

Joseph Cosier
Ofgem
10 South Colonnade
Canary Wharf
London
E14 4PU

SSE plc
Inveralmond House
200 Dunkeld House
Perth
PH1 3AQ
graeme.barton@sse.com

Sent by email to: flexibility@ofgem.gov.uk

7 February 2024

Dear Joseph,

RE: Consultation: Market facilitator delivery body

This letter is in response to Ofgem's consultation on whether the Future System Operator (FSO) or Elexon is best suited to become the market facilitator.¹ The letter is submitted on behalf of SSE's energy businesses² - SSE Thermal, SSE Renewables, SSE Enterprise, SSE Energy Solutions and SSE Energy Markets.

Summary of our views on the market facilitator delivery body

We agree with the need for a market facilitator and believe this will be an important role in driving the acceleration and standardisation of local flexibility markets.

Elexon and FSO are both capable of being the market facilitator and bring different benefits to the role. The weighting different entities attach to different criteria (based upon their own respective involvement in flexibility markets) can understandably lead to different views on who would be best placed to take on role of market facilitator.

Based upon our interests as a seller within both ESO and DSO flexibility markets, we believe the FSO may be marginally better placed to take on this role. Notably, we believe that the FSO has more technical expertise to develop flexibility markets and its existing role within markets gives it a slight advantage. Additionally, giving this role to the FSO arguably avoids further fragmentation of responsibilities across ESO and DSO flexibility markets.

Whoever is appointed, we have three wider asks:

1. The market facilitator needs to embody the capabilities identified within Ofgem's design principles when undertaking the role. Notably, the market facilitator needs to have the appropriate expertise, embrace transparency, act impartially and be held accountable.
2. Building on the market facilitator's "implementation monitoring" role, a governance framework is needed to ensure the market facilitator gathers and transparently acts upon views of all market participants (including DNOs, IDNOs and flexibility service providers). Involving all market participants

¹ [Consultation: Market facilitator delivery body | Ofgem](#)

² SSE plc is a UK-listed, FTSE-100 company and provider of low-carbon energy infrastructure. Our purpose is to provide energy needed today while building a better world of energy for tomorrow. Headquartered in Perth, SSE has operations and investments across the UK and Ireland, primarily as a developer, operator and owner of low-carbon energy assets and businesses, with a strategic focus on regulated electricity networks and renewable energy.

within this governance framework should also help drive the strong performance from the market facilitator.

3. There is a need to maintain the existing momentum in the development of local flexibility markets, as recognised by this Ofgem consultation and Ofgem's open letter in July 2023.³ The focus on the creation of a market facilitator should not distract from existing work underway by the ENA Open Networks programme and DNOs, and there will be a need for a clear transition plan to ensure current progress doesn't stall or prevent any period where there are blurred responsibilities when the market facilitator is introduced.

Our response to individual questions posed in the consultation are included within the appendix.

We're happy to discuss our response further with you or provide any additional information that is required. Our response is not confidential.

Yours sincerely,

Graeme Barton
Regulation Manager

³ [Open letter on the Open Networks Project | Ofgem](#)

Appendix: Responses to questions listed within Ofgem consultation: Market facilitator delivery body

Vision for the market facilitator

1. 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?

Yes, we generally agree with the design principles proposed by Ofgem. Although 'agile' and 'delivery at pace' principles are relatively similar and could be merged, we agree that the market facilitator should be 'accountable', 'agile', 'expert and strategic', 'inclusive and collaborative', 'impartial', 'transparent' and 'deliver at pace'.

Additionally, we believe it may be worth considering 'simplicity of institutional arrangements' as an additional design principle used to evaluate who is best suited to deliver the role. This principle could consider how this new market facilitator role simply fits alongside other roles and responsibilities within industry – exploring separation of responsibilities with existing actors and how decisions would be made.

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

Although we believe all the design principles are important, we believe 'accountable', 'expert and strategic', 'impartial', and 'transparent' are particularly important design features of the new market facilitator. We believe these principles are important because it will help ensure market facilitator's standing among industry participants and retain support from industry.

We don't believe that a speedy timeline to introduce the market facilitator is as important (nor should it drive the choice of who becomes market facilitator), because it is more important to ensure the market facilitator is 'accountable', 'expert and strategic', 'impartial', and 'transparent' from the outset.

Nonetheless we still believe due consideration should be given to the other design principles – 'agile', 'delivery at pace' and 'inclusive and collaborative' – when considering the market facilitator's capability for its enduring role.

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

As a seller within ESO and DSO flexibility markets, we believe it is important for the market facilitator to help standardise operations across ESO and DSO operations as it would make it easier for entities like us to enter both ESO and DSO markets. In particular, it is important there is standardisation across transmission and distribution markets, clear arrangements for stacking participation in ESO and DSO markets and more joined-up platforms for sellers to engage with. Aligning ESO and DSO flexibility markets would bring benefits of efficiency and cost effectiveness to sellers.

Nevertheless, although we agree with the general ambition to align transmission and distribution flexibility market arrangements where possible, there may still, for example, need to be some different arrangements to deal with circumstances when services aren't delivered. Practically flexibility offered

through demand-side response in DSO flexibility markets is likely to face quite different challenges to flexibility offered by generation plants in transmission level markets. This is largely because demand-side response depends on customers adapting their energy use, and therefore DSO market arrangements may need different arrangements to deal with circumstances when services aren't delivered.

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

Considering the existing work underway by the ENA Open Networks programme and by individual DNOs to drive improvements in DSO flexibility markets, the focus on the creation of a market facilitator should not distract from existing work underway by the ENA Open Networks programme or DNOs.

We also believe there will be a need for a clear transition plan to ensure current progress doesn't stall or prevent any period where there are blurred responsibilities when the market facilitator is introduced.

Delivery body options

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

Yes, we broadly agree with Ofgem's assessment of Elexon's suitability for the market facilitator role. We recognise that Elexon are a capable body to deliver such a role and well regarded across industry.

Notably, we agree with Ofgem's assessment that Elexon's core expertise and competency is related to code administration, settlement and scheme administration, rather than in market design and in policy-making. We believe this is the main downside of appointing Elexon.

In addition to this, we recognise that Elexon is not (currently) a licensed body which could make it harder for Ofgem to hold them to account on their performance as market facilitator. Giving the role to any entity without a licence may also result in slower decision-making as they may have less standing and ability to make decisions.

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

Yes, we broadly agree with Ofgem's assessment of the FSO's suitability for the market facilitator role.

However, we believe Ofgem's assessment may not fully consider the ESO's existing track record engaging with industry and running industry change programmes. Although this is briefly mentioned as part of the consideration of the 'inclusive and collaborative' and 'delivery at pace' design principles, we believe challenges that existing industry parties have engaging with the ESO and understanding its design making should be considered in respect to the 'transparent' design principle. However, we hope that the transition to the FSO may help in this regard as it will seek to develop its wider engagement with industry.

We also recognise there are concerns that the ESO does not currently have capability and expertise in distribution markets, and some may have concerns the FSO, if appointed in this role, could have an

inherent bias towards transmission markets in the future. Although we recognise this concern, we believe this could be mitigated by a strong governance framework holding the FSO to account – this governance framework should provide a platform for all market participants (including DNOs, IDNOs and flexibility service providers) to share feedback with the FSO, and then help to hold the FSO to account to act upon that feedback to ensure FSO does not display any inherent bias. Additionally, imposing audit, monitoring, periodic review and strong transparency requirements on the FSO's performance could also similarly help mitigate any risk of inherent bias.⁴

Nonetheless, we notably agree with Ofgem that FSO has broader expertise in flexibility markets and in market design that would align with the role of market facilitator, which would be the main upside of appointing FSO.

7. 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?

We think it is difficult to definitively state that Elexon or FSO should take on the role of market facilitator. Elexon and FSO are both capable of being the market facilitator and there are pros/cons of each entity taking on the role.

Although we recognise that Elexon may be deemed to score higher with regard to agility and impartiality, and that Elexon are generally well regarded in industry, we believe they lack expertise within flexibility markets. Additionally, flexibility markets are already complicated with multiple different actors involved at transmission and distribution level, so there is a risk that appointing Elexon may further complicate roles and responsibilities within flexibility markets.

Based upon our interests as a seller within both ESO and DSO flexibility markets, our own evaluation suggests FSO may be marginally better placed to take on this role. This is because the FSO has more technical expertise to develop flexibility markets and its existing role within markets gives it a slight advantage. The ESO has expertise of running markets, auctions, balancing and has technical expertise which will enable it to understand DSO challenges. As a licensed entity, we also believe it will be easier for Ofgem to hold the FSO to account for delivery of this market facilitator role and additionally, appointing the FSO helps to prevent further fragmentation of roles and responsibilities within the market.

If the FSO is appointed, it is important that they are given time to pick up this role, develop expertise and that this role doesn't prove detrimental to the FSO's wider remit. The FSO already has a sizeable remit from 'Day 1' and we caution against giving the FSO additional roles in too speedy a manner.

Importantly, whoever is appointed, it is imperative that the chosen entity embodies the specific characteristics needed to be market facilitator (as identified by Ofgem's design principles). That entity needs to have the appropriate expertise, embrace transparency, act impartiality and be held accountable.

Building on this, we also believe a governance framework is needed to ensure the market facilitator gathers and transparently acts upon views of all market participants (including DNOs, IDNOs and flexibility

⁴ Linked to this point, SSE has separately responded to Ofgem's recent consultation of the FSO regulatory framework with broader suggestions as to how to drive strong performance by the FSO; [Consultation on the policy direction for the Future System Operator's regulatory framework | Ofgem](#)

service providers). Involving all market participants within this governance framework should also help drive the strong performance from the market facilitator.