

ELEXON

10 May 2023

By e-mail to: Flexibility@ofgem.gov.uk

Dear Flexibility Team,

Re: Consultation on the future of local energy institutions and governance

Thank you for the opportunity to respond to your consultation on the future of local energy institutions and governance.

Elexon is an independent, not-for-profit company that is the Code Manager for the Balancing and Settlement Code (BSC) for the electricity market. We provide governance, settlement and data platforms (Elexon Kinnect) that enable the smooth operation of the electricity market, which incorporates energy suppliers, generators, flexibility service providers and network companies across the UK.

Our end-to-end expertise in governance, assurance, technology platform development and electricity market data is available to support the industry, Government and Ofgem as the energy sector transitions to net zero. Building on our purpose of serving the industry, electricity market data we hold is open, and available for anyone to access, modify and distribute. As a trusted, independent and reliable market expert we continuously look to evolve and innovate for the benefit of customers and consumers.

Most recently, we utilised our domestic and non-domestic half-hourly consumption data alongside our extensive knowledge, to administrate the Government's Energy Price Guarantee and Energy Bill Discount Schemes, processing up to £650m of subsidy payments per week - providing support for consumers. We also calculate, collect and distribute payments to Contract for Difference (CfD) generators and Capacity Market (CM) providers, on behalf of the Low Carbon Contracts Company (LCCC), through our subsidiary, EMR Settlement Ltd.

We believe there is value in reviewing both the Consultation and Call for Input in tandem, as there are synergies between the governance arrangements and the enabling infrastructure. We have highlighted the key themes emerging from both our responses below:

1. **Supportive of proposed reforms** – We are strongly supportive of the proposals aimed at ensuring that the governance arrangements and enabling infrastructure at the sub-national level are fully developed and harmonised to enable a cost-effective transition to a net zero future. We support the case for change and the conclusions from Ofgem's analysis of current market arrangements – our own analysis identified similar strategic challenges.
2. **Leveraging and utilising existing energy infrastructure and expertise** – We have consistently advocated for the utilisation of existing energy infrastructure, expertise and capabilities, where appropriate, rather than 'new-build' infrastructure or the creation of new entities. To that end, in our response to the Call for Input on the future of distributed flexibility, we support Archetype 3 – Medium 'Exchange' as the most feasible option. We believe that utilising and building on existing infrastructures, expertise and capabilities, where possible, can drive efficient outcomes for all stakeholders, while ensuring that the transition to net zero is achieved at least cost.

3. **Timely implementation** – In both publications Ofgem emphasised the importance of timely delivery and the need to act without delay. We propose that those reform options that can be implemented promptly should be prioritised and considered further. For instance, although Archetype 4 - 'Thick' performs well in terms of meeting Ofgem's three critical functions, we do not believe it is feasible given the time and costs involved in its delivery. On the other hand, Archetype 3 – Medium 'Exchange' builds on existing capabilities, can be implemented faster, and performs well against the three critical functions. The earlier we implement the proposed changes, the sooner we can enable the benefits of distributed flexibility, particularly as it will be a key enabler for achieving net zero.

In our response to the consultation questions below we focus on those questions where we believe we can add value and outline practical considerations and suggestions based on our role at the centre of the market. The views expressed in this response are those of Elexon Limited, and do not seek to represent those of the BSC Panel or Parties to the BSC.

If you would like to discuss any areas of our response, please contact Hussein Osman, Senior Strategy & External Affairs Analyst (Hussein.Osman@elexon.co.uk)

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Peter Stanley', with a stylized flourish at the end.

Peter Stanley
Chief Operating Officer

Elxon's consultation response

Q1. Do you agree with our proposal to introduce Regional System Planners as described, who would be accountable for regional energy system planning activities? If not, why not?

We support Ofgem's proposals to introduce Regional System Planners (RSPs) and believe that the Future System Operator (FSO) would be best suited to deliver this role. In our response to the previous Call for Input, we noted that key energy system functions should be performed by institutions with the competence, appropriate skill set and incentives to drive net zero at least cost. We therefore welcome the introduction of an independent RSP who will coordinate the development of regional energy system plans in collaboration with other local actors. The introduction of RSPs will ensure plans are cohesive, coherent and clear while also driving efficient network investment decisions.

We believe that there are strong synergies between the role of the FSO and the proposed RSP role. One of the FSO's main responsibilities will be strategic network planning across both electricity, gas and possibly other energy vectors as well. We therefore believe that there is value in having the same entity deliver both national and local energy system plans. This would align energy system plans at both a local and a national level while taking a whole system approach (including vectors, such as hydrogen and CCUS). We believe that as a public body, the FSO will have the technical expertise and characteristics to deliver this role.

Q5. Do you agree with our proposal for a single, neutral expert entity to take on a central market facilitation role? If not, why not?

Yes, we support Ofgem's proposal for a single, neutral expert entity to take on a central market facilitation role. Views expressed by respondents in the Call for Input, as well as from our own engagement with Flexibility Service Providers (FSPs) and DNOs, point to the need for simpler and consistent ways of operating flexibility markets.

We concur with Ofgem's reasoning presented in the Consultation. In 2021 we sought to build an understanding of FSPs' experiences within the emerging flexibility markets, as well as the barriers that prevented them from scaling their services. We found the following key barriers repeatedly highlighted by FSPs:

- 1. A simple and standard way of operating was needed** – The use of different approaches by Market Operators (DNOs) tended to lead to more work and a reduced appetite to bid. While FSPs recognise that market operators have differing needs based on their geographic regions, FSPs stressed that processes need to be as clear, standardised and straightforward as possible. For example, FSPs noted that while contracting with market operators was standardised, processes to evidence the delivery of flexibility service, especially in real time were different for different operators. FSPs also noted that the pace of change to deliver these consistent, simplified and standard ways of operating were slow.
- 2. Consistent approach to data including forecasts was lacking** – Data was highlighted as a critical element so that both FSPs and Market Operators could make the right decisions and enable growth in flexibility services. Examples of key datasets included longer range forecast of flexibility needs and locations where flexibility services were needed. The approaches to sharing data among market operators were highlighted as needing to be more robust and better managed. However, we note that Ofgem's recent consultation on updates to Data Best Practice Guidance and

Digitalisation Strategy and Action Plan Guidance addresses some of those concerns around data management and sharing practices.

- 3. A need for a neutral facilitator was highlighted** – Most of the participants mentioned that as more and more local flexibility services were procured and dispatched, a single party with no vested interests should govern processes and standardisation across these emerging markets. This neutral facilitator that governs processes and standardisation across these services would stimulate growth in local flexibility markets and simplify market arrangements. This would be particularly beneficial to new entrants and small providers. One particular theme that we heard from FSPs was that as the level of these services grows, a regime that supports changes to be made in a consistent and transparent way would enhance their solutions and their ability to develop new products and services and deliver them more quickly.

As highlighted above, there are many similarities between our own DSO market assessment and Ofgem's analysis and rationale for proposed changes in both the Call for Input and the Consultation.

We see particular value in the establishment of a **single, fully neutral and independent entity** that works across all parties (FSO, DSOs, platforms and FSPs) to simplify and standardise ways of operating within flexibility markets. We agree with Ofgem in that current flexibility markets are not fit for purpose. Therefore, if the full value of flexibility is to be unlocked, the market should be designed in such a way that FSPs are aware of the value that their assets can deliver across all markets at all voltage levels. The establishment of a fully neutral and independent facilitator is therefore a definite step in the right direction in creating coordinated and transparent flexibility markets at national and local levels.

Q6. Do you agree with the allocation of roles and responsibilities set out in Table 2? If not, why not?

We agree with the allocation of roles and responsibilities set out by Ofgem and believe that it forms a comprehensive basis. Though, these roles and responsibilities are likely to change as flexibility markets develop and mature, having a core set of responsibilities provides clear accountability and defined roles. We are particularly supportive of the 'Market oversight' role being within the remit of the market facilitator role. Similarly, in our engagement with FSPs and DNOs, there was particular interest around the development of assurance services for local flexibility markets. The market oversight process will provide assurance to flexibility market participants that any compliance issues will be identified and resolved in a timely manner.

Q7. Are there other activities that are not listed in Table 2 that should be allocated to the market facilitator or other actors?

We believe that the market facilitator as a neutral entity could provide governance services under Ofgem's 'Flexibility Exchange' and 'Central Platform' archetypes highlighted in the Call for Input on the Future of Distributed Flexibility, released in parallel with this consultation. We suggest that Ofgem consider roles and responsibilities in tandem, which will help identify potential synergies.

Q8. What are your views on our options for allocating the market facilitator role?

We agree with Ofgem's rationale and considerations on the detailed design choices presented in the consultation. We agree that the market facilitator needs to have independence,

accountability, expert level of knowledge, and credibility, and that it must conduct open, participatory processes with wide stakeholder representation.

We believe there are several other equally important considerations to bear in mind when assessing potential candidates for the market facilitator role:

- **The distributed flexibility reform timeline** – The consultation calls for the key roles and responsibilities to be fully established and functional by 2028, which means that any required policy, regulatory and, possibly, licence changes need to be made early on during the 2023 - 2028 period.

Bearing the overall reform timeline in mind, we believe there needs to be a risk assessment around FSO implementation timeline being extended due to the Energy Security Bill taking longer than expected to pass into law.

- **The scope of the necessary policy, regulatory and licence changes required** – every option/candidate under consideration is likely to require changes to the regulatory frameworks, licences and other powers to enable or obligate participation in new arrangements. These prerequisite changes may take significant time for some of the options under consideration. Clearly, the shorter the preparatory phase of the reform when these prerequisite regulatory changes take place, the faster the benefits of the fully enabled flexibility markets can be realised.
- **Ability to engage with stakeholders, develop and operate the arrangements in a way that does not distort competition and provides a level playing field** – the consultation picks up a potential impartiality risk and asks for the industry views on the severity of this risk. We believe it will be important for whoever delivers the role to have a track record of impartial, transparent delivery of the market facilitation functions.

We believe that there is merit in exploring further the scenario where Ofgem and the industry leverage existing expert bodies to undertake the role of the market facilitator rather than create a new entity, which could further delay Ofgem's intended outcomes.

Should the FSO implementation timeline be delayed, impartiality risk be deemed as too high, or there is any other reason for Ofgem to reconsider its primary choice for a candidate for market facilitator, we believe it is valuable to outline existing capabilities within Elexon that match the requirements for the market facilitator role and the proposed range of activities, discussed in the consultation.

We would welcome further engagement with Ofgem around this, particularly more clarity around the roles and responsibilities of the market facilitator.

1. **Engaging with new and existing Market Participants** – Elexon's dedicated Market Entry team provides support and advice to participants wishing to accede to the BSC. When a Party accedes to the BSC, they are assigned a dedicated Operational Support Manager (OSM). OSMs are assigned to our customers to provide dedicated, high quality customer support and guidance on BSC arrangements, some of which are technical in nature. As demonstrated in previous Customer Surveys, this OSM arrangement is valued by BSC Parties.
2. **Managing Market Rules** – We have extensive experience in managing and delivering the end-to-end services set out in the BSC and its accompanying systems and data platforms that support the BSC. We manage the assessment, the development, implementation and operation of changes to central systems and processes. To do this we work closely with industry, utilising our in house market design expertise to create

solutions to key industry challenges, which are progressed through the change and modification procedures under the BSC. The modification workgroups, which the BSC requires, allow us to actively seek the requirements and potential costs and benefits of different solutions, through discussion with both the Parties and Ofgem. This approach also allows BSC Parties to have early view of the required changes to their own systems to accommodate BSC change. This process creates end-to-end visibility and allows the coordination of system development across multiple and differing BSC Parties.

We have managed and delivered the BSC as a fully independent organisation that is accountable to our customers.

3. **Market Oversight** - We operate a Performance Assurance Framework (PAF), under the supervision of an independent Performance Assurance Board, which audits all parts of the settlement process, and conducts and administers activities to provide assurance that all participants in the BSC arrangements are suitably qualified, and that the relevant standards are maintained.

The PAF and its set of techniques is flexible and robust, maintaining the highest standard of scrutiny and assurance, whilst not overburdening the market participants.

4. **Creating Industry Standards** – We have developed standards and new market rules in in close cooperation and consultation with the industry and Ofgem. The most recent is relevant to local flexibility markets. Under BSC Modification P375 'Settlement of Secondary BM Units using Metering behind the Boundary Point', Code of Practice (CoP11) was developed. This sets an applicable metering standard for asset meters, to measure the consumption or generation of equipment providing a balancing service. This is particularly important given the metering standards that measure the actual consumption or generation of an asset are a requirement in some flexibility tenders.
5. **Data Publication and Standards** - We have a strong track record in publishing and maintaining details of all the services that support energy settlement and the BSC. For example, in June 2022, we launched the Kinnect Insight Solution. The Insights Solution is the go to source for information on the wholesale electricity market, using cloud technology to deliver a more granular, detailed and customisable data service for stakeholders and the wider industry. The platform works on a principle of Open API specification. All data that is exposable, is available via the API.

We implemented the P398 modification to the BSC in June 2021 to make the BSC fully compliant with the recommendation that the energy sector should 'adopt the principle that energy system data should be presumed open' from the June 2019 report 'A Strategy for a Modern Digitalised Energy System' by Energy Data Task Force. Under P398, all data is assumed to be open unless there is a reason why it cannot be published. This means that anyone can access it, modify it and distribute it with no restrictions, unless the BSC Panel determine there is any reason not to make data available.

In our recent response to Ofgem's consultation on updates to Data Best Practice Guidance and Digitalisation Strategy and Action Plan Guidance, we were supportive of Ofgem's proposals to extend the DBP requirement to electricity distribution companies, while also suggesting that those same data standards could be extended to other relevant companies in the energy sector, which are not currently licenced. We believe that establishing data standards, particularly in nascent markets, could deliver significant value for market participants and end consumers.

We believe a number of the processes that Elexon runs for the national Balancing Market could be adapted to serve local flexibility markets. For example, one of the PAF techniques that Elexon deploys is 'Trading Disputes', which provides a mechanism to correct any errors that have gone into settlement. A similar 'Disputes' assurance technique could deliver value to FSPs and Market Participants in flexibility markets, given that current dispute arrangements are in an infancy phase and vary greatly across DSOs. Other arrangements that could be adapted include market entry and exit processes and assisting market participants through a dedicated team.

We believe that there is value in further exploring how leveraging existing industry expertise, existing processes and best practices can be adopted and transformed to speed up the development of the local flexibility markets. We would welcome further engagement with Ofgem, NGESO and the industry to develop a detailed assessment framework and provide further details around our thinking on the range of market facilitator activities that can be promptly deployed and supported through existing arrangements, processes and best practices.

Q10. Do you agree that DNOs should retain responsibility for real time operations? If not, why not?

We fully agree with Ofgem's assessment that the DNOs should retain responsibility for real time operations. We support the rationale presented in the consultation.