

Chapter 2

Market Principles



2.1 Flexibility First Commitment

A transition to smarter, more flexible energy system would see electricity move in multiple directions. This would be underpinned by the principle of flexibility, giving people more control and choice over how Britain's homes, businesses and communities use their electricity and providing new competitive opportunities for them to participate in the energy market. The electricity networks were and continue to remain central to this transformation by integrating and enabling greater amounts of low-carbon and smart technology to help deliver new Flexibility Services markets.

In December 2018, Britain's local electricity network operators launched ENA's Flexibility first commitment.

Through this, all GB DNOs committed to openly test the market to compare relevant grid reinforcement and market flexibility solutions for all new projects of significant value.

As part of the flexibility commitment, DNOs were committed to:

- Opening up requirements for building significant new electricity network infrastructure to include smart Flexibility Services markets as part of day-to-day operations. This covered all new relevant projects of significant value, where local electricity operators face congestion in grid infrastructure that results from increased electricity demand and/or distributed energy projects being connected to the grid.
- Openly test the market to compare relevant grid reinforcement and market flexibility solutions for all new projects of any significant value.
- Working with Ofgem and other stakeholders to develop the forthcoming RII0-2 price control framework to ensure that the financial incentives that network companies receive were fully aligned with the greater use of Flexibility Services and did not favour the building of new infrastructure where these services are more efficient.

Since that time, Open Networks has made significant strides forward as there has been a major uplift in tenders for Flexibility Services.

The remaining chapters in this book present the individual building blocks in establishing, implementing and growing the local flexibility markets, through the collation of learnings from ENA's Open Networks programme.

2.2 Market Principles

Building on the Flexibility First commitment, the DNOs, the Transmission Owners (TOs) and the national system operator committed to six key principles as Flexibility Services were being rolled out more widely and transitioning to a more efficient, smarter and low-carbon energy system fit for Britain's future. These principles apply to how DSOs will procure and use Flexibility Services to maximise benefits to households, businesses and communities acting as the foundation for enabling, supporting and growing flexibility markets across the country. This commitment ensured the transition delivers flexibility through open, transparent access to markets while maintaining secure and safe electricity supplies and delivering best value for customers, benefiting all customers; flexibility markets not only help reduce the cost of traditional network reinforcement and support decarbonisation progress towards "net zero", but they also create new revenue streams for all customers by enabling them to sell their services from flexible technologies into these new markets.

Extensive and inclusive stakeholder engagement was undertaken, sharing our flexibility developments and listening to wide reaching feedback at every step to arrive at these six market principles. The principles adopted at an early stage of Flexibility Services markets development would be fundamental in defining how the public, businesses and electricity networks interact into the future. The detail underpinning these six principles were since developed into consistent, tangible processes, procedures and agreed working methodologies by all participating electricity networks through the Open Networks programme and they will be important as new roles and responsibilities emerge including the Distribution System Operation and the Market Facilitator.

The six market principles are as follows:

Champion a level playing field: Market neutrality is a fundamental principle of operating Britain's energy network infrastructure. Flexibility Services shall be procured in a way that creates a level playing field for all energy technologies and services. All GB's electricity network companies (i.e. ENA electricity members) committed to facilitating and providing convergence and standardisation for customers in order to support this.

Ensure visibility and accessibility: Opportunities for Flexibility Services shall be highlighted where and when they exist, to play a role in ensuring a secure, consistent energy supply via electricity networks. Barriers shall be removed, enabling all customers to access multiple markets to provide services, for example where

they can earn revenue from both the national market and local Flexibility Services markets. This will be undertaken consistently and easily and include sharing data with Flexibility Service providers to develop transparent markets.

Conduct procurement in an open and transparent manner: Remain committed to being open and transparent when deciding how and why services have been procured from different solutions in order to meet network needs, such as Flexibility Services from the market, smart grid solutions and traditional network reinforcement. Common methodologies shall be defined for all network operators to follow and be transparent about the criteria used in decision-making. The guiding principle underpinning all decisions is that the solution chosen must be most cost-effective for consumers, while meeting the needs of all customers, the system and the networks.

Provide clarity on the dispatch of services: Following transparency in the procurement process, a fair and clear approach shall be taken to the dispatch of Flexibility Services to meet electricity system or network needs by setting out the terms and methodology adopted. This includes any decision-making criteria underpinning the dispatch of services.

Provide regular, consistent and transparent reporting: Having committed to be transparent in processes and methods. The DSO shall also provide regular, consistent and transparent monitoring and reporting to provide confidence to the public and ensure all parties learn from what flexibility is used; including why and how this contributes to running energy networks in a smarter, more efficient way. All decisions and reasoning, such as traditional reinforcement compared to Flexibility Services options and cost-benefit analysis, will be clear and readily available. Network companies are committed to sharing these best practices across the wider industry.

Work together towards whole energy system outcomes: All electricity networks shall continue to work closely to facilitate coordinated and efficient arrangements which benefit households and businesses, including activities relating to the decarbonisation of heat and transport. This work shall be expanded to the wider energy industry, including the gas, heat, transport and waste sectors, to ensure that changes deliver the best outcomes for everyone on a whole energy system basis. (This applies to all six of the principles outlined above.)

2.3 Suggested Further Reading

Listed below are the links to Open Networks publications relevant to this chapter in reverse chronological order. Please note, some of the documents may now be outdated or superseded as the topics have evolved.

1. [Flexibility Roadmap Implementation of local flexibility markets \(2020\).](#)
2. [Flexibility Market Principles \(2019\).](#)
3. [ENA Flexibility First Commitment confirmation \(2018\).](#)

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