

ELEXION

**Market Facilitator role:
Strategy Outline and Approach to
Implementation**

February 2024



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Executive summary



2

Current state of market and priorities

3

Elexon as a market facilitator

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What benefits Elexon can bring as a market facilitator

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Ellexon: Who are we and what we do

**Trusted market
design and
delivery partner**

**Rooted in
governance, new
roles in data and
industry
platforms**

**Committed to net zero
and energy security
through proactive
changes and
innovation**

**Funded by the
industry**

**Not for profit,
impartial,
independent Board**

**Working inclusively
and openly with
market participants,
Ofgem and DESNZ**



As a trusted design and delivery partner for the industry and Ofgem, Elexon will bring its neutral ‘critical friend’ mentality to establish trust and find practical and efficient ways of creating standardised, easily accessible, and transparent distributed flexibility markets and foster alignment between ESO and DSO markets

We are incredibly pleased that the industry nominated Elexon to be considered for the market facilitator role. Staying true to our company’s vision of building a path to net zero, we are eager to work together with Ofgem and the industry to design and implement new distributed flexibility markets and drive alignment between ESO and DSO market arrangements.

Over the past two months, we have listened extensively to a diverse range of industry participants. These important discussions have supported us to identify critical issues that are holding distributed flexibility markets back. We have also further developed our understanding and approach to implementation of the market facilitator role, if appointed.

Based on Ofgem and DESNZ’s vision for local flexibility markets, the market facilitator will put together a delivery plan, bringing together existing centres of knowledge and expertise across the industry.

I am confident in Elexon’s ability to deliver this role to the highest level of expectation and excellence, based on our practical experience of designing and changing market arrangements, systems and data, and our inclusive and collaborative ways of working with the industry.

A handwritten signature in black ink, appearing to read 'Peter Stanley'.

Peter Stanley, Chief Executive Officer, Elexon



Elexon's vision

The purpose of this Strategy Outline is to articulate at a high level* **Elexon's vision** on:

'WHAT' the market facilitator should deliver

- ❑ Priorities the market facilitator should immediately address
- ❑ Key milestones in medium and long-term
- ❑ Benefits Elexon could bring to the role

'HOW' the market facilitator should exercise its leadership role

- ❑ Principles that should guide the work of the market facilitator, while engaging with the market participants and making decisions



How we have developed our vision

We have defined our vision based on:

1. Our initial assessment* of the role as outlined by Ofgem
2. Feedback from a broad range of stakeholders** to understand key priorities/challenges in the current governance of distributed flexibility markets (AS IS)
3. Elexon's internal expertise related and relevant to workstreams interconnected with the role.

*The contents of this presentation are an initial analysis based on the information available to us. If Elexon were appointed as market facilitator, we will work closely with Ofgem, DESNZ and all market participants to develop an articulated vision of local flexibility markets.

** The full list of the stakeholders we consulted for Elexon's targeted strategic engagement programme in December 2023 – February 2024 is available in the Appendix

Executive Summary

1

Distributed flexibility markets are at the tipping point for sustained growth

2

To unlock the future growth, in the short-term market facilitator will need to focus on three critical areas: 1) clear accountability, 2) coordination between ESO and DNO-level markets and arrangements, and 3) having a customer-centric approach

3

The market facilitator will have to work in partnership with Ofgem, the industry and a wider range of stakeholders

4

Elexon is well-suited to take on the role of market facilitator based on its expertise in inclusive, neutral governance, market design and technical expertise, and its ability to reach to a widest range of stakeholders

Standardised, easily accessible, and transparent distributed flexibility markets in alignment between ESO and DSO markets

Customer-centric approach

Coordination between ESO and DNO-level markets and arrangements

Clear accountability and governance framework

Trust, neutrality, market design and technical expertise



CURRENT STATE AND PRIORITIES

Distributed flexibility markets are at the tipping point for sustained growth (1/2)

The development of distributed flexibility markets in the UK in the last 5-7 years has been marked by several key trends and initiatives:

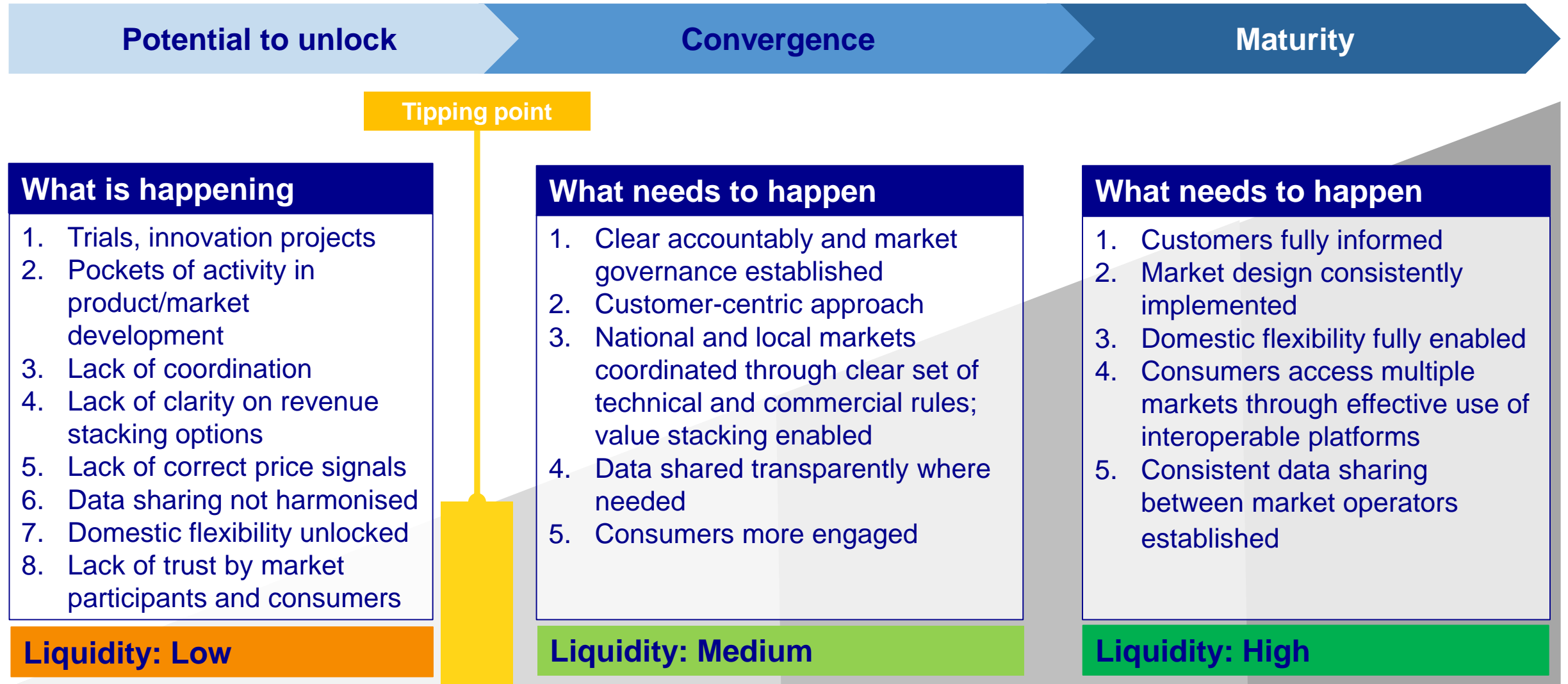
- 1 Regulatory Framework:** Government and Ofgem have implemented various policies and regulatory frameworks to encourage the development of distributed flexibility markets.
- 2 Technology:** The UK networks have seen adoption of technologies such as smart meters, energy storage systems, and demand response solutions. These technologies enable consumers and businesses to participate in flexibility markets by adjusting energy consumption/generation in response to market signals.
- 3 Market Platforms:** Several market platforms and aggregators have emerged to facilitate the trading of flexibility services. These platforms act as intermediaries between flexibility providers (such as renewable energy generators, battery owners, and demand response participants) and grid operators, allowing them to monetise their flexibility assets.
- 4 Innovation:** There have been numerous innovation projects and pilot programmes aimed at testing new business models, technologies, and market designs for distributed flexibility. These projects provide valuable insights into the technical, economic, and regulatory challenges associated with integrating distributed flexibility into the energy system.

- 5 Collaboration and Partnerships:** Collaboration between industry stakeholders, including energy companies, technology providers, regulators, and academia, has been essential for driving the development of distributed flexibility markets. Partnerships and collaborations help to overcome barriers to market entry, share knowledge and best practices, and promote innovation.
- 6 Focus on Decarbonisation:** The development of distributed flexibility markets is closely linked to the net zero commitment and transitioning to a low-carbon economy.
- 7 Consolidation:** Overall, the development of distributed flexibility markets in the UK is characterised by a combination of regulatory support, technological innovation, market experimentation, and collaboration among stakeholders.

The combination of these efforts is essential for unlocking the full potential of distributed flexibility to enhance grid resilience, reduce energy costs, and support the transition to a sustainable energy future.

Distributed flexibility markets are at the tipping point for sustained growth (2/2)

Picture 1: Market development phases



Top three immediate priorities for the market facilitator to address

In the near term, the market facilitator will have to focus on sustaining the stable, continued development of distributed flexibility markets. We believe this can be achieved through focus on three main aspects:

1. **Clear accountability**
2. **Coordination between ESO and DNO level markets and arrangements**
3. **Customer-centric approach**

Regardless of who is appointed, the market facilitator should work with ENA Open Networks (ON) and Ofgem in the transition phase to ensure the delivery of key market enablers continues until the enduring regulatory framework is in place.

The market facilitator should strike a balance between the need to ensure an inclusive and collaborative approach to decision-making, and having governance arrangements and processes in place to respond promptly.

1 Clear accountability

The Accountability design principle (as defined in the consultation) needs to be considered broadly and include two aspects: 1) Accountability of the market facilitator to Ofgem (as per consultation), 2) Accountability of market participants to the market facilitator. The latter could take a form of a multi-party agreement or a new flexibility code.

2 Coordination between ESO and DNO-level markets and arrangements

The interdependencies between national balancing services and broader market arrangements have become significantly more complex. As distributed flexibility markets mature, these interdependencies and potential conflicts need to be considered and addressed in a way that allow for markets to function smoothly and optimally without adverse technical or economic effects.

3 Customer-centric approach

Markets need to increasingly become customer-focused as distributed flexibility is (and will be) provided through small, domestic-level loads. This means that central arrangements need to be flexible and robust to allow for markets to mature and innovate, and, at the same time, prescribe accuracy in order not to distort markets.

Top three priorities for the market facilitator to address: Accountability*

1 Clear accountability

Both Ofgem and the stakeholders stressed that the accountability of the market participants towards the market facilitator is a key attribute for the successful delivery of the role.

An important lesson learned from the experience of the ENA ON Programme is that a clear mandate and set of responsibilities are required to drive change and successfully deliver the required outputs in a consistent and coordinated way. It is therefore paramount that the governance structure is set up in a way that ensures that the market facilitator is empowered to take action to remove any conflict or barriers during the process and the market participants cooperate in a consistent way.

‘Flexibility’ code or multi-party agreement

What is it?

Accountability of market facilitator to Ofgem

Accountability of the parties towards the market facilitator

1

The governance framework between market participants and market facilitator will be established as a new standalone ‘code’ or a multiparty agreement.

2

The market facilitator will be accountable to Ofgem via a code manager licence or a separate governance framework to allow Ofgem control and direction over the role.

3

Parties will be obliged to comply with the code/ agreement by licence conditions. The code itself will also have contractual force, allowing enforcement options that the market facilitator can leverage, to be developed.

Non-licensed participants need to sign up to the code in order to participate in markets.

* We sets out Elexon's vision on the governance arrangements for enabling the market facilitator in a separate Discussion Paper on Governance arrangements: accountability and implementation of the market facilitator.

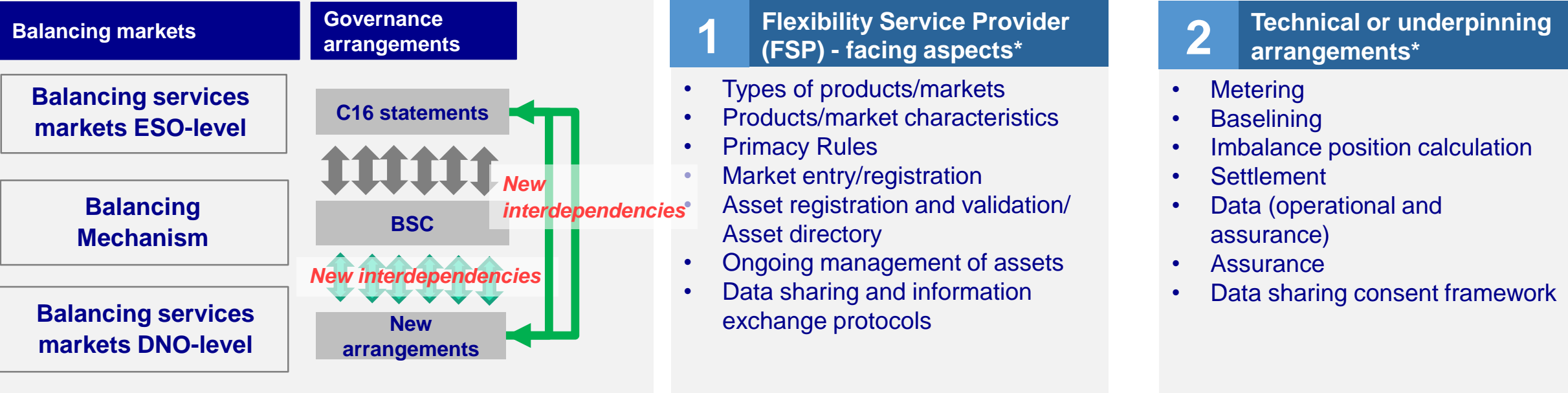
Top three priorities for the market facilitator to address: Coordination between TO & DNO level*

2

Coordination between ESO and DNO-level markets and arrangements

The interdependencies between ESO-level and DNO-level balancing services and other market arrangements will become more complex, with all existing arrangements needing to change simultaneously to accommodate new products and new markets. In order to avoid duplication of effort, soaring market entry costs and market rule compliance costs, where possible, existing underpinning markets rules, (e.g. in metering, baselining, calculation of imbalance positions and settlement among others) need to be adapted and extended to the distributed flexibility markets. This will allow for true interoperability and transparency of the market rules, leading to a smoother and faster market entry process and market operation. It will also ensure a faster change process as all markets will continue to evolve.

Picture 3: Governing arrangements at present



* These are main functions rather than exhaustive lists.

Top three priorities for the market facilitator to address: Customer-centric approach*

3

Customer-centric approach

The market facilitator should make a customer-centric approach one of its ingrained design principles for the new arrangements. These should be light and robust to ensure participation from the smallest of assets and be suitable for larger assets as well. They must also provide robust and transparent actions and the resulting data should not distort markets.

To unlock the potential of flexibility markets, the market facilitator must have a proven ability to listen to a wide range of stakeholders and supporting evidence. It must take these views into account, and through an open and inclusive discussion, guide the industry to a mutually acceptable solution and course of action – with the aim of achieving the vision for local flexibility markets.



1. Customer/consumer represented on the market facilitator governing body

Similar to Citizens Advice's permanent role on the BSC Panel, we believe the market facilitator governance needs to include similar arrangements.

2. Participation in rule creation and modifications

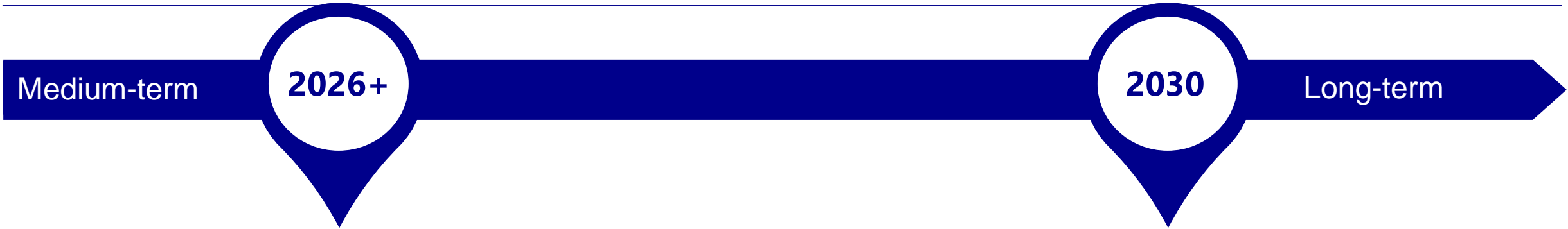
We believe, once created, the distributed flexibility markets framework needs to be open and inclusive to allow representation from non-network parties and consumer representatives.

3. The market facilitator should proactively seek to understand consumer needs

The market facilitator should monitor international markets and engage with academic and customer research organisations to proactively seek views and possible solutions to any barriers to consumer participations in the markets

* We sets out Elexon's vision on the governance arrangements for enabling the market facilitator in a separate Discussion Paper on Governance arrangements: accountability and implementation of the market facilitator.

Medium and longer-term strategic objectives



As the market facilitator addresses the key immediate priorities, outlined above, it will inevitably accumulate an in-depth body of evidence for changes required to wider arrangements. All parts of the regulatory and licensing framework will need to be aligned to enable market operators and market participants to accommodate flexibility.

Under the 'Strategic leadership' function Ofgem outlines that the market facilitator will 'provide advice to government and Ofgem where regulatory or policy gaps are identified or where there is a need for joining-up and coordination.'

We expect this to include:

- A DSO incentive mechanism and RIIO-ED3 regulatory framework
- The impact of flexibility providers on Suppliers (through Imbalance)
- Types of connections; exempt generation
- Existing market frameworks

In the longer-term, we would expect the market facilitator to spearhead a change to the approach for rewarding flexibility – from its present value being based on avoidance of network reinforcement to flexibility's true value to the energy industry as a whole and to the net zero society.

This is likely to require the market facilitator to closely monitor and engage with academic researchers and commission detailed market modelling studies. This is important for understanding the effects of the changes, and support Ofgem in its decision making.



Evolutionary development of the markets and Elexon's next steps

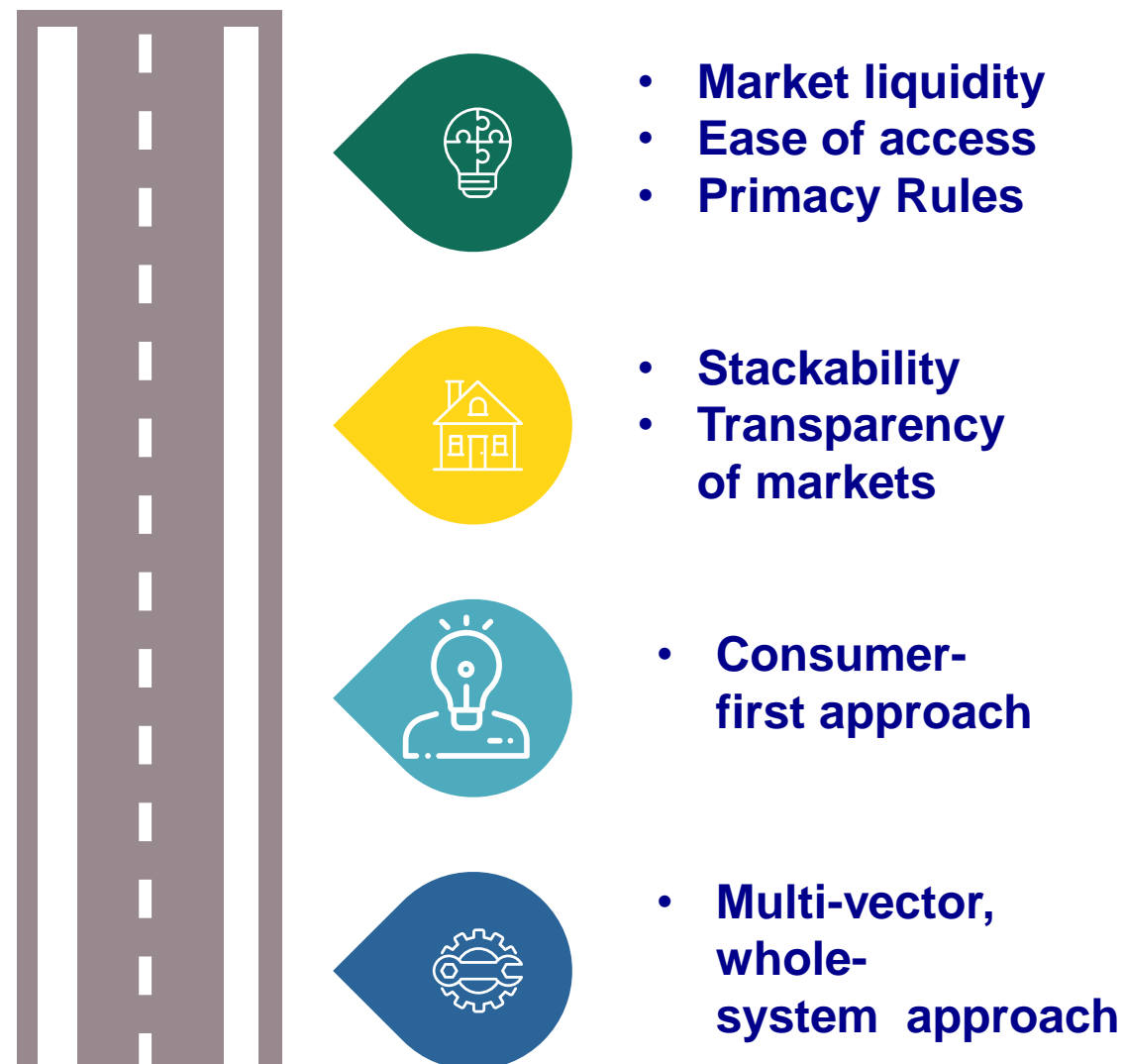
A plan and a programme of works - Elexon is preparing a plan and a programme of work to be able to launch into action if appointed. The plan and the programme will be discussed with the industry and Ofgem to seek inputs and pinpoint immediate and short-term priorities.

Active engagement - We anticipate the existing and emerging flexibility markets to actively evolve and develop for several coming years while the business models are being fully established, therefore, we will seek inputs from Government, Ofgem and the industry into our thinking, proposals and a suggested course of action.

Considering a more active role in ENA Open Networks - One important element will be to develop further cooperation with the ENA Open Networks programme as a major forum for DSOs and ESO to further the development of distributed flexibility markets. We would like to explore a suggestion of Elexon taking a more active role in relevant working groups at ON Programme.

Working with ESO – ESO and Elexon have worked collaboratively to open national markets and to change the central arrangements to accommodate the progress in technology, business models and new commercial propositions. We remain committed to working with ESO as a long-standing partner.

Picture 2: Focus and milestones





ELEXON AS THE MARKET FACILITATOR

How we would work with the industry and Ofgem



Guiding Principles for Elexon implementing the market facilitator role

- **Proactive and prompt** implementation of the market facilitator role **based on best practices** and using the full range of industry's existing and emerging expertise, experience and knowledge.
- **Partnering** with Ofgem and the industry to design an **open, transparent, flexible** governance framework and processes. This will support market evolution, coordination, and encourage increased participation and liquidity.
- Bringing our '**critical friend**' **mentality** and **market design expertise** to foster cooperation through an open and inclusive decision-making process.

Combining the best practices in governance

Aim: A flexible, inclusive, transparent, fit-for-purpose, light (cost and effort) but robust set of arrangements to facilitate markets and evolve as markets develop and mature

1 Keeping the elements that work from existing best practices

- Engagement with the industry
- Inclusion of all views
- Open discussions
- Accountability to industry and Ofgem
- Ongoing engagement and contributions from Ofgem

2 Enhancing with 'Code Manager' governance principles and change management proposals

- Stand-alone internal governance
- Decision making powers
- Powers to raise changes
- Will balance independence, efficiency and credibility

High-level approach to delivery of market facilitator functions*

Aim: Adopting best practice of co-development from the ENA ON and our practices, the delivery approach will focus on speed and robustness. This will be further detailed and developed with Ofgem and industry



Market facilitator leadership function drives the technical/strategic priority and delivery objectives informed by:

- National policy requirements
- Network needs
- Market participant needs/views

Identify development areas and barriers

Prioritisation

Set specific objectives (outcomes)

LEAD

- Accountable
- Strategic
- Impartial
- Transparent



Market Facilitator delivery function includes activities:

- Leading delivery and management functions ensuring neutral consideration of various SME/Sector inputs
- Performing skills/stakeholder mapping needed to progress the key objectives
- DSO/ESO and industry SME invited for co-development

Co-develop (with industry stakeholders)

Agree output/approach

CO-DEVELOP + DELIVER

- Expert
- Agile
- Inclusive and collaborative
- Delivery at pace



Market Facilitator enforces deployment of outputs across networks/market participants

- Developing regulatory regime to ensure implementation/ accountability of delivery and governance
- Developing collation of data sets for monitoring.

Implemented by networks/Mkt participants

Governance of outcomes

DEPLOY + GOVERN

- Transparent
- Inclusive and collaborative
- Delivery at pace

* A suggested approach based on Elexon’s existing practices, market facilitator design principles and functions, and Open Networks Challenge group slides (December 2023)

High-level approach to delivery of the market facilitator functions (1/2)

Ofgem envisions market facilitator to have three main functions: Strategic leadership, Market coordination, Implementation monitoring. Ofgem notes that “functions could evolve further as we [Ofgem] advance with our detailed design work”. Below we share our views on what activities these functions can entail, in addition to those foreseen by Ofgem.

We will work with Ofgem and the industry to gather feedback on these proposals and fine-tune them. Elexon has a strong suite of well-established capabilities to build on across all three functions. Inevitably, we will have to strengthen and expand our internal capabilities in certain areas. We are devising a plan to put in place should Elexon be appointed.

<div>1</div> <div>Strategic leadership and coordination</div>	<div>New Market development and innovation</div>	<div>Key activities</div> <ul style="list-style-type: none">• Perform market research and analysis across markets• Explore and support new (less mature market options)• Develop feasibility cases and paths for BAU transition• Develop views and practical proposals to remove barriers (technical, procedural, regulatory)• Steps to promote emerging markets to BAU• Support/advice to ongoing research in the area of flexibility (DESNZ/Ofgem initiatives, academic consortium etc.)• Industry white/position papers - research questions, gaps and opportunities• Close the feedback loop with DESNZ and Ofgem by sharing learnings and policy recommendations	<div>Impact</div> <ul style="list-style-type: none">• MF has clear line of sight on all developments around flexibility• UK continues to be an industry leader in the area of flexibility• Informed changes to MF’s roles and responsibility if and when needed• Ensure policy makers are provided with timely recommendations and evidence
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High-level approach to delivery of the market facilitator functions (2/2)

2

Market coordination

Market development

Key activities

- Develop and standardise technical specs, processes, rules, and requirements
- Identify and remove barriers (existing market ESO/DSOs)
- Develop markets alignment action plan
- Enable increased uptake in flexibility markets
- Technology specific considerations (Battery, EV etc)

Information flows and digital infrastructure

- Establish consistent data flows across networks/markets that enable key market functions and decisions
- Adopt/establish consistent data transfer protocols and standards

Impact

- Allows access and stackability across markets
- Consistent user experience
- Unlock full value of flexibility - optimising flexibility across market and best value to consumers
- Improves market liquidity
- Ensures no replication of efforts across initiatives

3

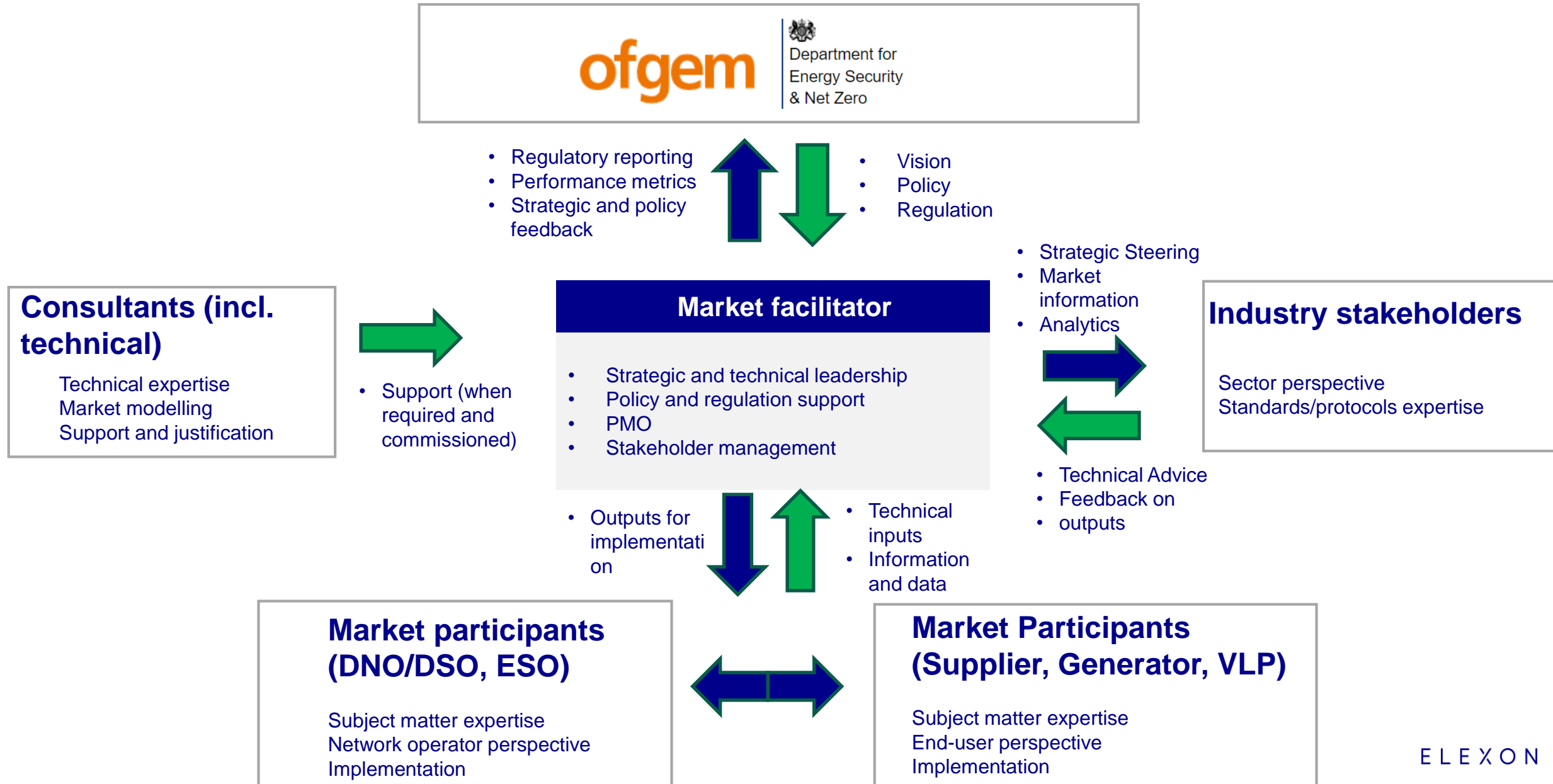
Implementation monitoring

Analytics and reporting

- Assurance technics to confirm delivery of flex services
- Regularly produce status reports, insights, trends, benefits quantification
- Share consistent market information with wider industry
- Co-ordinate and manage regulatory reporting related to flexibility performance metrics, implementation status
- Allow to self-serve access data

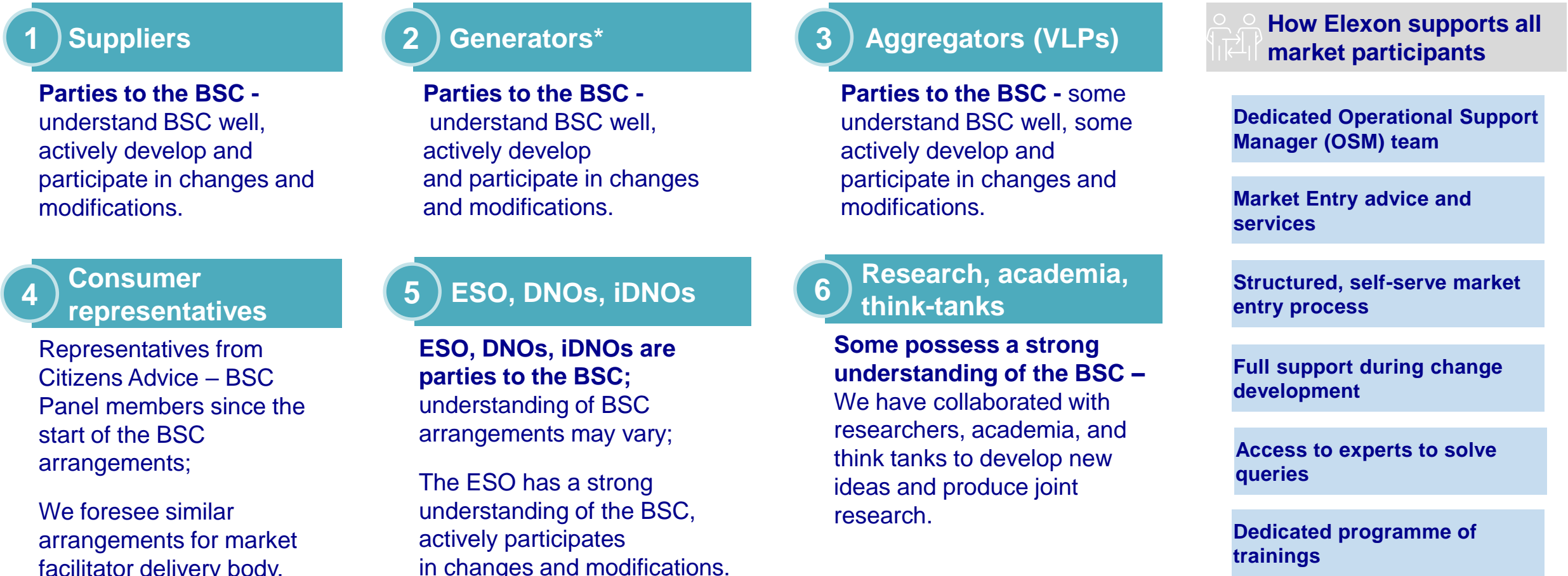
- Visibility and transparency in market operations
- Benchmarking and clear tracking to net zero targets
- Information sharing enables wider industry innovation and developments

High level operational interactions



High-level stakeholder map for the market facilitator – Examples

The market facilitator will interact with many stakeholders, most of which Elexon already has access to and, moreover, established ongoing interactions and dialogue. This means that the marginal effort and cost of engaging with the same group of stakeholders will be minimal, thus avoiding unnecessarily inflated costs for central arrangements and delivering more value faster.



* Except Exempt generators

Enabling Elexon to take on the market facilitator role

We have developed detailed views on possible routes to enable Elexon to take market facilitator role.

We sets out Elexon's vision on the governance arrangements for enabling the market facilitator in a separate Discussion Paper on Governance arrangements: accountability and implementation of the market facilitator.

Several implementation options are feasible, although some might work better in the transitional phase for the quick setting up of the market facilitator. Others can serve as enduring solutions once other ongoing institutional reforms have taken place (e.g. Energy Code Governance Reform).

Regardless of the governance arrangements, Elexon believes that the framework should have some key attributes: Accountability, Trusted and Neutral, Delivering at pace, Ease of implementation, Simplicity, Dynamic and Adaptable, Portable, Enabling Coordination and Engagement, Inclusive and Collaborative, and Enabling Innovation and Customers' Benefits ('Whole System Approach').

Based on our experience in delivering complex programmes and net zero enablers (e.g. Market-wide Half Hourly Settlement programme) and our internal capabilities on market design and data platforms, Elexon believes it can meet all the key features that underpin a robust framework that will be critical for the delivery and implementation of this crucial new role at the heart of the new and existing markets.

1 Enabling modification

We envisage an enabling BSC Modification immediately after our appointment to allow us to take on the role (on a transitional basis, until enduring funding and governance arrangements are developed).

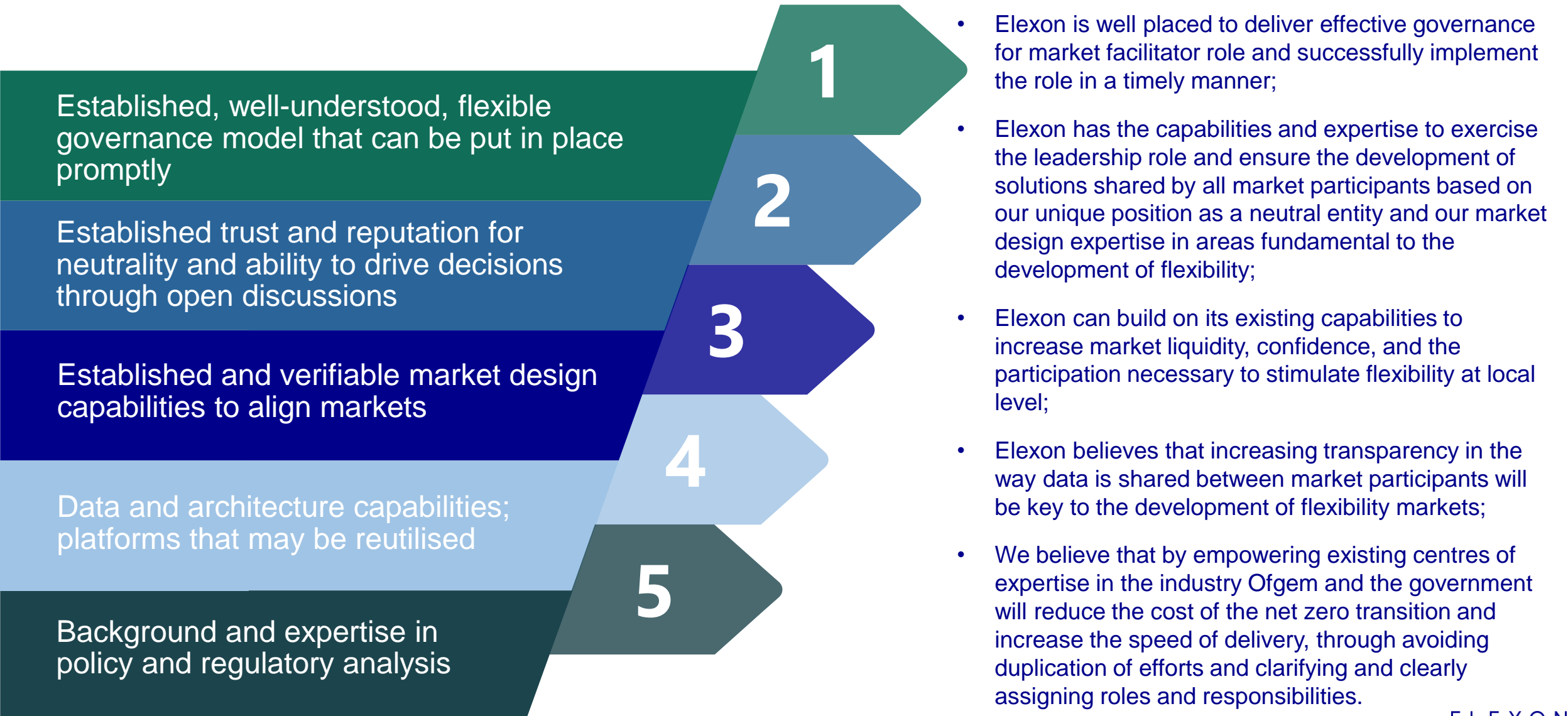
Several BSC parties have already expressed their willingness to support Elexon as market facilitator and will be able to raise this modification immediately if Elexon is appointed. We believe that there are no obstacles to the swift and agile completion of the process.

2 Enduring governance arrangements for the role

There are several ways to develop and establish enduring governance arrangements. If it sits outside the code (e.g. the multi-party contract) then no modification would be needed.

Alternatively, another modification may be required for the market facilitator role arrangements, including the detailed model for governance, funding, and operation.

What benefits Elexon can bring as the market facilitator





APPENDIX

Sources of information and analysis

Sources of information and analysis

We have based this document on the following sources of information and analysis:

- A. Feedback from Elexon’s targeted strategic engagement programme in December 2023 – February 2024
- B. Our ongoing work and involvement in our advisory capacity in the industry-wide workstreams
- C. Ongoing programme of changes to the BSC rules and our involvement and participation in other industry Codes’ Panels and modification groups, aimed at changes in market design.

A. Targeted strategic engagement programme covering:

- 1. In-depth 1:1 conversations with market participants, including Distribution System Operators (DSOs), FSPs, industry associations, consultancies/advisors, and National Grid ESO - some 25 market participants. This included detailed analysis of the March 2023 publicly available consultation responses.
- 2. Engagement and discussions with the BSC Panel and BSC Parties (suppliers and generators)
- 3. Workshops with Energy UK (EUK), DSOs, and Association for Decentralised Energy (ADE)
- 4. Utility Week Flexibility Forum held on 18 January
- 5. Detailed conversations with ENA ON Programme
- 6. Detailed conversations with ENA ON Challenge group members

B) Ongoing engagement with the relevant Ofgem (and Government) workstreams:

- Future of Distributed Flexibility
- Engaging domestic consumers in energy flexibility
- DESNZ Flex Markets Unlocked Programme
- Data Best Practice and Guidance and Digitalisation Strategy and Action Plan Guidance
- Data Sharing in a Digital Future
- Energy Codes Review
- Future System Operator’s regulatory framework
- REMA – Review of Electricity Market Arrangements
- Locational Pricing Assessment undertaken by Ofgem

C) Ongoing programme of changes to the BSC rules and our involvement and participation in other industry Codes’ Panels and modification groups

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THANK YOU

February 2024