, as a buyer of flexibility, can efficiently deliver benefits to our customers.

We look forward to further discussion and development of these and the remaining design principles in the detailed design process.

Q3: How important is it for the market facilitator to be able to align transmission and distribution flexibility market arrangements? Why?

The ability to coordinate across revenue streams for flexibility is central to the MF role. This includes coordination across transmission and distribution as a matter of priority, but it should also include other market revenues such as those from the wholesale market and the capacity market as a secondary objective. Our [Revenue Stacking for Flexibility Services](#) report identified 21 current revenue streams for flexibility. We suggest that the MF remit should cover this breadth to ensure coordination is achieved across the whole system.



Q4: How important is ease of implementation and enabling a smooth transition when considering the market facilitator delivery body? Why?

Both ease of implementation and a smooth transition are important, as uncertainty reduces the ability for market parties to invest in the relevant flexibility processes, technology and assets. However, these considerations should not outweigh the need to select the most appropriate entity to fulfil the function in the long term, as doing so would not be in the interests of consumers. We recognise that there may need to be a near term, challenging transition to gain long term benefits.

That said, we see reasonable routes to implementation for either party given that Open Networks (ON) project is well underway and is reinstating a sense of urgency in delivering outcomes for 2024 including implementing standardisation of flexibility products; pre-qualification process; calculation methodologies for the settlement process; framework agreement for procurement of flexibility and first two increments of primary rules. Working with industry stakeholders, ON will continue to address key barriers to flexibility markets such as further increments of primary rules; industry standard for dispatch interoperability; stackability of flex services; mapping baselining methodologies to standard products and harmonisation of information sharing across network companies.

Irrespective of which entity is selected, Open Networks will continue its work while the MF role develops and emerges, thereby preventing any possible hiatus in activities. Further, it's our expectation that the two will work alongside each other, with the MF taking the lead as it matures. In this manner, Open Networks can function as

a safety net, ensuring progress continues in the market until relevant parts of the ON remit transfers fully to the MF for normal operation.

Q5: Do you agree with our assessment of Elexon's suitability for the market facilitator role? If not, why not?

We agree with the advantages Ofgem identified. We also find reason for greater optimism across other design principles where Ofgem may have found challenges. Below, we outline our view on Elexon's suitability for the MF role.

Design Principle	Agreement with Ofgem Assessment?	NG assessment
Accountable	Irrespective of who is selected to fulfil the MF role, we believe they should be accountable to both Ofgem and the market. We believe that Elexon can be held accountable to Ofgem and the market for delivery. They have demonstrated excellent performance as a code administrator, accountable to the BSC panel. A number of options for accountability to Ofgem are available (including licencing associated with new code management powers). As detailed earlier, delivering good governance is key.	
Agile	We agree; Elexon has a track record for delivery of new responsibilities.	
Delivery at Pace	We have seen Elexon's ability to deliver at pace. Whilst there will some subject matter expertise to grow, the focus on collaboration will allow it to draw on the existing expertise across the market.	
Expert and Strategic	We agree that competence building would be needed. However, Elexon already holds extensive expertise in some key markets (wholesale and balancing).	
Impartial	We agree. Elexon does not participate flexibility markets and was developed to be an impartial entity.	
Inclusive and collaborative	We agree. Elexon has developed a collaborative culture.	
Transparent	We agree with the Ofgem assessment. Elexon has a strong track record of transparency.	
Wider considerations		
Implementation and transition	Whilst Elexon is not currently a member of ON, it would not be difficult to give it an enhanced role. This could be grown over time as capability increases.	
Aligning transmission and distribution arrangements	There is a key facilitation role needed to drive alignment across all market places. The ability to collaborate effectively across parties will drive alignment	

Q6: Do you agree with our assessment of the FSO's suitability for the market facilitator role? If not, why not?

We acknowledge this is a challenging assessment given the emergence of the FSO. The entity is not yet in place, and so assessing its suitability presents a challenge. In responding to this question, we have considered the FSO's aspirations as a new entity, but also the track record of the ESO.

Design Principles	Agreement with Ofgem Assessment?	NG assessment
Accountable	Irrespective of who is selected to fulfil the MF role, we believe they should be accountable to both Ofgem and the market. We agree and see that the FSO can be held to account by Ofgem.	
Agile	Given the scale of the organisation, and the breadth of the remit, we believe this will be a challenge for the FSO to fulfil.	
Delivery at Pace	We agree with the assessment. The FSO should be empowered to move at pace. However, the ESO has had challenges in this area in the past.	
Expert and Strategic	Competence building would be needed to support the coordination across all markets including distribution.	
Impartial	This is a significant area of concern for us. As the largest buyer of flexibility services, there is a clear conflict of interest when assessing how markets should be coordinated. Removing conflicts of interest, whether real or perceived, is essential to building trust in the market, for both buyers and sellers of flexibility.	
Inclusive and collaborative	We agree with the assessment. The FSO should be able to build an inclusive and collaborative culture.	
Transparent	We agree that the FSO will be able to deliver a transparent MF	
Wider considerations		
Implementation and transition	We see strengths in the ability for ESO to take on the MF role building from its current position within Open Networks. However, we see that overall, the FSO's remit will be wide-reaching and so we have concerns regarding the FSO's future ability to give enough focus to fulfilling the MF role.	
Aligning transmission and distribution arrangements	As mentioned previously, alignment should be driven across revenue streams and should not be limited to T-D. As per our challenge on impartiality, we see a strong risk that the alignment FSO will bring will be driven in a "transmission-centric" manner rather than deriving a collaborative approach to deliver the best whole system outcome.	

Our primary area of concern for the FSO is that of impartiality. As a key buyer of flexibility there is a clear conflict of interest to manage. Decisions made by the MF on stacking and primacy will impact the processes required for the FSO as well as the volumes and costs of services they procure.

We have seen these concerns play out in the development of the Demand Flexibility Service (DFS). DFS has been a significant, positive contribution to increasing the profile of domestic scale flexibility to the general public. However, the ESO has taken a very onerous position on revenue stacking, precluding participation in any other service (including DSO), for the entire DFS procurement period (winter). Whilst understandable given the pace of development needed for the first season of operation, ESO made no accommodations for the second period despite being informed that this could have an adverse impact to distribution flexibility market liquidity. Similar positions have also been seen in the development of the MW dispatch services where flexibility service providers are precluded from the provision of any other services, even when the ESO has no need for those services.

We understand that some services will not be stackable due to the technical requirement they are looking to solve. We also acknowledge that many market rules, such as primacy, will need to assess the trade-offs across different uses for flexibility. These can be complex assessments, and so it is crucial that they are conducted impartially and in a transparent manner so all market participants are confident that the outcome is in the best interest of consumers.

Q7: Do you believe Elexon or the FSO is better suited to take on the market facilitator role when considering the design principles and wider considerations?

Neither organisation is currently a perfect fit for the MF role. This is to be expected to a degree given that the MF is a new, unique institution. Both candidates, ESO and Elexon, would need to build new capabilities and expand capacity, and neither can take on the role without some level of risk. Based on our assessment above, we believe that Elexon would be better suited to taking on the role. Our key reasons include:

- Elexon holds fewer conflicts of interest. They are impartial which is key when looking into this central role which will have to balance costs and benefits across market participants.
- Elexon can be held accountable. With correct the governance, we believe this is possible. Their track record on code management and delivery is strong. They have also shown their ability to deliver at pace.
- Elexon is built around the ability to facilitate the BSC and they have demonstrated a track record of inclusive and collaborative work, which is in their cultural DNA.

We look forward to supporting the successful organisation appointed to the MF role as we continue our involvement and dedication in helping shape and deliver coordinated markets for flexibility aimed at ensuring the most affordable route to decarbonisation of the power system and net zero.