

7 February 2024

Flexitricity welcomes the opportunity to respond to Ofgem's consultation on the Market facilitator delivery body.

### **Our expertise**

Flexitricity is an Edinburgh based demand response aggregator, which pioneered open-market aggregated demand-side services for electricity system balancing in 2008. Flexitricity firsts include aggregated STOR and FCDM; Footroom and demand turn-up; post-fault dispatch for distribution networks; demand-side Smart Frequency Control; and Balancing Mechanism access for demand side assets. We hold electricity and gas supply licences, as well as Virtual Lead Party (VLP) and Asset Meter Virtual Lead Party (AMVLP) licences to allow us to bring non-supply customers and/or their assets into the Balancing Mechanism and soon Wholesale Market. In January 2024 Flexitricity announced that our Virtual Power Plant (VPP) asset portfolio had exceeded one gigawatt, which is larger than the UK's latest large gas-fired power station.

Flexitricity is owned by Quinbrook Infrastructure Partners, one of the world's leading renewable energy and energy transition asset managers, focussed on the UK, US and Australia. The Principals and Senior Team Members have completed total equity investments of USD 8.2 billion into energy and infrastructure projects globally, equating to 19.5 GW of capacity.

### **Questions & Answers**

#### **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?**

Flexitricity agrees with the design principles. We believe that an additional activity for inclusion in Table 1 should be alignment with the development of digital infrastructure governance. We strongly support the work Ofgem is carrying out under the Governance of a Flexibility Digital Infrastructure programme, and believe that the Market facilitator role should formally recognise the close relationship needed between markets and the future of the FDI.

#### **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 particular weight should be given to the design principles of inclusion and collaboration. As market participation has broadened beyond the traditional energy domination by large generators and suppliers, engagement with innovative market participants has not always been prioritised to ensure rules are fit for purpose. This has led to the introduction of products and services designed without sufficient thought for all market participants, necessitating lengthy processes to achieve u-turns and/or market distortions. The Market Facilitator must formally prioritise early engagement and active listening to feedback provided by a wide range of stakeholder.

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

We see the barriers for consumers in accessing flexibility put in place by the current lack of alignment between transmission and distribution flexibility market arrangements. These are well rehearsed, but an example would be that service windows do not align across DSO, ESO and Wholesale markets meaning that assets moving between services cannot fully optimise due to waiting for unaligned periods to end and begin.

We believe the Market facilitator should have coordinating powers between transmission and distribution system operators. This work has not been carried out at sufficient pace or ambition by Open Networks, and we agree with Ofgem that this work must be accelerated to unlock the full value of flexibility. We believe that whether Elexon or NESO becomes the Market facilitator, they should be able to mandate transmission and distribution operator collaboration in this process.

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

While we agree that avoiding a hiatus is important, we are most concerned that the Market facilitator establishes a fair and sustainable long-term vehicle for role delivery. This is not a critical weighting for us in assessing who should be appointed to the role, as we believe both organisations could fulfil the necessary requirements.

We acknowledge that the speed of transition would likely be slower were Elexon to be appointed as the Market facilitator due to the requirement to take on an entirely new subject of expertise, but we have faith in Elexon's ability to quickly and methodically acquire new programme responsibilities, having been particularly impressed by their work on the MHHS programme. Similarly, we suspect that ESO has an advantage in preparing to transition into the role, so it is disappointing that industry has not been able to assess any of the work ESO has been preparing for the role since Ofgem's minded-to-position was released last year. This strengthens our belief that ESO will have significant work to do in establishing processes to ensure transparency, address the perception of bias, and achieve buy in from all market participants.

**Q5 Do you agree with our assessment of Elexon's suitability for the market facilitator role?**

Yes.

We find the comparison with the governance arrangements of the MHHS programme and the market facilitator role particularly helpful, as we believe that has been a success. Their controlled and inclusive approach to MHHS deployment has been particularly beneficial to Flexitricity as a very small, non-domestic supplier. We are properly consulted, supported with an explicit understanding of our differentiated position than a large supplier, and able to plan our required actions in the short and long term as Elexon has prioritised providing clarity over a very complex workplan.

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

Broadly, yes.

We particularly note Ofgem's identification of the need to address the unfortunate historical issues with ESO transparency, delivery at pace, and inclusion and collaboration. While we agree that FSO's overarching objectives and duties would be well aligned with the accountability required of the market facilitator, we have experienced a frustrating pattern in which individual teams within ESO are not aligned. Examples would include the apparent divide between ENCC and Power Responsive with regard to the creation of suitable operational metering requirements for small assets in the BM, which has led to years of delay, repeatedly changing trial parameters and ultimately a sterilisation of domestic assets in the BM. As market facilitator, the FSO must take ownership of its decisions in the face of internal disagreements quickly and transparently.

With regard to the expert and strategic principle, we would highlight that the development of a flexibility digital infrastructure (FDI) makes ESO's mixed success with IT projects a particular area of

concern. We remain concerned that the findings of the independent audit Zuhlke, commissioned by Ofgem, have not been sufficiently addressed to industry. This raised serious concerns about cost and efficiency, governance, resilience and adaptability. A key role for the market facilitator will include supporting FSO and DSOs in decommissioning legacy IT structures and ensuring that IT upgrade programmes will accelerate flexibility deployment at scale. If appointed as market facilitator, we would appreciate additional focus on addressing historical ESO issues with delay and overspend on IT projects.

If appointed, it is imperative that FSO provides a formal market design and governance process for industry consultation before market facilitator Go Live. Smaller market participants like Flexitricity simply do not have the time to continue exasperating, proactive engagement to overhaul ESO's market-distorting decisions. In 2023, Flexitricity had to abandon a planned Ofgem sandbox proposal to test an innovative flexibility arrangement due to resource limitations caused by ongoing engagement with ESO on BM operational metering, Local Constraint Market (LCM) payment methodologies, Demand Flexibility Service (DFS) asset metering exclusion, delayed Balancing Reserve (BR) development due to the initial 50MW minimum threshold and more. With the further consolidation of market power within the FSO if appointed as market facilitator it is critical that proper processes are put in place to eliminate deployment of Minimal Viable Products which do not meet that criteria for non-traditional market participants.

**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?**

After extensive discussions, Flexitricity remains content that either Elexon or FSO could be appointed to the role and succeed.

We reiterate our support for Ofgem's assessment that selecting multiple parties to co-deliver the role is not viable. A single body needs to be accountable. Furthermore, the challenges in transitioning to the market facilitator role are very different for Elexon and FSO, so a hybrid would likely reduce focus on overcoming each organisation's weaknesses.