

# Citizens Advice response to the Ofgem consultation on the Market Facilitator Delivery Body

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We welcome the opportunity to respond to this consultation as the statutory consumer voice for energy consumers in Great Britain.

We support the introduction of an independent market facilitator body to drive forward the development of the flexibility market. We have no overriding preference for whether the Future System Operator (FSO, now named the National Energy System Operator (NESO)) or Elexon is appointed as the market facilitator body as we believe both entities could perform the role adequately. It may be simpler and quicker on governance grounds for the body to be the FSO.

The market for flexibility will introduce new participants that may be less familiar with the energy market (e.g. community energy groups, housing groups, new domestic aggregators, etc.) and which are unknown to the FSO or Elexon. Whichever entity is awarded the market facilitator role, there will be a need to have a focus upon developing wide and robust stakeholder engagement beyond traditional industry participants.

A high focus on consumer benefits will need to be a priority and we would recommend a requirement for a consumer duty for the market facilitator if Elexon is selected (as FSO will have a consumer duty). Strong representation from consumer and smaller community groups is needed in stakeholder advisory and governance arrangements to ensure that the consumer voice is adequately heard. Governance arrangements should align with the code reform proposals, where possible, to ensure consistency, along with ensuring appeal rights on decisions.

Ofgem should ensure that the market facilitator body transitions seamlessly from the Energy Networks Association Open Networks (ON) project and that there is no slowing of progress in market development while this transition occurs .

There was no mention within the consultation about peer-to-peer trading. The focus appears to be directed only at the FSO and DNOs as the sole buyers of flexibility. It is important to ensure that the market facilitator role considers the needs of peer-to-peer market participants. A deeper and broader market of both buyers and sellers will ensure competitive and fair pricing as well as ensure that net zero goals are reached as rapidly as possible.

## **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?**

We support the design principles as outlined. However, there doesn't appear to be a strong focus on how flexibility service providers (FSPs) and other stakeholders can initiate and input to changes in arrangements. The current design principles do note the need for the market facilitator to be inclusive and collaborate, but this falls short of a robust mechanism for participants and stakeholders to effect change or hold the body to account. We believe a stronger emphasis needs to be given to transparent, robust, and participative governance arrangements in the design principles.

If Elexon was given the market facilitator role, we can see that Ofgem is proposing a governance arrangement as used in the Market-wide Half Hourly Settlement (MHHS) programme (page 20 of the consultation). While participants in the MHHS programme can sit on the Steering Group and sub-groups, they have only an advisory function and decisions rest with the Programme Senior Responsible Officer. This arrangement may make for a speedy process, but the MHHS Programme is of a temporary nature, whereas the market facilitator will have enduring operation. We therefore recommend that robust governance arrangements are put in place that would be designed for longer term operation. For instance, the use of a governing board or steering group, and the availability of appeal rights. We recommend that decision-making and governance arrangements align with the code reforms to ensure consistency as far as possible.

Consumer representation would be a vital participant group to ensure that the consumer voice is heard. The role of the statutory advocate should be specifically considered in governance arrangements. We also want to see a consumer duty for the market facilitator body if Elexon is selected as the market facilitator. The FSO will have a consumer duty as part of its wider role.

As an example of how the lack of robust governance arrangement can impede flexibility market arrangements, the current Open Networks (ON) project doesn't enable all market participants or stakeholders to effect real change. The ON offers a forum for discussion and monitoring of progress and has worked hard

to be inclusive. But there is no real power for members to ensure change is made by the network companies or to hold the project leads to account. The ON Steering Group, which sits above the Challenge Group, lacks transparency. The governance arrangements for the new market facilitator must ensure that all participants and stakeholders have transparency of decision-making, can initiate and input to change, and hold decision-makers to account. There should be appeal rights on market facilitator decisions.

We have also noted that there doesn't appear to be a focus on peer-to-peer trading and the needs of those market participants within the design principles. While the emphasis at the outset may be on the purchase of flexibility by DNOs and the FSO, the early market design must consider the needs of peer-to-peer traders to enable competitive and fair pricing through a deeper market.

**Q2. Do you think some of the design principles are more important than others? If so, which should we attach greater weight to?**

All of the design principles are important, however, of primary importance are competence in delivery and at pace, and the expert and strategic approach to ensure that the market is designed and working effectively. Transparency in decision-making is a further key element so that market participants and stakeholders can hold the body to account.

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

It is of high importance for the market facilitator to effectively enable coordination of distribution and transmission flexibility purchase and usage. Effective alignment of DNO and FSO flexibility procurement and dispatch will be needed to avoid duplication of costs (paid by consumers) as well as to reduce the nation's carbon footprint through enabling the most efficient use of energy

resources. Primacy rules<sup>1</sup> have already been developed through the ON project, but further development is ongoing and will be needed to ensure a seamless and cost efficient system.

As previously mentioned, the market facilitator will need to be adaptable to market developments, for example, for evolving peer-to-peer trading.

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

A speedy implementation is needed to maximise the unlocking of flexibility resources, to drive the transition to net zero, and to minimise costs to consumers.

The market facilitator body needs to work closely with the ON project to ensure that the transition to the market facilitator body is frictionless for participants and stakeholders, and that initiatives and developments are aligned. If Elexon is selected as the market facilitator body, they will need to be part of the ON Steering Group, as they currently sit only on the Challenge Group.

#### **Q5. Do you agree with our assessment of Elexon's suitability for the market facilitator role? If not, why not?**

We believe that Elexon is a credible candidate for the market facilitator role. It has proven abilities in managing codes and other projects. We recognise the additional difficulties and time that may be needed to establish the governance arrangements for Elexon compared to the FSO. Elexon will need to be able to reach out to many and smaller participants compared to their current industry relationships. However, this aspect also applies to the FSO to some degree. It will be necessary for both Elexon or the FSO to develop wider and deeper stakeholder engagement practices. Our research on stakeholder engagement<sup>2</sup>

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<sup>1</sup> Energy Networks Association, [ON Primacy Rules for ESO/DNO Coordination](#) Ver 1.0 (Mar 2023)

<sup>2</sup> Citizens Advice, [Strengthening the voice of consumers in energy networks' business planning](#), 2018

that we published in advance of the RIIO-2 price controls will be of use to the new market facilitator body in improving its reach to smaller industry, community or consumer groups. The market facilitator body should use the current best practice in stakeholder engagement incorporating learnings from RIIO-2, RIIO-ED2, and current RIIO-3 price control enhanced engagement.

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

We believe that the FSO is also a credible candidate for the market facilitator role. As with Elexon, it will need to develop wider stakeholder engagement beyond its current relationships (see also the answer to Q5 on this point).

**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?**

Both entities are likely to develop into a competent and effective market facilitator body, however, it may be simpler and quicker, in terms of governance and control, for the FSO to take on the role.

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