
Balancing and Settlement Code (BSC) P481: Enable Elexon to be the Market Facilitator Delivery Body (P481)

Decision	The Authority ¹ directs that this modification be made ²
Target audience	National Energy System Operator (NESO), Parties to the BSC, the BSC Panel and other interested parties
Date of publication:	4 November 2024
Implementation date:	7 November 2024

Background

In November 2023 we confirmed in our decision on the future of local energy institutions and governance that a new market facilitator role would be created, with a mandate to reduce friction across Distribution System Operator (DSO) markets, align transmission and distribution market arrangements and develop local flexibility markets.³ We said that the market facilitator should be an independent expert body, accountable for decision-making and driving technical discussions forward through open, transparent, and participatory engagement. In December 2023 we consulted on whether Elexon or NESO should be the market facilitator delivery body.⁴ In July 2024 we published our decision to appoint Elexon.⁵

The modification proposal

¹ References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day to day work. This decision is made by or on behalf of GEMA.

² This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989.

³ <https://www.ofgem.gov.uk/decision/decision-future-local-energy-institutions-and-governance>.

⁴ <https://www.ofgem.gov.uk/consultation/consultation-market-facilitator-delivery-body>.

⁵ <https://www.ofgem.gov.uk/decision/decision-market-facilitator-delivery-body>.

The activities which Elexon is permitted to undertake are contained in BSC Section C 'BSCCo and its subsidiaries'.⁶ Therefore to enable Elexon to be the market facilitator delivery body, this new role needs to be added to the list of permissible activities in BSC Section C.

At its meeting on 12 September 2024, the BSC Panel agreed to designate The Association for Decentralised Energy (ADE) to raise a modification proposal as a Third Party Proposer. P481 'Enable Elexon to be the Market Facilitator Delivery Body' was raised by ADE (the Proposer) at the same meeting and was then submitted for consultation. The Draft Modification Report was considered by the BSC Panel at its meeting on 10 October 2024.

The modification proposal will amend BSC Section C to allow Elexon to establish the market facilitator role. It will allow Elexon to start working on the transition from the current arrangements (the Energy Network Association's Open Networks programme⁷) in the implementation period ahead of market facilitator go-live in late 2025 / early 2026.

Further BSC modifications may be required as the detailed design of the market facilitator governance, funding and operation are developed.

The Proposer believes that P481 will better facilitate Applicable BSC Objectives (b)⁸ and (c)⁹.

Under P481, Elexon will:

- be enabled to establish and perform the market facilitator role on behalf of Ofgem on a not-for-profit basis;
- be accountable to the Authority for its performance, rather than the BSC Panel;
- treat costs for performing this role as BSC Costs in the implementation period, recovering from BSC Trading Parties in proportion to their market share; and

⁶ <https://bscdocs.elexon.co.uk/bsc/bsc-section-c-bscco-and-its-subsidiaries>.

⁷ <https://www.energynetworks.org/work/open-networks/>.

⁸ The efficient, economic and co-ordinated operation of the national electricity transmission system.

⁹ Promoting effective competition in the generation and supply of electricity, and (so far as consistent therewith) promoting such competition in the sale and purchase of electricity.

- report its market facilitator activities and costs transparently through its Annual BSC Report, Business Strategy and Annual Budget.

BSC Panel¹⁰ recommendation

At the BSC Panel meeting on 10 October 2024, the BSC Panel unanimously considered that P481 would better facilitate BSC objectives (b) and (c) and the Panel therefore unanimously recommended its approval.

Our decision

We have considered the issues raised by the modification proposal and the Final Modification Report (FMR)¹¹ dated 16 October 2024. We have considered and taken into account the one response to the industry consultation on the modification proposal which is attached to the FMR. We have concluded that:

- implementation of the modification proposal will better facilitate the achievement of the applicable objectives of the BSC;¹² and
- directing that the modification be made is consistent with our principal objective and statutory duties.¹³

Reasons for our decision

Under the current arrangements, there is lack of single accountability for developing accessible, transparent and joined-up markets for flexibility services. There is also a lack of alignment between transmission and distribution flexibility market arrangements. This causes friction, making it difficult for flexibility service providers to participate across markets and

¹⁰ The BSC Panel is established and constituted pursuant to and in accordance with Section B of the BSC and Condition E1 of the Electricity System Operator Licence.

¹¹ BSC modification proposals, modification reports and representations can be viewed on the Elexon website at www.elexon.co.uk.

¹² As set out in Condition E1 of the Electricity System Operator Licence.

¹³ The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Electricity Act 1989.

therefore risks less flexibility being incorporated into the system. Addressing these issues is crucial to keeping overall system costs down and delivering a cost-effective transition to net zero.

The market facilitator will have a mandate to reduce friction across DSO markets, align transmission and distribution market arrangements and develop local flexibility markets.

In December 2023 we consulted on whether Elexon or NESO should be the market facilitator delivery body and decided to appoint Elexon as it has a strong track record of delivering technically complex projects and has demonstrated an ability to upskill and take on new roles. It is well placed to take on the market facilitator role given its existing capabilities, expertise and experience.

This modification proposal enables Elexon to take on the market facilitator role.

We consider this modification proposal will better facilitate BSC objectives (b) and (c) and has a neutral impact on the other applicable objectives.

This modification proposal is a pragmatic solution that will enable Elexon to start working on the transition from the current arrangements (the Open Networks programme) as soon as possible and allow the benefits identified under BSC objectives (b) and (c) to be realised.

(b) the efficient, economic and co-ordinated operation of the national electricity transmission system

The Proposer's view, which the Panel unanimously agreed with, is that Objective (b) will be better facilitated as better co-ordination and transparency in flexibility markets will reduce stress on the Total System (transmission and distribution systems) and enhance energy security.

We agree and consider that P481 will better facilitate Objective (b) as it will enable Elexon to perform the role of market facilitator, which will contribute to the efficient, economic and co-

ordinated operation of the national electricity transmission system. Flexibility is the ability to either reduce or increase demand / generation (turn down / turn up) and this can help to ensure security of supply in periods where the sun isn't shining and the wind isn't blowing, to reduce constraints on distribution and transmission systems.

(c) promoting effective competition in the generation and supply of electricity, and (so far as consistent therewith) promoting such competition in the sale and purchase of electricity

The Proposer's view, which the Panel unanimously agreed with, is that Objective (c) will be better facilitated as the market facilitator aims to support an environment that fosters innovation and healthy competition among local flexibility participants, by maintaining neutrality and impartiality in market operations. By improving the efficiency of and reliability of the energy system, this can help to reduce energy costs.

We agree and consider that P481 will better facilitate Objective (c) as it will enable Elexon to perform the role of market facilitator, working with stakeholders to reduce friction and remove barriers from participation, which will help to increase liquidity in flexibility markets.

For previous modifications where we have approved an extension to Elexon's vires,¹⁴ we listed four criteria against which we would assess whether an activity would be appropriate for Elexon to pursue:

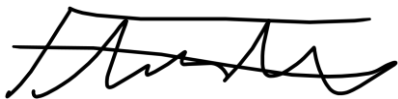
- BSC Parties should benefit from any diversification;
- the arrangements should not place disproportionate risk on BSC Parties;
- standards of service under the BSC should be maintained; and
- Elexon's BSC role should not give it any undue competitive advantage in a contestable activity.

¹⁴ For example, P330 'Allowing Elexon to tender for the Uniform Network Code Gas Performance Assurance Framework Administrator (PAFA) role' - <https://www.elexon.co.uk/mod-proposal/p330/> and P365 'Enabling Elexon to tender for the Retail Energy Code (REC)' - <https://www.elexon.co.uk/mod-proposal/p365/>.

We believe that BSC Parties will benefit from Elexon's diversification to deliver the market facilitator role, as a number of BSC Parties are flexibility service providers that participate in the flexibility markets that the market facilitator will have a mandate to address friction in. A liability clause has been included in the draft legal text for BSC Section C (paragraph 17.8) so that no additional risk is placed on BSC Parties. The clause removes the right for Parties to make any financial claims or to seek damages from Elexon for any breaches related to the market facilitator role. We expect that standards of service under the BSC will be maintained as Elexon have already stated they will recruit additional resource to deliver the market facilitator role, complemented by existing staff. We will monitor Elexon's performance as market facilitator on a regular basis and also seek stakeholder views. The market facilitator is a new role, not linked to the BSC and therefore Elexon's BSC role did not give it any competitive advantage when being appointed as market facilitator delivery body.

Decision Notice

In accordance with Condition E1 of the Electricity System Operator Licence, the Authority hereby directs that modification proposal BSC P481: 'Enable Elexon to be the Market Facilitator Delivery Body' be made.



Francis Mosley

Head of Decentralised Energy Systems – Energy Systems Design and Development

Signed on behalf of the Authority and authorised for that purpose