



Flexibility Market Asset Registration Consultation

08 August 2024

Q1. Do you agree that policy intervention is needed to deliver common Flexibility Market Asset Registration?

Common flexibility markets would not require significant policy intervention if there were fewer competing schemes. It is recommended to reduce the number of schemes. For example:

- Distribution Network Operators (DNOs) are offering day-ahead prices similar to exchanges, resulting in natural arbitrage between the two for almost identical products.
- National Grid (NG) runs some ancillary services that overlap with these offerings.

Currently, there is a cottage industry of schemes whose incentives fluctuate year over year (YoY). This situation is unhelpful for investors, difficult for Industrial and Commercial (I&C) participants to understand, and leads to increased costs and a lack of clarity.

Q2. Do you agree that for other FDI outcomes policy intervention is not needed at this stage? Are there any risks to consider with this approach to FDI delivery?

Flexible digital infrastructure can be as complex or as simple as required, depending on the incentive schemes in place. The key considerations are the costs to industry participants and end customers. Currently, it seems that the costs outweigh the benefits, indicating a need for consolidation and simplification of ancillary services schemes. Here is a recommended approach:

1. Consolidate and Simplify: improve ancillary services schemes to reduce complexity and cost.
2. Evaluate Needs: Assess and determine the essential requirements after simplification.
3. Tiered Incentive Approach:
 - Incentivise significant MWh capacity initially.
 - Set a threshold for eligibility, for example, requiring a minimum capacity of 2 or 5 MWh for the registry.

Q3. Are there any other policy alignments or industry developments, in the UK or internationally, which should be considered as part of ongoing FDI policy development?

The UK should consider looking abroad for opportunities to simplify its energy market. For flexibility participants to profit, there needs to be a high wholesale price. Given the interconnector capacities and the convergence of European market prices (especially this summer), careful consideration is needed for the next best alternatives to ramping up ancillary services. These alternatives include:

1. Allowing Customers to Load-Follow and Load-Shed:
 - Enable customers to adjust their consumption in response to market signals.
 - Realise cost savings directly through a supplier tariff or an aggregator.
2. Interconnector Capacities and European Market Convergence:
 - Monitor and leverage interconnector capacities.
 - Align with European market prices to optimise benefits.

Simplification and strategic adjustments in these areas can lead to more effective and profitable flexibility markets.

Q4. Do you agree with the scope proposed for markets, assets, and data? Should anything else be considered?

While the collection of technical asset data is standard, it does not need to be held centrally. There are several reasons for this:

1. Data Dynamism: Technical asset data changes over time. For example:
 - Many technical assets, such as batteries, are moveable.
 - Capacities can increase after refurbishment.
2. Decentralised Responsibility: It would be more efficient to assign the responsibility of data management to the aggregator, participant, or energy supplier. This approach has several benefits:
 - Ensures data is up-to-date and reflects the current state of the assets.
 - Reduces the burden on central entities to manage constantly changing data.

By decentralising the responsibility for technical asset data, we can achieve more accurate and timely information management.

Q5. Do you agree with the functional outcomes? Should anything else be considered?

The design principles are sound, but there is no need for immediate centralisation. These considerations are already part of the business case and due diligence conducted by participants and suppliers. Here are the key points:

1. Decentralised Responsibility:

- Participants and suppliers already consider these factors in their operations.
- Centralisation is redundant and may add unnecessary complexity.

2. Business Case and Due Diligence:

- Participants and suppliers evaluate design principles as part of their business strategies.
- They are well-equipped to handle these considerations without central oversight.

By allowing participants and suppliers to manage these principles independently, it helps to improve the processes and avoid duplication of efforts.

Q6. Do you agree with the design principles? Should anything else be considered?

No further considerations need to be considered for now.

Q7. Do you agree with the enablers and design activities needed and for the Market Facilitator to coordinate Working Groups for them? If not, what other activities and governance arrangements should be considered?

Allowing engineers to establish the agenda without forethought can result in outcomes as poor and costly as letting economists create a market without understanding the trading participation perspective! This

often neglects key elements such as liquidity necessary to create a market. To avoid these pitfalls, it is essential to establish a clearer objective:

1. Establish Clear Objectives:

- Simplify the current setup and outlook before diving into complexity.
- Avoid accepting the complexity and overlap of schemes as a given.

2. Balanced Approach:

- Ensure engineers and economists as well trade participants and end-customers collaborate, incorporating the technical landscape, new innovations and market understanding.
- Focus on foundational elements like market liquidity and participant engagement.

3. Simplification:

- Evaluate and eliminate less active/competing schemes.
- Aim for straightforward, effective solutions that enhance clarity and efficiency.

By prioritising these steps, we can create a more manageable and effective system, avoiding unnecessary complexity and overlap.

Q8. What are the advantages and disadvantages of the proposed delivery body options for the Flexibility Market Asset Registration digital infrastructure? Are there any additional options that should be considered? Do you agree with the justification for discounting approaches?

For now, it is too early so stay with option 1 for now and make no decisions.

Q9. Do you agree with the timelines proposed? Should anything else be considered?

Over the last 12 years, there has been significant demand destruction. In terms of electric vehicle (EV) charging, slow charging on low voltage chargers at home could be driven and optimised by the local grid along a street of EV charging points, similar to how charging is optimised against wholesale prices. This approach is not a major development and could be booked and sequenced via an app. There are some issues:

1. Smart Metering Roll-Out:

- Given the current penetration rates, achieving the Market-Wide Half-Hourly Settlement (MHHS) by 2026 is unlikely. A more realistic target is 2028, at the earliest.
- Grids, suppliers, and most importantly, the smart meter roll-out are not yet ready for MHHS.

2. Prudent Progression:

- We can afford to take a slower approach.
- Large investments and IT decisions do not need to be made immediately.

By taking a measured approach, we can ensure that the infrastructure and technology are adequately prepared, avoiding premature and potentially costly decisions.

Q10. What existing or new policy levers could be used to improve asset visibility?

There are many but is asset visibility the key. Better to provide an incentive to asset owners to participate and invest in them with long-term incentives. This would cost little.

Q11. What use cases for asset visibility should be considered as priorities and why?

I think select a network region with considerable constraints and then experiment with low-cost solutions to flatten load / make more predictable. Lowest cost solution or solutions wins. Might just be an App that solves the constraints.

Q12. What costs, benefits or factors should be considered in a Cost-Benefit Analysis for asset registration solutions?

The basic cost-benefit analysis of various schemes should be compared against a "do nothing" approach. However, the first priority should be to simplify these schemes. Here are key points to consider:

1. Understanding Network Capacity Issues:
 - Assess and measure the actual lack of network capacity rather than 'dramatising it'.
 - Consider why consumers should bear substantial increased network charges, especially when they might prefer a degradation of service at a lower cost.
 - While certain areas in the U.K. face bottlenecks, low-cost innovation is rarely considered viable or exciting.
2. Decision-Making and Lobbying:
 - Networks, incumbent market participants, and consultants, who have strong lobbying capabilities, while they might be

expert in their field, they might not be the best bodies to decide our future.

- Consumers should have a larger role in decision-making, as they can influence when and where they work, and how they consume power. Proper incentives can help them load-follow more effectively.

3. Decarbonisation Focus:

- The U.K.'s decarbonisation strategy should prioritise natural gas substitution and reducing fossil fuel dependence for heating.
- If the above objective is prioritised, then new schemes like the FDI scheme can be revaluated.

By focusing on simplification, involving consumers, and prioritising decarbonisation, we could create a more effective and sustainable flexible digital infrastructure strategy.

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