

# Assessment Procedure Consultation Responses

## P415 'Facilitating Access To Wholesale Markets For Flexibility Dispatched By VLPs'



### Phase

Initial Written Assessment

Definition Procedure

Assessment Procedure

Report Phase

Implementation

This Assessment Procedure Consultation was issued on 24 January 2023, with responses invited by 14 February 2023.

### Consultation Respondents

Respondent	Role(s) Represented
Dcbel Europe	Virtual Lead Party
Ecotricity Ltd	Supplier, ECVNA, MVRNA
Sympower	Virtual Lead Party
Senior Research Fellow	Other - this respondent is a senior research fellow at the Oxford Institute for Energy Studies (OIES). The answers to the questions reflect only their views and not those of any organization with which they are affiliated, their sponsors or clients.
Voltalis UK	Virtual Lead Party
Enel X	Virtual Lead Party
Equiwatt Limited	Virtual Lead Party, Independent residential DSR aggregator
Flexitricity	Supplier, Virtual Lead Party
OVO	Supplier
Association for Decentralised Energy (ADE)	Trade Body
E.ON UK	Supplier
National Grid ESO	NETSO

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Question 1: Do you agree with the Workgroup’s initial unanimous view that P415 does better facilitate the Applicable BSC Objectives than the current baseline?

## Summary

Yes	No	Neutral/No Comment	Other
8	2	1	1

## Responses

Respondent	Response	Rationale
Dcbel Europe	Yes	<p>Demand-side response (DSR) is recognized as the most economical options for consumer to hedge against wholesale price volatility and so mitigate the impact of swings in energy production as well as minimise renewable energy curtailment. DSR therefore implicitly lowers households and businesses’ power use when renewable production is low, and can maximise energy use when it is abundant (i.e. when the wind blows), hence decarbonizing the overall usage of electricity.</p> <p>The only cost related to this flexibility is related to the rollout of its infrastructure which needs to fully automate DSR participation into wholesale markets taking advantage of new submetering arrangements as defined through the P375 regulation .</p> <p>Regulations need to evolve to ensure Flexibility is at low cost as possible to the end consumer while infrastructures get financed by the market. It requires flexibility providers, to have better visibility on future revenues and associated flexibility products (on stackable revenues in particular).</p> <p>Balancing markets, ancillary services and local/DSO markets have so far proven to be too small – even stacked – for aggregators to build business models and invest. The wholesale market – complemented with appropriately designed capacity mechanisms -is the only market large enough for the GWhs of DSR needed daily. To de-risk investment, demand-side response must therefore have access to all markets – including the wholesale market – in the right conditions, on par with generation, without barriers.</p> <p>The removal of barriers to entry and operation is a priority to guarantee a sustainable access to flexibility. National markets volumes are largely closed to independent aggregators.</p>

Respondent	Response	Rationale
		<p>By giving access to VLPs to the wholesale markets, as an alternative to production, the P415 addresses several of the key barriers that demand response faces, and – given the right conditions – had the potential to bring a significant liquidity to the UK power markets while supporting the UK’s system development to net zero.</p> <p>P415 therefore delivers against the “efficient, economic and coordinated operation of the National Electricity Transmission System” as well as the “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” BSC objectives.</p>
Ecotricity Ltd	Yes	None provided
Sympower	Yes	<p>Demand-side response (DSR) is proven to alleviate swings in energy production and has a positive effect renewable energy curtailment. Indeed, DSR can lower households and businesses’ power use when renewable production is low, and can maximise energy use when it is abundant (i.e. when the wind blows).</p> <p>But this flexibility has a cost, mostly borne by the rollout of its infrastructure. However, what we experience as well is that consumers aren’t inclined to pay individually for flexibility, because while automation has a cost it does bring only little benefit to the individual consumer. This cost, however, is negligible compared to its value for the whole energy systems.</p> <p>Flexibility must therefore be free to the end consumer and financed by the market. To de-risk investment from a range of flexibility providers, they must have visibility on future revenues.</p> <p>Balancing markets, ancillary services and local/DSO markets are too small – even stacked – for aggregators to build business models and invest. This leaves us with the capacity market, but do we want to pay for capacity that will be barely used? The wholesale market is the only market large enough for the GWs of DSR needed daily. To de-risk investment, demand-side response must therefore have access to all markets – including the wholesale market – in the right conditions, on par with generation, without barriers.</p>

Respondent	Response	Rationale
		<p>The removal of barriers to entry and operation is a priority to guarantee a sustainable access to flexibility. National markets volumes are largely closed to independent aggregators.</p> <p>By giving access to VLPs to the wholesale markets, as an alternative to production, the P415 addresses some of the barriers that demand response faces, and – given the right conditions – had the potential to bring a significant liquidity to the UK power markets while supporting the UK’s race to net zero.</p> <p>P415 therefore delivers against the “efficient, economic and coordinated operation of the National Electricity Transmission System” as well as the “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” BSC objectives.</p>
Senior Research Fellow	Other – Yes and No	<p>Yes. From a pragmatic perspective, I understand the rationale for the view that some reform is needed to convince policy makers to enable VLPs (aggregators) to draw on demand-side response (DSR) for sale in the wholesale electricity market. Since I consider DSR to be a critical resource for meeting net zero goals at least cost, I favour P415 over doing nothing to enable VLPs to draw on DSR to compete in the wholesale market. I note that, without access to that market, the potential market for VLPs will be significantly reduced, making investments in DSR much harder to justify.</p> <p>No. I remain unconvinced that there is really a need to compensate Suppliers for their potential losses related to DSR activated by independent aggregators. I am convinced that, without compensation, Suppliers will learn quickly how to manage their day ahead risks associated with demand response, whether the latter is the result of implicit DSR (i.e. consumer response to market prices) or explicit DSR (i.e. the sale of flexibility services through an aggregator). I am also convinced that compensation to Suppliers will weaken their incentives to develop their own demand response activity, not least because it will weaken competitive pressure from independent aggregators.</p>

Respondent	Response	Rationale
		My position on this matter explains the logic for my answers in the remainder of this questionnaire.
Voltalis UK	Yes	<p>Demand-side response (DSR) is proven to alleviate swings in energy production and has a positive effect renewable energy curtailment. Indeed, DSR can lower households and businesses' power use when renewable production is low, and can maximise energy use when it is abundant (i.e. when the wind blows).</p> <p>But this flexibility has a cost, mostly borne by the rollout of its infrastructure. However, what we experience as well is that consumers aren't inclined to pay individually for flexibility, because while automation has a cost it does bring only little benefit to the individual consumer. This cost, however, is negligible compared to its value for the whole energy systems.</p> <p>Flexibility must therefore be free to the end consumer and financed by the market.</p> <p>To de-risk investment from a range of flexibility providers, they must have visibility on future revenues.</p> <p>Balancing markets, ancillary services and local/DSO markets are too small – even stacked – for aggregators to build business models and invest. This leaves us with the capacity market, but do we want to pay for capacity that will be barely used? The wholesale market is the only market large enough for the GWs of DSR needed daily. To de-risk investment, demand-side response must therefore have access to all markets – including the wholesale market – in the right conditions, on par with generation, without barriers.</p> <p>The removal of barriers to entry and operation is a priority to guarantee a sustainable access to flexibility. National markets volumes are largely closed to independent aggregators.</p> <p>By giving access to VLPs to the wholesale markets, as an alternative to production, the P415 addresses some of the barriers that demand response faces, and – given the right conditions – had the potential to bring a significant liquidity to the UK power markets while supporting the UK's race to net zero.</p> <p>P415 therefore delivers against the "efficient, economic and coordinated operation of the National</p>

Respondent	Response	Rationale
		Electricity Transmission System” as well as the “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” BSC objectives.
Enel X	Yes	The most obvious direct positive impact is on objective (c), as P415 would allow a wider range of resources to compete in the wholesale energy markets. This additional source of value for demand-side participation is likely to lead to greater participation by demand-side resources in all markets, allowing more efficient operation of the power system, furthering objective (b). We do not foresee negative impacts on any objectives
Equiwatt Limited	No comment	None Provided
Flexitricity	Yes	<p>Yes, this is an extremely important change to the market rules to allow Virtual Lead Parties compete on a level playing field and bring greater volumes of flexibility to the market.</p> <p>P415 supports Applicable BSC Objectives (b) and (c) compared to the current baseline.</p> <p>Objective (b) – P415 will increase the amount of flexibility available to NGESO and this increased competition will have a downwards impact on balancing costs.</p> <p>Objective (c) – P415 will level the playing field between Virtual Lead Parties and Suppliers, and increase the amount of capacity provided for balancing services, increasing competition for flexibility. It will also support greater within day liquidity, as there will be a greater number of participants trading. This will support the markets ability to self-balance, and reduce the ESO’s role in balancing the system.</p> <p>The benefits of this modification are even greater when considered alongside BSC P444.</p>
OVO	No	<p>No</p> <p>While we fully support mechanisms to enhance and extend the access and value of consumer flexibility in to existing markets, we do not believe P415 as it’s currently proposed achieves this in an efficient way.</p>

Respondent	Response	Rationale
		<p>As currently proposed, P415 introduces significant complexity and risk of consumer harm for an unquantified and non-specific benefit.</p> <p>Significant and fundamental questions remain around how the extension of the VLP principle into wholesale markets should work, let alone how it can be done in practice. It is impossible therefore to design an appropriate mechanism for facilitation, when it is still unclear what the positive outcome is expected to be.</p>
ADE	Yes	<p>We believe P415 will positively impact objectives (b) and (c). By removing market barriers for demand side flexibility in the wholesale market this will likely incentivise better participation in local and national balancing services too, thereby facilitating objective (b). Given recent experiences in the wholesale market, it is clear that enhanced competition and liquidity, facilitated by a wider pool of participants, would positively facilitate objective (c).</p>
E.ON UK	Yes	<p>We agree that P415 does facilitate better the Applicable BSC objectives b (the efficient, economic and co-ordinated operation of the national electricity transmission system), c (promoting effective competition in the generation and supply of electricity and promoting such competition in the sale and purchase of electricity) but does not better facilitate Applicable BSC Objective d (promoting efficiency in the implementation and administration of the balancing and settlement arrangements).</p> <p>By allowing more parties to utilise customer flexibility in the wholesale market will help to generate more interest with customers in flexible demand. This will help make the market more competitive and innovative, which in turn will bring more cost-effective demand side capacity to market. This will deliver more value for all customers through lower prices. However, in order to deliver P415, it is our belief that balancing and settlement arrangements will be made more complex and opaque. This is a trade-off that needs to be considered fully and which the CBA does not address directly</p>
National Grid ESO	No	<p>Against objective (b) we do not agree that P415 is better than current baseline. In this response, we detail issues that will arise from supplier compensation which may cause distortions and inefficiencies. Please see responses to Q12-15 for</p>

Respondent	Response	Rationale
		<p>more detail. Against objective (c), whilst we note that this modification may result in better market access for VLPs the consequences of implementation of supplier compensation outweigh the benefits and as such we do not support the implementation of supplier compensation.</p> <p>Furthermore, Q11 details concerns regarding data provision and we also have concerns around the potential for gaming which would negatively impact the market. Please see answer to Q15-16 for more detail.</p>



Question 2: Do you agree with the Workgroup that the draft legal text in Attachment A delivers the intention of P415?

**Summary**

Yes	No	Neutral/No Comment	Other
8	1	3	0

**Responses**

Respondent	Response	Rationale
Dcbel Europe	Yes	<p>The draft legal text conveys the main features of P415, as VLP access to the wholesale markets in the following conditions:</p> <ul style="list-style-type: none"> <li>- Based on P375's Asset Metering &amp; P376's baselining methodologies (both implemented)</li> <li>- The VLP becomes a balance responsible party, and is liable for the delivery of flexibilities.</li> <li>- VLPs have access to the wholesale markets on a par with production</li> <li>- Suppliers are kept whole: their positions are corrected- Suppliers are compensated for their correction: either by the VLP (compensation model A) or by the market undertakings in a mutualised compensation (methods 2 &amp; 3)</li> </ul> <p>Therefore, the draft legal text in Attachment A delivers the intention of P415, associated developments need to be accelerated to take advantage of the fast growing DER deployments such as heat pump and EV charging particularly.</p> <p>Beyond these key regulatory changes it also needs to be complemented with the development of new interoperability mechanisms between DER assets and VLPs such as through the use of PAS1878 and 1879 regulations.</p>
Ecotricity Ltd	No	I'm afraid I can't work out what/where attachment A is on the slightly labyrinthine Elexon P415 web page+1)
Sympower	Yes	<p>The draft legal text conveys the main features of P415, as VLP access to the wholesale markets in the following conditions:</p> <ul style="list-style-type: none"> <li>- Based on P375's Asset Metering &amp; P376's baselining methodologies (both implemented)</li> </ul>

Respondent	Response	Rationale
		<ul style="list-style-type: none"> <li>- The VLP becomes a balance responsible party, and is liable for the delivery of flexibilities.</li> <li>- VLPs have access to the wholesale markets on a par with production</li> <li>- Suppliers are kept whole: their positions are corrected</li> <li>- Suppliers are compensated for their correction: either by the VLP (compensation model A) or by the market undertakings in a mutualised compensation (methods 2 &amp; 3) Therefore, the draft legal text in Attachment A delivers the intention of P415.</li> </ul>
Senior Research Fellow	Neutral	None provided
Voltalis UK	Yes	<p>The draft legal text conveys the main features of P415, as VLP access to the wholesale markets in the following conditions:</p> <ul style="list-style-type: none"> <li>- Based on P375's Asset Metering &amp; P376's baselining methodologies (both implemented)</li> <li>- The VLP becomes a balance responsible party, and is liable for the delivery of flexibilities.</li> <li>- VLPs have access to the wholesale markets on a par with production</li> <li>- Suppliers are kept whole: their positions are corrected</li> <li>- Suppliers are compensated for their correction: either by the VLP (compensation model A) or by the market undertakings in a mutualised compensation (methods 2 &amp; 3)</li> </ul> <p>Therefore, the draft legal text in Attachment A delivers the intention of P415.</p>
Enel X	Yes	We have analysed the text and are reasonably confident that it does what is intended.
Equiwatt Limited	No comment	None Provided
Flexitricity	Yes	Yes, we agree that the legal test delivers the intention of P415.
OVO	Neutral	No response
ADE	Yes	While the ADE cannot offer a legal opinion on the various texts as offered, we agree to the extent that the Proposed text reflects the conclusions of the Workgroup.

Respondent	Response	Rationale
EON UK	Yes	We agree that the proposed legal text delivers the intention of P415. One issue that we would like to raise is that we believe that a defined timetable for reviewing the Supplier Compensation Reference Price Methodology Document should be included. Our recommendation would be for an annual review which could be light touch if it is deemed that there have been no significant changes. We would also like to see provision for suppliers and virtual lead parties to request a review of said document should they feel that it is not correctly capturing the true cost on each party.
NGESO	Yes	The legal text reflects the intent of the modification but as per Q1 we do not believe that the proposed solutions are better than the current baseline.

## Question 3: Do you agree with the Workgroup's recommended Implementation Date?

### Summary

Yes	No	Neutral/No Comment	Other
4	7	1	0

### Responses

Respondent	Response	Rationale
Dcbel Europe	No	<p>The proposed implementation timeline is way to slow versus the current energy system constraints and fast growing needs for flexibility to facilitate renewable integration. We acknowledge the complexity of evolving Elexon systems to allow for VLPs to enter the wholesale market as well as the time needed for consultation, however we think the current energy crisis requires faster adoption rates to offer new hedging options to end consumers.</p> <p>Energy prices have more than doubled over the last 2 years. Prices are slightly easing for now, only because the winter has been mild in Europe. Significant uncertainty remains on power prices as soon as temperatures drop, while a flexibility resources such as PV with storage or EV Smart charging are installed at exponential rates through residential environments.</p> <p>Various studies have proven that VLP access to wholesale markets – given the right conditions – improves market liquidity and decreases power prices during high peak periods as well as potentially minimize renewable curtailment during system low load periods during the summer.</p> <p>Households and families have been significantly impacted by the doubling of their energy bill while new flexibility revenues are currently not possible which is a very unfair position versus other generation or storage assets trading into the wholesale market.</p> <p>The P415 should therefore be fast-tracked to September 2023 if we want to protect UK consumers from current very high energy prices, taking advantage of this dialog to short cut follow up consultations. Such fast tracking is possible as seen through recent emergency actions taken last winter, for example with P447 (Avoiding impact of Winter Contingency actions on cash-out prices) and</p>

Respondent	Response	Rationale
		<p>P446 (Domestic Energy Price Guarantee Scheme) that were implemented within weeks of submission.</p> <p>Such urgent action need to be replicated to lowering prices for all with P415 within next winter at the latest.</p>
Ecotricity Ltd	No	Can't see any implementation date – only that the panel considers the WG Assessment report' in April
Sympower	No	<p>It is our understanding that Elexon systems have to be set up to allow for VLPs to enter the wholesale market might take some time, and that the usual consultation process might not allow for a decision to be reached before months. Therefore the proposed implementation date is at the end of 2024.</p> <p>However, these are not usual times. Energy prices have more than doubled over the last 2 years. Prices are slightly easing for now, only because the winter has been mild in Europe. There is still huge uncertainty on power prices for next winter, and if this is to be addressed we need to act now.</p> <p>Various studies have proven that VLP access to wholesale markets – given the right conditions – improves market liquidity and decreases power prices for everyone. Households and families are already struggling to cope with the energy prices current levels, considering the likelihood of prices climbing even further if next winter proves cold, the P415 should be fast-tracked to September 2023 if we want to protect UK consumers from potentially stratospheric prices next winter.</p> <p>We have seen such emergency actions being taken last winter, for example with P447 (Avoiding impact of Winter Contingency actions on cash-out prices) and P446 (Domestic Energy Price Guarantee Scheme) that were implemented within weeks of submission. Such urgent action could be replicated to lowering prices for all with P415.</p>
Senior Research Fellow	No	<p>The original timetable no doubt reflects normal conditions. But the War in Ukraine has created emergency conditions that can be alleviated with DSR. The UK and the EU have taken emergency measures to respond to the crisis, including interventions in markets and efforts to reduce electricity demand, especially at peak, when gas plants are operating.</p>

Respondent	Response	Rationale
		<p>The current and anticipated conditions call for greater urgency in developing DSR. I would argue for fast-tracking DSR. If this cannot be done through P415, I would recommend an interim emergency measure that would allow DSR in the wholesale market, following the current rules that apply to the balancing market, if necessary with TSO-compensation payment for Supplier losses.</p>
Voltalis UK	No	<p>It is our understanding that Elexon systems have to be set up to allow for VLPs to enter the wholesale market might take some time, and that the usual consultation process might not allow for a decision to be reached before months. Therefore the proposed implementation date is at the end of 2024.</p> <p>However, these are not usual times. Energy prices have more than doubled over the last 2 years. Prices are slightly easing for now, only because the winter has been mild in Europe. There is still huge uncertainty on power prices for next winter, and if this is to be addressed we need to act now.</p> <p>Various studies have proven that VLP access to wholesale markets – given the right conditions – improves market liquidity and decreases power prices for everyone.</p> <p>Households and families are already struggling to cope with the energy prices current levels, considering the likelihood of prices climbing even further if next winter proves cold, the P415 should be fast-tracked to September 2023 if we want to protect UK consumers from potentially stratospheric prices next winter.</p> <p>We have seen such emergency actions being taken last winter, for example with P447 (Avoiding impact of Winter Contingency actions on cash-out prices) and P446 (Domestic Energy Price Guarantee Scheme) that were implemented within weeks of submission. Such urgent action could be replicated to lowering prices for all with P415.</p>
Enel X	Yes	<p>While we would greatly prefer implementation to be sooner, as this will bring benefits sooner, if this is the earliest possible date, then it will have to do.</p>
Equiwatt Limited	No comment	None Provided

Respondent	Response	Rationale
Flexitricity	Yes	We believe the change should be implemented as soon as is possible, although understand the systems constraints of doing this sooner than November 2024.
OVO	No	No  OVO supports the intent of this modification, but significant work is needed to ensure the solution is practical and is delivered in a way that delivers value for consumers. The proposed implementation date is too ambitious for the appropriate work to be completed
ADE	No	While cognisant of the necessary steps to be taken, we believe implementation should move at a faster pace given the level of time and scrutiny this modification has already received and the positive impacts it offers to electricity markets.
EON UK	Yes	We believe that an implementation date of Nov 2024 is suitable (assuming that Ofgem provide a timely decision) to ensure existing systems are updated, new systems and processes developed, and the end-to-end system fully tested before going live.
NGESO	Yes	November 2024 should give sufficient lead time for the modification to be implemented.

## Question 4: Do you agree with the Workgroup's assessment of the impact on the BSC Settlement Risks?

### Summary

Yes	No	Neutral/No Comment	Other
4	0	8	0

### Responses

Respondent	Response	Rationale
Dcbel Europe	Neutral	None provided
Ecotricity Ltd	Neutral	As long as sub-metering data is timely and accurately submitted, yes
Sympower	Neutral	None provided
Senior Research Fellow	Neutral	None provided
Voltalis UK	Neutral	None provided
Enel X	Yes	<p>We agree that P415 should not meaningfully increase BSC Settlement Risks.</p> <p>It is clear that some parties are disquieted by the use of baseline methodologies. However, (a) this is a P376 issue, not a P415 one, and (b) P376 already contains substantial safeguards, including powers under the Performance Assurance Framework.</p>
Equiwatt Limited	No comment	None Provided
Flexitricity	Yes	We agree that there would be no risk to Settlement. Existing performance assurance techniques are in place to protect Settlement.
OVO	Neutral	<p>Based on the consultation document, it is unclear what the potential BSC settlement risks are and the basis for the workgroup's assessment. We consider the introduction of "deviation volumes" a significant change to settlement processes, and therefore could introduce a range of risks. Also, introduction would be concurrent with changes as a result of P375, P376, and the Market Wide Half Hourly Settlement Programme.</p> <p>In particular:</p>



Respondent	Response	Rationale
		<ul style="list-style-type: none"> <li>The removal of deviation volumes from supplier imbalance positions will need to be validated, and transparently reported on</li> <li>This is made materially more complex by the fact that metered and settled volumes will no longer be aligned, and there are additional parties involved in any disputes</li> </ul>
ADE	Yes	None provided
EON UK	Yes	It is our understanding that P415 risks will be tracked via BSC Settlement Risk 015 'Reference Data' which covers settlement profiling. Increased levels of flexibility are very likely to have an impact on profiling, but with MWHHS this risk will be reduced significantly. Therefore, there may be a small risk that settlement is affected by VLP activity, but it is our belief that it will not be material in the period before MWHHS is fully implemented.
NGESO	Neutral	None provided

Question 5: Do you agree with the Workgroup’s assessment that P415 does impact the European Electricity Balancing Guideline (EBGL) Article 18 terms and conditions held within the BSC?

**Summary**

Yes	No	Neutral/No Comment	Other
5	0	7	0

**Responses**

Respondent	Response	Rationale
Dcbel Europe	Neutral	None provided
Ecotricity Ltd	Neutral	No opinion
Sympower	Neutral	None provided
Senior Research Fellow	Neutral	None provided
Voltalis UK	Neutral	None provided
Enel X	Yes	Quite apart from the simple observation that the proposed text involves changes to clauses mentioned in BSC Annex F-2, the intention of P415 is to make changes which improve EBGL compliance.
Equiwatt Limited	No comment	None Provided
Flexitricity	Yes	We believe P415 better supports the intention of the European Balancing Guidelines and the objectives, in particular objectives (a) fostering effective competition, non-discrimination and transparency in balancing markets; (b) enhancing efficiency of balancing as well as efficiency of European and national balancing markets; (e) ensuring that the procurement of balancing services is fair, objective, transparent and market-based and (f) facilitating the participation of demand response including aggregation facilities.
OVO	Neutral	No response
ADE	Yes	None provided
EON UK	Yes	We agree with the Workgroup assessment that the impacts of P415 to EBGL Article 18 are only positive i.e., fostering effective competition, non-discrimination and transparency in balancing markets and facilitating the participation of demand response including aggregation facilities and energy

Respondent	Response	Rationale
		storage while ensuring they compete with other balancing services at a level playing field.
NGESO	Yes	The modification impacts EBGL Article 18 so the ESO would agree with this assessment

Question 6: Do you have any comments on the impact of P415 on the EBGL objectives?

**Responses**

Respondent	Rationale
Dcbel Europe	None provided
Ecotricity Ltd	No opinion
Sympower	None provided
Senior Research Fellow	None provided
Voltalis UK	None provided
Enel X	The purpose of P415 is to remove discrimination and foster greater competition from demand-side resources – not only in the wholesale market but, as discussed in our response to Q1, with a knock-on benefit in other markets – so it seems obvious that it should substantially benefit objectives (a) and (f).
Equiwatt Limited	None Provided
Flexitricity	P415 is supportive of objectives (a), (b), (e) and (f) of the EBGL as it better integrates small-scale and demand side response capacity into balancing services.
OVO	No response
ADE	We concur with the conclusions of the Workgroup.
EON UK	No
NGESO	No

## Question 7: Will P415 impact your organisation?

### Summary

High	Medium	Low	None/No comment
5	1	2	4

### Responses

Respondent	Response	Rationale
Dcbel Europe	High	<p>Dcbel is planning to roll out new generation bidirectionnal chargers for EVs as well as as hybrid PV and storage inverters for homes through 2023 which we would like to turn as default flexible assets to our end user to guarantee maximum revenue return to end users. First simulation are demonstrating significant revenue savings up to 1,500GBP per home.</p> <p>As an home energy station providers acting as VLP (through partnerships with flexibility service provider), P415 will allow us to return significant revenues to end users to mitigate the increase of their energy bills while maximizing usage of renewable energy. Provided that the compensation conditions are right, our objective is roll out our technology at scale, benefiting power systems, end consumers, and suppliers who would benefit from lower energy prices. We estimate around 15Million UK houses can potentially be equipped with such equipment, representing an aggregated flexibility worth around 230GW of flexibility (at a marginal cost for the energy systems as return on associated batteries are returned either through PV self consumption economics or EV cost of ownership).</p> <p>If P415 requires to refund suppliers directly from the energy that consumers have saved at a given time through their Home Energy Station (i.e., Compensation 1), we would prefer not to deploy such schemes as the burden of their deployment would not be compensated by sufficient balanced revenue share.</p>
Ecotricity Ltd	Low	Yes however we expect our customers will mostly provide flex responses through us
Sympower	High	<p>YES</p> <p>As a VLP, P415 would allow us to enter the UK power market with significant volumes. Provided that the compensation conditions are right, we</p>

Respondent	Response	Rationale
		<p>could roll out our technology at scale, benefiting power systems, end consumers, and suppliers who would benefit from lower energy prices.</p> <p>If P415 requires us to refund suppliers directly from the energy that consumers have saved at a given time (i.e., Compensation 1), the business case for Sympower to enter the UK would almost disappear – until better conditions are offered to VLPs</p>
Senior Research Fellow	N/A	None provided
Voltalis UK	High	<p>YES</p> <p>As a VLP, P415 would allow us to enter the power market with significant volumes. Provided that the compensation conditions are right, we could roll out our technology at scale, benefiting power systems, end consumers, and suppliers who would benefit from lower energy prices.</p> <p>If P415 requires us to refund suppliers directly from the energy that consumers have saved at a given time (i.e., Compensation 1), we would have to restrict our level of investment in the UK dramatically – even possibly not operate in any UK market – until better conditions are offered to VLPs.</p>
Enel X	High	<p>Yes. It will involve development and ongoing operational effort by our organisation to integrate wholesale market access into our offering to customers. However, compared to the broader Wider Access reforms (P344/P375/P376), this is a relatively small incremental effort.</p> <p>We will take on this work willingly because we believe that the benefit of accessing this additional value stream will greatly outweigh the costs. This is a value stream that was only previously accessible via the customer’s supplier, if the supplier was interested in providing access. Compared to participation in the balancing mechanism alone, wholesale market participation has the advantage that we do not have to depend on the ESO to choose to dispatch our resources: we will be able to respond to wholesale market price signals on our own initiative, without that source of risk.</p> <p>We therefore expect participation to be attractive to existing customers, who will have more opportunities to be rewarded for their flexibility. In addition, we expect it to attract new customers.</p>

Respondent	Response	Rationale
		<p>Typically, this will not be just for wholesale market participation, but combined with the balancing mechanism, capacity market, and any relevant ancillary services: adding another value stream will lead to more customers judging that the potential benefits outweigh the costs and hassles.</p> <p>There is slightly more work involved in Supplier Compensation Method 1, due to the additional payment stream, but we don't expect this to make a material difference.</p>
Equiwatt Limited	No comment	None Provided
Flexitricity	Medium	P415 is a welcome change as it will enable us to engage in wholesale market trading as a VLP. We will need to set up new processes for trading to complement our existing 24/7 trading desks, and implement new decision making activities.
OVO	-	Confidential answer received
ADE	None	This is not relevant as a trade body.
EON UK	Low	<p>Clearly the introduction of P415 will open our customers to competitors looking to offer them flexibility services. E.ON welcomes more competition into the market on the basis that it will increase customer education and interest in flexible demand thereby increasing the pool of customers to compete over. More competition will also introduce more innovation into this space.</p> <p>In terms of changes to systems and processes, E.ON refers back to our original evaluation we reported for the CBA consultation – that there would need to be system changes and additions and potentially additional FTE to manage this new process. It is our view that Proposal 1 (direct compensation between VLP and supplier) would be easier to implement than proposal 2 or 3 (socialisation of the compensation across all suppliers) on the basis that the data is more verifiable and traceable.</p>
NGESO	None – but High Market Impact	Implementation of the P415 solution will allow VLPs the option of direct access to the wholesale market which may encourage larger volumes of participation. We are supportive of greater competition and participation to help drive the most optimal cost for consumers. We consider that increased VLP participation should encourage more efficient use of the system, as well as reducing

Respondent	Response	Rationale
		<p>barriers to entry and widening of the market, which in turn will enable additional volumes of demand flexibility.</p> <p>However, as currently defined, this modification would not require VLPs to provide data to ESO or their supplier. Without having transparency of data there would be a risk to real time operation of the system. This would result in the need to procure additional reserve capacity to mitigate the increased uncertainty.</p> <p>This will significantly increase costs and offset the potential benefits of the solution. This runs contrary to the investments in Forecasting that were made in BP1 and continue to be made in BP2 and is to the detriment of the end consumer..</p>



## Question 8: How much will it cost your organisation to implement P415?

### Summary

High	Medium	Low	None
3	4	1	3

### Responses

Respondent	Response	Rationale
Dcbel Europe	High/Med	As a VLP, costs are heavily dependent on the compensation methodology applied. We are confident associated infrastructure return could be balanced if compensation 2 or 3 were to be chosen. The experience on other markets such as US however shows the compensation 1 does not offer sufficient revenue to scale up associated VLP infrastructures.
Ecotricity Ltd	Unsure	No idea – we haven't looked into it in enough detail yet to provide a meaningful number.
Sympower	High/Med	As a VLP, costs are heavily dependent on the compensation methodology applied. If compensation 2 or 3 were to be chosen, most of the cost will be borne by the rollout of our technology. If compensation 1 were to be chosen, we would have to pay direct, full compensation to suppliers on top of rollout and operating costs, plus power market products stacking costs. This would prevent aggregators from rolling our technologies at scale, and therefore would prevent most of us from entering the market.
Senior Research Fellow	N/A	None provided
Voltalis UK	High/Med	As a VLP, costs are heavily dependent on the compensation methodology applied.  If compensation 2 or 3 were to be chosen, most of the cost will be borne by the rollout of our technology.  If compensation 1 were to be chosen, we would have to pay direct, full compensation to suppliers on top of rollout and operating costs, plus power market products stacking costs. This would prevent domestic aggregators from rolling our technologies at scale, and therefore would prevent most of us from entering the market.

Respondent	Response	Rationale
Enel X	Low	We do not have a formal estimate. As mentioned in our response to Q7, Wider Access in general (P344/P375/P376) has required a lot of implementation effort. P415 is a relatively small incremental change. We are confident that the benefits (to us, ignoring for now the wider benefits to all consumers) will substantially outweigh our implementation costs. The relationship to the BSC Systems Release schedule makes no difference to us.
Equiwatt Limited	No comment	None Provided
Flexitricity	None	NA – we believe the change will have a net positive impact, so cost are negative.
OVO	-	Confidential answer received
ADE	None	As per question 7.
EON UK	Medium - £100k-£500k	We refer to our consultation response to the CBA that stated that we would expect to incur some costs on the basis that we will have to develop systems to monitor and validate charges and revenues. Depending on the number of supply customers that we have taking part via the P415 route to market, these systems should be incorporated into our BAU core systems, the cost of which will run into a few hundreds of thousands of pounds and will take several months to implement.
NGESO	None	No cost impact anticipated

## Question 9: What will the ongoing cost of P415 be to your organisation?

### Summary

High	Medium	Low	None	Other/NA
0	0	5	2	4

### Responses

Respondent	Response	Rationale
Dcbel Europe	Low	We have assessed the costs of implementing P415 to be bearable (and associated risks worth taking) if the solution chosen for P415 does not create a barrier to independent VLPs).
Ecotricity Ltd	Unsure	No idea – we haven't looked into it in enough detail yet to provide a meaningful number.
Sympower	Low	The ongoing cost of P415 has already been communicated to CEPA for its work on behalf of Elexon. We have assessed the costs of implementing P415 to be negligible if the solution chosen for P415 does not create a barrier to independent VLPs.
Senior Research Fellow	N/A	None provided
Voltalis UK	Low	The ongoing cost of P415 has already been communicated to CEPA for its work on behalf of Elexon. We have assessed the costs of implementing P415 to be negligible if the solution chosen for P415 does not create a barrier to independent VLPs.
Enel X	Low	There's very little incremental operational overhead specifically caused by P415. There is, however, a knock-on effect: carrying out wholesale market trades involves trading fees and some changes to our risk management functions, which do have ongoing costs. Again, we are confident that our private benefits will outweigh these costs, so we are not concerned about them.
Equiwatt Limited	No comment	None Provided
Flexitricity	N/A	We expect to have ongoing FTE to support wholesale trading and operational activities. This will be spread across a number of teams and support existing functions.

Respondent	Response	Rationale
OVO	-	Confidential answer received
ADE	None	As per question 7.
EON UK	Low - £50-£100k	Again, we refer to our consultation response to the CBA that stated that in order to maintain the data and operational efficiency of any system changes, there will be an FTE impact. We have estimated this to be of the order an additional 1FTE p.a.
NGESO	None	No direct ongoing cost impact anticipated, but we anticipate market costs to be impacted. Please see answer to Q12-15 for our views on cost/forecast uncertainty.

## Question 10: How long (from the point of approval) would you need to implement P415?

### Responses

Respondent	Response	Rationale
Dcbel Europe	A few months	Dcbel has developed a flexible cloud based real-time transaction based platform leveraging open standards such as OpenADR and IEEE2030-5 and integrating with strategic commercial aggregator partner environments (including partners preparing to become VLP in the UK system). This approach will allow to be able to deploy as soon as the new regulation is in place and first Home energy stations are deployed through the UK. Because it relies on the P375 and P376, and the VLP/AMVLP roles are already defined by Elexon, the implementation of P415 can be done quickly once it is approved. We therefore are confident to be able to enter markets within a few months if a business model supports a market entry.
Ecotricity Ltd	12 Months	None provided
Sympower	Quickly following approval	Because it relies on the P375 and P376, and the VLP/AMVLP roles are already defined by Elexon, the implementation of P415 can be done quickly once it is approved.
Senior Research Fellow	N/A	None provided
Voltalis UK	A few months	Because it relies on the P375 and P376, and the VLP/AMVLP roles are already defined by Elexon, the implementation of P415 can be done quickly once it is approved.  We can enter markets within a few months if a business model supports a market entry.
Enel X	4 months	We believe we can be ready in 4 months if necessary.
Equiwatt Limited	None provided	None Provided
Flexitricity	None provided	We support implementation of this change as quick as possible.
OVO	None provided	The current proposal is incomplete – it is hard to estimate lead times when fundamental questions remain unanswered, as much of the implementation will require commercial and risk modelling

Respondent	Response	Rationale
ADE	None	As per question 7.
EON UK	Several Months	See response to Q8
NGESO	None provided	We believe the suggested lead time should be sufficient

## Question 11: Do you support Supplier Compensation Method 1 under P415?

### Summary

Yes	No	Neutral/No Comment	Other
5	5	1	0

### Responses

Respondent	Response	Rationale
Dcbel Europe	No	<p>No.</p> <p>The Method 1 proposal is to implement a scheme to explicitly compensate suppliers involved in DR activations for any loss of opportunities they may occur. While the rationale for this compensation is legitimate, it is unfair to treat it while ignoring all other Socio economic welfare benefits which are besides captured by suppliers, thanks to DR activations, namely significant supply costs reduction. Method 1 creates windfall profits for suppliers, capturing benefits without sharing any costs DR are usually activated when the electric system is "short", and prices are high. If BRP perimeters are not corrected, the activated BRP is automatically compensated for its loss of opportunity by the imbalance settlement process, at a greater price than expected.</p> <p>If perimeters are corrected, the BRP is deprived from this revenue, and could be compensated by Elexon, which would in turn recover its cost from market stakeholders. The European Clean Energy Package does not state that this compensation should be paid by VLPs only; on the contrary, it forbids any compensation scheme to create market entry barriers for DR, hence recommends sharing the burden. Ignoring benefits induced by DR and setting compensation level inappropriately will prevent from any significant development of DR assets in the UK.. The French example is very illustrative in this regard:</p> <ul style="list-style-type: none"> <li>• no benefit is taken into account, only suppliers' loss of opportunity.</li> <li>• compensation is due in full by aggregators, and indexed on market prices, which is equivalent to arbitrary forcing a market-based cost to zero-marginal-cost assets, which are supposed to capture their revenue from the market!</li> <li>• No significant revenue can derive from such a framework, the market subsequently contracted and only a few aggregators remain active in the markets;</li> </ul>

Respondent	Response	Rationale
		<ul style="list-style-type: none"> <li>• Because the markets are failing, the rollout of flexibility is subsidized by the state (via capacity market products specific to demand turn-down), but utilization is still subject to market conditions – and remains low.</li> </ul> <p>As a matter of fact most successful US markets when it comes to DR participation (as recognized by FERC) have opted for a net benefit approach as considered through method 3.</p> <p>This 'Compensation 1 scenario' - where VLPs bears all the compensation costs despite delivering the benefits - has been addressed by the Clean Energy Package, which states that compensation must not create a barrier to entry for Aggregator to participate in the wholesale market:</p> <p>"compensation shall not create a barrier to market entry for market participants engaged in aggregation or a barrier to flexibility." (Directive Art 17-4)</p> <p>This position was confirmed in August 2021 by the European Commission's opinion on the proposed French reform plan. Over the last year, the REPowerEU plan has also pushed towards enabling demand response and demand reduction. European countries – such as Luxembourg – are starting to answer this call.</p> <p>CEPA doesn't model how much of these savings would be passed on to customers</p> <p>The CBA also acknowledges (pp. 8 &amp; 44) that in compensation 1 VLPs' net revenues from the wholesale markets may not be enough to justify investment; VLPs would have to stack revenues across a wide range of market products to have a business case to invest – noting that the CBA didn't evaluate such revenues, just assumed that stackability may lead to enough revenue to justify investment.</p> <p>In effect, Compensation method 1 incentivises flexibility providers not to go down the VLP route, and therefore for suppliers to internalise flexibility (business as usual). Compensation 1 will therefore lead to much lower volumes being deployed.</p> <p>Compensation 1 will also decrease liquidity in the markets; and push up energy prices, which is not quantified in CEPA's assessment, as the CBA assumes that flexibility reaches the same level, whether or not it is marketed.</p> <p>In practice, we see in many countries that only granting extensive access to markets for behind-the-meter flexibility will create competition and liquidity in</p>



Respondent	Response	Rationale
		the markets, and drive energy costs down (the same is also true for congestion management markets as a next step). The UK has an opportunity not to replicate the errors that other countries have made and favour the rollout of flexibility wherever it can be found. This can only happen in compensation 2 and 3 scenarios.
Ecotricity Ltd	Yes	Yes - Very much support Supplier Comp 1: mutualising a benefit to the VLP across others seems illogical, and the proposer acknowledges this
Sympower	No	<p>No.</p> <p>The Method 1 proposal is to implement a scheme to explicitly compensate suppliers involved in DR activations for any loss of opportunities they may occur. While the rationale for this compensation is legitimate, it is unfair to treat it while ignoring all benefits which are besides captured by suppliers, thanks to DR activations, namely significant supply costs reduction. Method 1 creates windfall profits for suppliers, capturing benefits without sharing any costs It is to be noted that DR will usually be activated when the electric system is "short", and prices are high. If BRP perimeters are not corrected, the activated BRP is automatically compensated for its loss of opportunity by the imbalance settlement process, at a greater price than expected. If perimeters are corrected, the BRP is deprived from this revenue, and could be compensated by Elexon, which would in turn recover its cost from market stakeholders.</p> <p>The European Clean Energy Package does not state that this compensation should be paid by VLPs only; on the contrary, it forbids any compensation scheme to create market entry barriers for DR, hence recommends sharing the burden. Ignoring benefits induced by DR and setting compensation level inappropriately will prevent from any significant development of DR assets in the UK. Such a dramatic outcome, considering the extensive regulatory effort already carried out both at European and UK level, cannot be an option. This 'Compensation 1 scenario' - where VLPs bears all the compensation costs despite delivering the benefits - has been addressed by the Clean Energy Package, which states that compensation must not create a barrier to entry for Aggregator to participate in the wholesale market: "compensation shall not create a barrier to market entry for market</p>

Respondent	Response	Rationale
		<p>participants engaged in aggregation or a barrier to flexibility.” (Directive Art 17-4)</p> <p>This position was confirmed in August 2021 by the European Commission’s opinion on the proposed French reform plan. Over the last year, the REPowerEU plan has also pushed towards enabling demand response and demand reduction. European countries – such as Luxembourg – are starting to answer this call.</p> <p>CEPA doesn’t model how much of these savings would be passed on to customers.</p> <p>The CBA also acknowledges (pp. 8 &amp; 44) that in compensation 1 VLPs’ net revenues from the wholesale markets may not be enough to justify investment; VLPs would have to stack revenues across a wide range of market products to have a business case to invest – noting that the CBA didn’t evaluate such revenues, just assumed that stackability may lead to enough revenue to justify investment.</p> <p>In effect, Compensation method 1 incentivises flexibility providers not to go down the VLP route, and therefore for suppliers to internalise flexibility (business as usual). ToUTs have been around for many years, yet a majority of consumers don’t choose them. Compensation 1 will therefore lead to much lower volumes being deployed.</p> <p>Compensation 1 will also decrease liquidity in the markets; and push up energy prices, which is not quantified in CEPA’s assessment, as the CBA assumes that flexibility reaches the same level, whether or not it is marketed.</p> <p>In practice, we see in many countries that only granting extensive access to markets for behind-the-meter flexibility will create competition and liquidity in the markets, and drive energy costs down. The UK has an opportunity not to replicate the errors that other countries have made and favour the rollout of flexibility wherever it can be found. This can only happen in compensation 2 and 3 scenarios.</p>
Senior Research Fellow	No	<p>No.</p> <p>As explained above, I do not support any compensation to Suppliers for the potential losses</p>

Respondent	Response	Rationale
		<p>they may incur due to DSR activations. However, if compensation to Suppliers must be paid, it should do the least damage possible to the development of DSR. By obliging the VLP to compensate suppliers, Method 1 will discourage investment in DSR by independent aggregators. Without competition from independent aggregators, Suppliers will have very little incentive to stimulate DSR. In those conditions, it is very unlikely that consumers – especially small ones - will be able to participate in wholesale electricity markets in a meaningful way. Without that consumer participation, the electricity system will have missed a significant opportunity to reduce central system investment costs in the flexibility needed to manage the intermittency of renewables and ensure security of supply.</p> <p>Furthermore, DSR not only helps to reduce system costs, thereby benefiting all consumers. It also generates revenues or lowers costs for the individual providers of DSR through digitalized electrical equipment whose use can be time-shifted (e.g. EV smart charging). In doing so, facilitating DSR makes electrification more attractive, thereby speeding up the process of replacing oil and gas in end markets.</p> <p>In short: Method 1 discourages DSR, thereby raising the costs of the electricity system and the transition, slowing the process of electrification, and undermining the potential for consumers to benefit from actively participating in markets.</p>
Voltalis UK	No	<p>No.</p> <p>The Method 1 proposal is to implement a scheme to explicitly compensate suppliers involved in DR activations for any loss of opportunities they may occur. While the rationale for this compensation is legitimate, it is unfair to treat it while ignoring all benefits which are besides captured by suppliers, thanks to DR activations, namely significant supply costs reduction. Method 1 creates windfall profits for suppliers, capturing benefits without sharing any costs</p> <p>It is to be noted that DR will usually be activated when the electric system is "short", and prices are high. If BRP perimeters are not corrected, the activated BRP is automatically compensated for its</p>

Respondent	Response	Rationale
		<p>loss of opportunity by the imbalance settlement process, at a greater price than expected.</p> <p>If perimeters are corrected, the BRP is deprived from this revenue, and could be compensated by Elexon, which would in turn recover its cost from market stakeholders. The European Clean Energy Package does not state that this compensation should be paid by VLPs only; on the contrary, it forbids any compensation scheme to create market entry barriers for DR, hence recommends sharing the burden.</p> <p>Ignoring benefits induced by DR and setting compensation level inappropriately will prevent from any significant development of DR assets in the UK. Such a dramatic outcome, considering the extensive regulatory effort already carried out both at European and UK level, cannot be an option. The French example is very illustrative in this regard:</p> <ul style="list-style-type: none"> <li>• no benefit is taken into account, only suppliers' loss of opportunity.</li> <li>• compensation is due in full by aggregators, and indexed on market prices, which is equivalent to arbitrary forcing a market-based cost to zero-marginal-cost assets, which are supposed to capture their revenue from... the market!</li> <li>• No significant revenue can derive from such a framework, the market subsequently contracted and only a few aggregators remain active in the markets;</li> <li>• Because the markets are failing, the rollout of flexibility is subsidized by the state (via capacity market products specific to demand turn-down), but utilization is still subject to market conditions – and remains low.</li> </ul> <p>This 'Compensation 1 scenario' - where VLPs bears all the compensation costs despite delivering the benefits - has been addressed by the Clean Energy Package, which states that compensation must not create a barrier to entry for Aggregator to participate in the wholesale market:</p> <p>"compensation shall not create a barrier to market entry for market participants engaged in aggregation or a barrier to flexibility." (Directive Art 17-4)</p>

Respondent	Response	Rationale
		<p>This position was confirmed in August 2021 by the European Commission’s opinion on the proposed French reform plan. Over the last year, the REPowerEU plan has also pushed towards enabling demand response and demand reduction. European countries – such as Luxembourg – are starting to answer this call.</p> <p>CEPA doesn’t model how much of these savings would be passed on to customers</p> <p>The CBA also acknowledges (pp. 8 &amp; 44) that in compensation 1 VLPs’ net revenues from the wholesale markets may not be enough to justify investment; VLPs would have to stack revenues across a wide range of market products to have a business case to invest – noting that the CBA didn’t evaluate such revenues, just assumed that stackability may lead to enough revenue to justify investment.</p> <p>In effect, Compensation method 1 incentivises flexibility providers not to go down the VLP route, and therefore for suppliers to internalise flexibility (business as usual). ToUTs have been around for many years, yet a majority of consumers don’t choose them. Compensation 1 will therefore lead to much lower volumes being deployed.</p> <p>Compensation 1 will also decrease liquidity in the markets; and push up energy prices, which is not quantified in CEPA’s assessment, as the CBA assumes that flexibility reaches the same level, whether or not it is marketed.</p> <p>In practice, we see in many countries that only granting extensive access to markets for behind-the-meter flexibility will create competition and liquidity in the markets, and drive energy costs down. The UK has an opportunity not to replicate the errors that other countries have made and favour the rollout of flexibility wherever it can be found. This can only happen in compensation 2 and 3 scenarios.</p>
Enel X	Yes	Yes. This is our preferred approach. It is quite simple, gives appropriate economic signals to all parties, avoids suppliers being left out of pocket, and ensures that each MWh is only paid for once.
Equiwatt Limited	No comment	None Provided

Respondent	Response	Rationale
Flexitricity	Yes	Yes we support Supplier Compensation Method as it is fair for the VLP to bear the cost of compensation.
OVO	-	Confidential answer received
ADE	Yes	Although less favourable to VLPs under the CBA, given the in-depth discussions had by the Workgroup, we believe option 1 presents the best methodology for supplier compensation and best aligns with the BSC objectives.
EON UK	Yes	With the caveat outlined in our response to Question 11, we support Supplier Compensation Method 1 (direct compensation between VLP and supplier)
NGESO	No	<p>No. Financial compensation should not create a barrier to market entry for market participants engaged in aggregation or a barrier to flexibility. In open and competitive markets, suppliers and independent aggregators should be encouraged to compete against each other in mobilising demand response from a consumer. Given the possibility to trade in intraday markets and to anticipate and forecast consumers' consumption, it is not clear why any compensation should be paid and a fourth option of 'no compensation' could be considered. A multi-settlement market under centralised dispatch – as considered under REMA – may help address the issue</p> <p>It should be noted that while EU Electricity Directive 2019/944 permits compensation to be paid under certain circumstances, the first draft of the Directive forbade the payment of compensation from aggregators to suppliers. It should also be noted that in the US, FERC rejected the payment of compensation, which was originally proposed by the Electricity Power Supply Association (EPSA), based on wholesale price minus retail price of unused energy. FERC instead introduced a net-benefit test to ensure that a demand response provider will only receive full market value if there is an overall benefit to consumers (see FERC Order 745).</p> <p>It should be noted that as compensation 2 lowers the variable cost for VLPs when delivering flexibility, the CBA observes more flexibility deployment and larger total welfare benefits. Allocating costs to VLPs – as under option 1 - clearly creates a barrier to a VLP's ability to mobilise demand response for the benefit of all consumers.</p>

## Question 12: Do you support Supplier Compensation Method 2 under P415?

### Summary

Yes	No	Neutral/No Comment	Other
4	6	1	0

### Responses

Respondent	Response	Rationale
Dcbel Europe	Yes	<p>Yes.</p> <p>Compensation 2 is based on the 'Net Benefit', which means that while all suppliers benefit from DR participating in the market, and thus reducing their sourcing costs, all suppliers should also bear their fair share of the costs, so that the net benefits are fairly shared among all suppliers, and ultimately among all consumers. This is by far preferable to having costs borne only by some suppliers (those with consumers participating to DR); or, worst of all, charged to DR (as suggested in compensation 1) which would mean hampering DR and depriving all consumers of the net benefits of DR. This 'net benefit' approach was initially defined by FERC in the US.</p> <p>The FERC's established net benefit as a principle for integrating Demand Response into the market, given that it ensures consumers benefit from DR (all consumers, even those who do not participate), because all suppliers see their sourcing costs reduced more than it costs them to buy DR; and the Supreme Court of the United States validated the fact that the FERC relies on such a principle reflecting benefits for all consumers;.</p> <p>The EU experienced similar discussions. Several studies on the quantification of benefits in Europe have been run, among which a recent one by CompassLexecon was referred to by the European Commission in its September communication on emergency measures to reduce electricity prices.</p> <p>The European legislation allows Member States to take these benefits into account and, whatever system they adopt, makes it mandatory not to create a barrier to DR even if they decide retailers should be compensated. The article 17.4 of the clean energy package is very specific:</p>

Respondent	Response	Rationale
		<p>"Member States may require electricity undertakings or participating final customers to pay financial compensation to other market participants or to the market participants' balance responsible parties, if those market participants or balance responsible parties are directly affected by demand response activation. Such financial compensation shall not create a barrier to market entry for market participants engaged in aggregation or a barrier to flexibility."</p> <p>Compensation method 2 addresses both the FERC's Net Benefit principle and the CEP's requirement not to create barriers to aggregation: it mutualises the compensation amongst energy undertaking while reflecting the real price of energy at the time it is used – the spot price – I.e. the price suppliers would have been paid if, in the absence of correction, they would have sold their surplus in the market.</p>
Ecotricity Ltd	No	No – there is no reason to mutualise these costs which arise out of a benefit to the VLP
Sympower	Yes	<p>Yes.</p> <p>Compensation 2 is based on the 'Net Benefit', which means that while all suppliers benefit from DR participating in the market, and thus reducing their sourcing costs, all suppliers should also bear their fair share of the costs, so that the net benefits are fairly shared among all suppliers, and ultimately among all consumers. This is by far preferable to having costs borne only by some suppliers (those with consumers participating to DR); or, worst of all, charged to DR (as suggested in compensation 1) which would mean hampering DR and depriving all consumers of the net benefits of DR.</p> <p>This 'net benefit' approach was initially defined by FERC in the US.</p> <p>The FERC's established net benefit as a principle for integrating Demand Response into the market, given that it ensures consumers benefit from DR (all consumers, even those who do not participate), because all suppliers see their sourcing costs reduced more than it costs them to buy DR; and the Supreme Court of the United States validated the fact that the FERC relies on such a principle reflecting benefits for all consumers;..</p>



Respondent	Response	Rationale
		<p>The EU experienced similar discussions. Several studies on the quantification of benefits in Europe have been run, among which a recent one by CompassLexecon was referred to by the European Commission in its September communication on emergency measures to reduce electricity prices.</p> <p>The European legislation allows Member States to take these benefits into account and, whatever system they adopt, makes it mandatory not to create a barrier to DR even if they decide retailers should be compensated. The article 17.4 of the clean energy package is very specific: "Member States may require electricity undertakings or participating final customers to pay financial compensation to other market participants or to the market participants' balance responsible parties, if those market participants or balance responsible parties are directly affected by demand response activation. Such financial compensation shall not create a barrier to market entry for market participants engaged in aggregation or a barrier to flexibility."</p> <p>Compensation method 2 addresses both the FERC's Net Benefit principle and the CEP's requirement not to create barriers to aggregation: it mutualises the compensation amongst energy undertaking while reflecting the real price of energy at the time it is used – the spot price – I.e. the price suppliers would have been paid if,</p>
Senior Research Fellow	Yes	<p>YES.</p> <p>As mentioned above, while I do not favour any compensation to Suppliers, I recognize that some compensation must be paid if VLPs are to be allowed to participate in the wholesale market. Method 2 is superior to Method 1 because it mutualizes the costs of compensation among the parties that benefit from it, does not penalize the VLP whose aim is to promote DSR, and thereby encourages DSR.</p> <p>By supporting DSR and enabling consumers to actively participate in the wholesale market, Method 2 contributes to the development of competitive demand-side alternatives to central system (supply side) assets in the wholesale market. These benefits are shared by all consumers immediately through lower prices (assuming Suppliers pass on the lower</p>

Respondent	Response	Rationale
		<p>system costs). Furthermore, this Method benefits all consumers over the longer term to the extent that DSR can reduce the need for more expensive central system investments. And it supports an accelerated energy transition to the extent that it promotes electrification. Finally, by supporting DSR, it directly benefits the consumers that actively provide flexible demand.</p> <p>In short, Method 2 is better than Method 1 because it supports DSR, which in turn reduces the system electricity costs in the short and longer term, accelerates electrification, and offers consumers the opportunity to participate in and benefit from the energy transition, thereby strengthening political support for that transition.</p>
Voltalis UK	Yes	<p>Yes.</p> <p>Compensation 2 is based on the 'Net Benefit', which means that while all suppliers benefit from DR participating in the market, and thus reducing their sourcing costs, all suppliers should also bear their fair share of the costs, so that the net benefits are fairly shared among all suppliers, and ultimately among all consumers. This is by far preferable to having costs borne only by some suppliers (those with consumers participating to DR); or, worst of all, charged to DR (as suggested in compensation 1) which would mean hampering DR and depriving all consumers of the net benefits of DR. This 'net benefit' approach was initially defined by FERC in the US.</p> <p>The FERC's established net benefit as a principle for integrating Demand Response into the market, given that it ensures consumers benefit from DR (all consumers, even those who do not participate), because all suppliers see their sourcing costs reduced more than it costs them to buy DR; and the Supreme Court of the United States validated the fact that the FERC relies on such a principle reflecting benefits for all consumers;.. The EU experienced similar discussions. Several studies on the quantification of benefits in Europe have been run, among which a recent one by CompassLexecon was referred to by the European Commission in its September communication on emergency measures to reduce electricity prices.</p> <p>The European legislation allows Member States to take these benefits into account and, whatever</p>

Respondent	Response	Rationale
		<p>system they adopt, makes it mandatory not to create a barrier to DR even if they decide retailers should be compensated. The article 17.4 of the clean energy package is very specific:</p> <p>“Member States may require electricity undertakings or participating final customers to pay financial compensation to other market participants or to the market participants' balance responsible parties, if those market participants or balance responsible parties are directly affected by demand response activation. Such financial compensation shall not create a barrier to market entry for market participants engaged in aggregation or a barrier to flexibility.”</p> <p>Compensation method 2 addresses both the FERC's Net Benefit principle and the CEP's requirement not to create barriers to aggregation: it mutualises the compensation amongst energy undertaking while reflecting the real price of energy at the time it is used – the spot price – I.e. the price suppliers would have been paid if, in the absence of correction, they would have sold their surplus in the market.</p>
Enel X	No	<p>No. While there may be some benefit to socialising the cost of the compensation payment (as discussed in our response to Q14), it makes absolutely no sense to over-compensate the supplier in this way.</p> <p>As discussed in our response to Q16, it introduces a gaming risk. Moreover, it's simply illogical and inconsistent with the design of the market.</p> <p>Under P344, the supplier's balancing position is corrected to remove the effect of any VLP's actions. Otherwise, the supplier would be exposed to cash-out prices for the affected volumes. The principle underlying this is that the supplier should neither benefit nor suffer due to the VLP's actions: they should be indifferent. Paying them an estimate of their sourcing cost (as in Methods 1 and 3) achieves this: they do not get to supply the MWh they expected, but they're made whole by the compensation payment. Paying them the retail price would have a similar effect.</p>

Respondent	Response	Rationale
		Paying the supplier the spot price violates this principle. In fact, it undermines the purpose of correcting the supplier's balancing position. When the VLP dispatches the customer, the supplier would unexpectedly find themselves exposed to the spot price. Since dispatches will tend to happen at times of high spot prices, this means the supplier would typically have a windfall gain. While it may be appealing to suppliers to occasionally receive such windfalls, there's no economic justification for doing so, especially as these unnecessary and unpredictable windfalls would be funded via a levy.
Equiwatt Limited	No comment	None Provided
Flexitricity	No	No, we do not support Supplier Compensation Method 2 because of the potential for distortion, gaming and increased costs for consumers.  Under Compensation Method 2 there is a risk that Suppliers would be able to get an advantage from VLP actions.  Further, the spreading of the costs across all customers
OVO	-	Confidential answer received
ADE	No	No. We do not believe it is the most efficient calculation of supplier costs and are not wholly convinced by the arguments for socialisation. We are also concerned by the highlighted gaming risks.
EON UK	No	We do not support Supplier Compensation Method 2 (socialisation of compensation amongst all suppliers) on the basis that the benefit that suppliers who are not involved directly cannot be quantified easily. The premise of Method 2 is that all suppliers will benefit from the VLP action due to its impact on the wholesale price. However, we believe that there are circumstances where a VLP can act (and therefore generate cost to the industry) without impacting the wholesale price. For example, if an OCGT is setting the spot price by generating 90MW and a VLP acts to reduce demand by 50MW, this will mean that the OCGT is still setting the marginal cost and therefore wholesale prices will be unaffected. We acknowledge that if there is sufficient scale of DSR then these circumstances should not be common and that the inability of DSR to impact the wholesale price is likely to be less at high prices (where smaller peaking plant run), but despite this, we feel that Supplier Compensation

Respondent	Response	Rationale
		Method 1 is the better option as it does not rely on this assumption of an effect on the wholesale price.
NGESO	No	<p>No – same reasoning in response to Q12 regarding challenge to justification for compensation and fourth option for no compensation. In addition, EU Electricity Directive 2019/944 (Article 17(4)) provides guidance that compensation should be “strictly limited to covering the resulting costs incurred by the suppliers of participating customers or the suppliers' balance responsible parties during the activation of demand response.” Compensation based on the spot price would not align with this guidance.</p> <p>It is noted that more load shifting is mobilised under this option (2) compared to option 1 (according to the CBA) and that total welfare benefits scale with the deployment of additional flexibility. It can be assumed then that option 3 - based on socialisation of costs and lower costs due to average sourcing costs and not the spot price - would mobilise even more flexibility and total welfare benefit.</p>

## Question 13: Do you support Supplier Compensation Method 3 under P415?

### Summary

Yes	No	Neutral/No Comment	Other
4	3	3	1

### Responses

Respondent	Response	Rationale
Dcbel Europe	Yes	<p>Yes. The compensation Method 3 under P415 is an alteration of compensation 2, where compensation is mutualised, and the amount of compensation based on a calculated long-term average.</p> <p>On a VLP point of view, a mutualised compensation amongst electricity undertakings allows investors to commit to the rollout of flexibility based on a robust business case, where revenues are gained from the markets.</p> <p>We therefore agree with method 3.</p> <p>We however highlight that a level of compensation based on long-term average tends to favour larger energy companies, that rely on long-term, secure contracts – to the detriment of smaller suppliers, more heavily dependent on wholesale prices.</p> <p>This is all the more unfortunate as smaller suppliers could be amongst the first to develop innovative DSR propositions for their customers. The Compensation 3 method would impact them negatively even though this compensation method should be neutral to them.</p>
Ecotricity Ltd	No	No – there is no reason to mutualise these costs which arise out of a benefit to the VLP
Sympower	Yes	<p>Yes.</p> <p>The compensation Method 3 under P415 is an alteration of compensation 2, where compensation is mutualised, and the amount of compensation based on a calculated long-term average. On a VLP point of view, a mutualised compensation amongst electricity undertakings allows investors to commit to the rollout of flexibility based on a robust business case, where revenues are gained from the markets.</p> <p>We therefore agree with method 3.</p>

Respondent	Response	Rationale
		<p>We however highlight that a level of compensation based on long-term average tends to favour larger energy companies, that rely on long-term, secure contracts – to the detriment of smaller suppliers, more heavily dependent on wholesale prices.</p> <p>This is all the more unfortunate as smaller suppliers could be amongst the first to develop innovative DSR propositions for their customers. The Compensation 3 method would impact them negatively even though this compensation method should be neutral to them.</p>
Senior Research Fellow	Yes	<p>Yes.</p> <p>Compensation Model 3 is a version of Compensation Model 2. It involves a mutualisation of the compensation to the Supplier, rather than compensation paid by the VLP responsible for activating DSR (Model 1). Under Model 3, the price used for compensation would be based on long run average energy contracting costs, whereas under Model 2, the compensation would be based on spot prices.</p> <p>There are arguments for and against Models 2 and 3, but I do not have a strong preference for either. I do, however, have a strong preference for the recommendation to include at least one alternative to Model 1.</p>
Voltalis UK	Yes	<p>Yes.</p> <p>The compensation Method 3 under P415 is an alteration of compensation 2, where compensation is mutualised, and the amount of compensation based on a calculated long-term average.</p> <p>On a VLP point of view, a mutualised compensation amongst electricity undertakings allows investors to commit to the rollout of flexibility based on a robust business case, where revenues are gained from the markets.</p> <p>We therefore agree with method 3.</p> <p>We however highlight that a level of compensation based on long-term average tends to favour larger energy companies, that rely on long-term, secure contracts – to the detriment of smaller suppliers, more heavily dependent on wholesale prices.</p>

Respondent	Response	Rationale
		This is all the more unfortunate as smaller suppliers could be amongst the first to develop innovative DSR propositions for their customers. The Compensation 3 method would impact them negatively even though this compensation method should be neutral to them.
Enel X	Neutral	<p>This is not our preferred approach. As with Method 2, it involves a levy, and could also be argued to over-incentivise the provision of demand response at times when prices are too low for there to be economic benefits. However, unlike Method 2, it does not egregiously over-compensate suppliers, so the levy costs will be smaller.</p> <p>If there is a stable consensus that the benefits from the additional participation that could be unlocked by this approach are sure to outweigh the additional costs of the levy, then this approach could be viable.</p>
Equiwatt Limited	No comment	None Provided
Flexitricity	No	No we do not support compensation methods that spread the cost of compensation across all consumers.
OVO	-	Confidential answer received
ADE	No comment	We do not have a view on Method 3 but note that if it demands further analysis/consultation to be brought forward in a modification we would not support the coinciding delays this would cause.
EON UK	No	We do not support Supplier Compensation Method 3 for the same reasons we have stated in Question 13
NGESO	Other	<p>Same reasoning in response to Q12 regarding challenge to justification for compensation, and fourth option for no compensation.</p> <p>Of all options, this third option seems the most preferable as the costs to the aggregator would be minimised, therefore maximising the opportunity for demand response to bring benefits to all consumers. Socialising costs across suppliers may involve a transfer from those that can provide flexibility to those who cannot (especially in the early phase of the decarbonisation transition) but the latter will benefit from reduced inframarginal rent among other benefits like reduced investment in generation infrastructure. It is crucial that the wider benefits of demand response are considered. What matters, as</p>



Respondent	Response	Rationale
		concluded by FERC, is that there is an overall net benefit for consumers.

## Question 14: Do you have a preference for Supplier Compensation Method 1, 2 or 3?

### Summary

1	2	3	Other/No comment
5	4	1	1

### Responses

Respondent	Response	Rationale
Dcbel Europe	2	<p>In its CBA, CEPA considers that most of the benefits from demand-side response will be provided by current undertakings, i.e. that consumers will pay for the rollout of automation</p> <p>To unlock this flexibility, automation is essential to maintain flexibility over times and make it transparent to end users who ultimately should only opt for comfort or specific DER usage profiles. Aside from punctual trials -consumers do not have the time to manually switch appliances off or check dynamic prices. Electrical appliances need therefore to be smart connected and enable easy app based consumer interactions.</p> <p>Consumers also want to be able to opt for different tariff options depending on their risk appetite and the flexibility of their submetered DER loads. They want to be able to combine different tariffs and flexibility option over their different consumption points (hence the particular importance to link P415 with P375 next deployments).</p> <p>And because the value of flexibility at residential level is composed of a large number of micro transactions, achieving significant flexibility savings requires the continuous real-time participation of appliances and so requires automation at consumer level. On the contrary the setting up of a proper regulation at wholesale level such as P415 can potentially draw more significant aggregated value which can be invested through the rollout of necessary automation infrastructures.</p> <p>We challenge the fact compensation method 1 will provide sufficient revenue return to establish necessary automation; the 'law of diminishing returns' used by CEPA to calculate the benefits of VLP intervention is grossly under-estimated as it pushes VLP action as the last lever of flexibility,</p>

Respondent	Response	Rationale
		<p>rather than the initiator of flexibility at scale as witnessed in many countries.</p> <p>Moreover, the CBA delivered by CEPA understates the amount of flexibility that can be delivered depending on the chosen compensation method; it assumes that the compensation method will mostly affect utilization rather than rollout.</p> <p>However, in the real world, DSR automation is only delivered when markets allow for robust business models to justify the investment. To roll out DSR capability, the UK can therefore:</p> <ul style="list-style-type: none"> <li>- Use the compensation 1 model, which leads to market failure, a rollout of DSR automation via state subsidy, and low utilization (the French model).</li> <li>- Use a mutualized compensation (compensation 2 &amp; 3), which will deliver demand response at large scale through the markets.</li> </ul> <p>Given that the options offered in the consultation are only for compensated models, our preference will be for compensation 2, as it reflect the price of energy at the time that it is used, and does not discriminate against smaller energy suppliers (more dependent on short-term energy prices).</p>
Ecotricity Ltd	1	1 – see above
Sympower	2	<p>In its CBA, CEPA considers that most of the benefits from demand-side response will be provided by current undertakings, i.e. that consumers will pay for the rollout of automation. To unlock this flexibility, we need automation, because - aside from punctual trials - consumers do not have the time to physically switch appliances off when the systems need it in the long term. Electrical appliances need therefore to be smart and connected.</p> <p>Consumers also want to be sheltered from swings in energy prices, as they see energy as a commodity. Only a third of consumers opt for a time-of-use tariff (ToUT) when given the choice, and the low take up of ToUTs amongst EV owners in the UK highlights that consumers are not willing to bear power prices risks.</p> <p>And because the value of flexibility is not significant at individual level, consumers will not invest in the necessary technology. However the value of flexibility is huge at aggregated level; this is why</p>

Respondent	Response	Rationale
		<p>aggregators can invest in the rollout of the technology, provided that the market conditions are right, so that DSR is rewarded with a part of the value created for all. Indeed, the rollout of DSR is borne by aggregators throughout the world.</p> <p>It is therefore ludicrous to think that aggregators/VLPs will complement existing flexibility; the 'law of diminishing returns' used by CEPA to calculate the benefits of VLP intervention is therefore grossly under-estimated as it pushes VLP action as the last lever of flexibility, rather than the initiator of flexibility at scale as witnessed in many countries.</p> <p>Moreover, the CBA delivered by CEPA understates the amount of flexibility that can be delivered depending on the chosen compensation method; it assumes that the compensation method will mostly affect utilization rather than rollout.</p> <p>However, in the real world, DSR automation is only delivered when markets allow for robust business models to justify the investment. To roll out DSR capability, the UK can therefore: - Use the compensation 1 model, which leads to market failure, a rollout of DSR automation via state subsidy, and low utilization (the French model). - Use a mutualized compensation (compensation 2 &amp; 3), which will deliver demand response at large scale through the markets.</p> <p>Given that the options offered in the consultation are only for compensated models, our preference will be for compensation 2, as it reflect the price of energy at the time that it is used, and does not discriminate against smaller energy suppliers (more dependent on short-term energy prices).</p>
Senior Research Fellow	2 or 3 (counting towards each in the above summary table)	<p>I do not favour Model 1. Either Model 2 or 3 would be acceptable.</p> <p>If both Model 2 and Model 3 are being considered or included in the recommendation, I recommend that the following criteria be used to assess them.</p> <ul style="list-style-type: none"> <li>• Level of compensation to the Supplier; the lower the better.</li> </ul>

Respondent	Response	Rationale
		<ul style="list-style-type: none"> <li>• Effect on competition among suppliers; a more level playing field is better.</li> <li>• Price should reflect opportunity costs to Supplier of trading in the short term to avoid imbalances related to anticipated DSR.</li> </ul> <p>My primary concern is that the recommendation should include at least Model 2 or Model 3, if not both Models 2 and 3, in addition to Model 1. I understand that including an alternative to Model 1 requires a majority in favour of recommending an alternative. In that case, all votes for Model 2 or Model 3 should be treated as votes in favour of recommending at least one alternative to Model 1.</p>
Voltalis UK	2	<p>In its CBA, CEPA considers that most of the benefits from demand-side response will be provided by current undertakings, i.e. that consumers will pay for the rollout of automation</p> <p>To unlock this flexibility, we need automation, because - aside from punctual trials - consumers do not have the time to physically switch appliances off when the systems need it in the long term. Electrical appliances need therefore to be smart and connected.</p> <p>Consumers also want to be sheltered from swings in energy prices, as they see energy as a commodity. Only a third of consumers opt for a time-of-use tariff (ToUT) when given the choice, and the low take up of ToUTs amongst EV owners in the UK highlights that consumers are not willing to bear power prices risks.</p> <p>And because the value of flexibility is not significant at individual level, consumers will not invest in the necessary technology. However the value of flexibility is huge at aggregated level; this is why aggregators can invest in the rollout of the technology, provided that the market conditions are right, so that DSR is rewarded with a part of the value created for all. Indeed, the rollout of DSR is borne by aggregators throughout the world.</p> <p>It is therefore ludicrous to think that aggregators/VLPs will complement existing flexibility; the 'law of diminishing returns' used by CEPA to calculate the benefits of VLP intervention is therefore grossly under-estimated as it pushes VLP action as the last lever of flexibility, rather than the</p>

Respondent	Response	Rationale
		<p>initiator of flexibility at scale as witnessed in many countries.</p> <p>Moreover, the CBA delivered by CEPA understates the amount of flexibility that can be delivered depending on the chosen compensation method; it assumes that the compensation method will mostly affect utilization rather than rollout.</p> <p>However, in the real world, DSR automation is only delivered when markets allow for robust business models to justify the investment. To roll out DSR capability, the UK can therefore:</p> <ul style="list-style-type: none"> <li>- Use the compensation 1 model, which leads to market failure, a rollout of DSR automation via state subsidy, and low utilization (the French model).</li> <li>- Use a mutualized compensation (compensation 2 &amp; 3), which will deliver demand response at large scale through the markets.</li> </ul> <p>Given that the options offered in the consultation are only for compensated models, our preference will be for compensation 2, as it reflect the price of energy at the time that it is used, and does not discriminate against smaller energy suppliers (more dependent on short-term energy prices).</p>
Enel X	1	<p>We prefer Method 1. We strongly oppose Method 2. We are somewhat more on the fence about Method 3.</p> <p>One of our concerns with Methods 2 &amp; 3, in which supplier compensation costs are socialised, is that they involve a levy that will grow with increasing levels of participation. While it is possible to argue that the benefits to consumers from the increased levels of demand-side participation will outweigh the cost of the levy, we are concerned that the existence of this growing line item on consumer bills could be used as an excuse to challenge or reverse the mechanism.</p> <p>Stability is really important to the business of a demand-side aggregator, as customers are making long-term decisions, so this makes us favour the conservative, uncontroversial option (Method 1).</p> <p>If everyone accepts that economic modelling shows that the additional participation resulting from socialising compensation is likely to outweigh the costs of the levy, such that the levy will be</p>

Respondent	Response	Rationale
		<p>uncontroversial, then Method 3 may be a reasonable approach.</p> <p>There is no merit whatsoever to Method 2, as it gives exactly the same participation benefit as Method 3, but at substantially higher levy costs, as well as introducing a gaming risk.</p>
Equiwatt Limited	No comment	None Provided
Flexitricity	1	Our preferred compensation method is Compensation Method 1 for the reasons outlined above.
OVO	-	Confidential answer received.
ADE	1	Compensation Method 1.
EON UK	1	We prefer Supplier Compensation Method 1 for the reasons laid out in Questions 12 and 13
NGESO	Other	<p>We would favour a model of no compensation. Any of the outlined options would lead to a rise in costs for the end consumer due to forecasting errors increasing as detailed in Q11. We also think any compensation method would likely lead to a risk of gaming (please see our answer to Q16). The ESO supports wider market access, but in this solution there is a risk that the benefits are outweighed by several concerns, including data provision, impact on reserve, and ultimately increase consumer costs.</p> <p>Additionally, a distortion would be introduced between VLP-provided flexibility and flexibility provided directly by end users who are exposed to ToU tariffs as they would not be subject to this compensation payment.</p> <p>The solution should include the ESO (either directly or indirectly receiving VLP introduced demand shift volumes) to mitigate the risk to end consumers. Our preference would be to receive this directly through suppliers.</p>

## Question 15: Do you consider there to be a material gaming risk under Supplier Compensation Method 2?

### Summary

Yes	No	Neutral/No Comment	Other
6	5	1	0

### Responses

Respondent	Response	Rationale
Dcbel Europe	No	<p>We do not see any gaming risk, as VLPs will have to prove that they have delivered demand response. P415 relies on P376's robust baseline, which has been approved for the Balance Mechanism and is also used for some local flexibility products.</p> <p>In its gaming risk assessment, CEPA did not mention the fact that VLPs are responsible for their imbalances and will be penalised if they fail to deliver on the baseline. As proven by P376, baseline evidence can be defined effectively, quashing the risk.</p> <p>In reality:</p> <p>Being better rewarded for VLP actions will entice suppliers to harvest more flexibility, decreasing prices even further in the longer term, hence benefitting all consumers.</p> <p>The risk highlighted by CEPA resides in the level of compensation (wholesale price vs. sourcing cost, where suppliers might gain the difference 'wholesale – sourcing' cost without any action) rather than who pays the compensation – which is a model limitation as it doesn't discriminate between these 2 independent variables – which lead the group to offer the 'compensation 3' option, where compensation is mutualised amongst electricity undertakings, using a long-term average price of energy level of payment.</p> <p>If the issue raised by CEPA lies on the baseline, the proposition's established baseline mechanisms (such as those in P376) ensure that suppliers cannot overstate initial purchasing position to pretend that they deliver more flexibility than effectively done.</p> <p>What CEPA also describes is inside trading, which could be easily monitored and policed. This is commonly done in other industries, such as finance, where the regulator monitors market actors'</p>



Respondent	Response	Rationale
		<p>positions. Besides, such practice is a criminal offense, and would carry high reputational and licencing risks for suppliers.</p> <p>In any case, if suppliers' gaming risk is considered high by the regulator, there are 2 other options:</p> <p>1/ Compensate with a mutualised sourcing cost (compensation 3).</p> <p>2/ Not allowing suppliers to become VLPs (as done in other countries).</p> <p>As such we believe that the supplier gaming risk is low, and that it can be completely alleviated with the measures described above.</p>
Ecotricity Ltd	No	<p>Not particularly – and the GB spot market price (assuming it is granular by half-hours so as to attribute the correct price to the relevant imbalance period) is far better than the suggestion on page 35 of using Ofgem's price cap methodology, which bears no relevance to the supplier's costs in this situation. It would be far more accurate to use <a href="#">System price System Sell &amp; System Buy Prices   BMRS (bmreports.com)</a></p>
Sympower	No	<p>We do not see any gaming risk, as VLPs will have to prove that they have delivered demand response. P415 relies on P376's robust baseline, which has been approved for the Balance Mechanism and is also used for some local flexibility products. In its gaming risk assessment, CEPA did not mention the fact that VLPs are responsible for their imbalances and will be penalised if they fail to deliver on the baseline. As proven by P376, baseline evidence can be defined effectively, quashing the risk. In reality: Being better rewarded for VLP actions will entice suppliers to harvest more flexibility, decreasing prices even further in the longer term, hence benefitting all consumers. The risk highlighted by CEPA resides in the level of compensation (wholesale price vs. sourcing cost, where suppliers might gain the difference 'wholesale – sourcing' cost without any action) rather than who pays the compensation – which is a model limitation as it doesn't discriminate between these 2 independent variables – which lead the group to offer the 'compensation 3' option, where compensation is mutualised amongst electricity undertakings, using a long-term average price of energy level of payment. If the issue raised by CEPA lies on the baseline, the proposition's established baseline mechanisms (such</p>

Respondent	Response	Rationale
		as those in P376) ensure that suppliers cannot overstate initial purchasing position to pretend that they deliver more flexibility than effectively done. What CEPA also describes is inside trading, which could be easily monitored and policed. This is commonly done in other industries, such as finance, where the regulator monitors market actors' positions. Besides, such practice is a criminal offense, and would carry high reputational and licencing risks for suppliers. In any case, if suppliers' gaming risk is considered high by the regulator, there are 2 other options: 1/ Compensate with a mutualised sourcing cost (compensation 3). 2/ Not allowing suppliers to become VLPs (as done in other countries). As such we believe that the supplier gaming risk is low, and that it can be completely alleviated with the measures described above.
Senior Research Fellow	No	I have not been convinced in the discussions or papers that any gaming risk is material. If there is any gaming risk, I am sure that it can be addressed through improved monitoring and enforcement of unacceptable behaviour, for instance insider trading or anticompetitive behaviour. I am not convinced that potential gaming behaviour is a legitimate basis for discouraging DSR or for adopting Model 1 compensation.
Voltalis UK	No	<p>We do not see any gaming risk, as VLPs will have to prove that they have delivered demand response. P415 relies on P376's robust baseline, which has been approved for the Balance Mechanism and is also used for some local flexibility products.</p> <p>In its gaming risk assessment, CEPA did not mention the fact that VLPs are responsible for their imbalances and will be penalised if they fail to deliver on the baseline. As proven by P376, baseline evidence can be defined effectively, quashing the risk.</p> <p>In reality:</p> <p>Being better rewarded for VLP actions will entice suppliers to harvest more flexibility, decreasing prices even further in the longer term, hence benefitting all consumers.</p> <p>The risk highlighted by CEPA resides in the level of compensation (wholesale price vs. sourcing cost, where suppliers might gain the difference 'wholesale – sourcing' cost without any action) rather than who pays the compensation – which is a model limitation</p>

Respondent	Response	Rationale
		<p>as it doesn't discriminate between these 2 independent variables – which lead the group to offer the 'compensation 3' option, where compensation is mutualised amongst electricity undertakings, using a long-term average price of energy level of payment.</p> <p>If the issue raised by CEPA lies on the baseline, the proposition's established baseline mechanisms (such as those in P376) ensure that suppliers cannot overstate initial purchasing position to pretend that they deliver more flexibility than effectively done.</p> <p>What CEPA also describes is inside trading, which could be easily monitored and policed. This is commonly done in other industries, such as finance, where the regulator monitors market actors' positions. Besides, such practice is a criminal offense, and would carry high reputational and licencing risks for suppliers.</p> <p>In any case, if suppliers' gaming risk is considered high by the regulator, there are 2 other options:</p> <p>1/ Compensate with a mutualised sourcing cost (compensation 3).</p> <p>2/ Not allowing suppliers to become VLPs (as done in other countries).</p> <p>As such we believe that the supplier gaming risk is low, and that it can be completely alleviated with the measures described above.</p>
Enel X	Yes	<p>Yes. Under both Method 2 and Method 3 the dispatched energy gets paid for twice: once in the wholesale market and once through the socialised compensation. Under Method 3, the compensation price will not be high enough to provide much benefit in the envisioned gaming scenario, but under Method 2, it could be very high indeed. This could be exploited either by the supplier and VLP being the same party, or through some informal cooperation between them.</p> <p>Since Method 2 has no advantage over Method 3, and introduces this risk (as well as higher costs), it should not be adopted.</p>
Equiwatt Limited	No comment	None Provided

Respondent	Response	Rationale
Flexitricity	Yes	Yes, we believe there could be a gaming risk under compensation method 2.
OVO	Yes	Yes
ADE	Yes	Yes. Given the infancy of the dual supplier-VLP relationship we believe this could evolve into a material risk. Furthermore, it seems difficult to devise adequate mitigations for that risk at this time since we do not have a clear vision of how these interactions will look in the future.
EON	Yes	We do believe that CEPA have identified a potential gaming risk with Supplier Compensation Method 2. We believe that the question of how material this risk is and whether regulator monitoring and enforcement can be put in place to prevent this remains open.
NGESO	Yes	Yes, we believe that the introduction of supplier compensation would give rise to an increased likelihood of gaming.  If the VLP as per the design of P415 has to inform the supplier if they are moving up or down. This should remove the need for compensation as long as the VLP have to inform suppliers of the increase/decrease in demand. This would reduce the need for reserve and reduce the need for compensation, and remove the risk of gaming.

Question 16: The Workgroup believe that Ofgem’s Price Cap Methodology should be used to calculate the Supplier Compensation Reference Price representing the average Supplier’s sourcing costs, do you agree? Is there another method that you believe may be more appropriate?

## Summary

Yes	No	Neutral/No Comment	Other
5	5	1	1

## Responses

Respondent	Response	Rationale
Dcbel Europe	No	<p>Compensation 2 compensates suppliers at the price of energy when it is bought ultimately – the spot market.</p> <p>It can be calculated easily (many countries do it already), and reflect purchasing prices of smaller suppliers, who do not have the purchasing power of larger, integrated companies.</p> <p>Using a supplier average sourcing cost would therefore favour larger suppliers to the detriment of smaller energy suppliers, with financial impacts which could limit the level of competition amongst GB suppliers, to the detriment of end consumers.</p>
Ecotricity Ltd	No	<p>Not at all – the PCM, which is based on the forward curve of the next 3 quarters, bears no resemblance to the short-term imbalance impact of VLP actions on the supplier’s within day position. It would be far more sensible in terms of risk matching to use the relevant system price</p>
Sympower	No	<p>Compensation 2 compensates suppliers at the price of energy when it is bought ultimately – the spot market. It can be calculated easily (many countries do it already), and reflect purchasing prices of smaller suppliers, who do not have the purchasing power of larger, integrated companies. Using a supplier average sourcing cost would therefore favour larger suppliers to the detriment of smaller energy suppliers, with financial impacts which could limit the level of competition amongst GB suppliers, to the detriment of end consumers.</p>
Senior Research Fellow	Other	<p>I understand that the Ofgem methodology referred to here would apply to Model 3 and Model 1. As explained before, either Model 2 (spot market price)</p>

Respondent	Response	Rationale
		or Model 3 (long term average costs) are acceptable.
Voltalis UK	No	<p>Compensation 2 compensates suppliers at the price of energy when it is bought ultimately – the spot market.</p> <p>It can be calculated easily (many countries do it already), and reflect purchasing prices of smaller suppliers, who do not have the purchasing power of larger, integrated companies.</p> <p>Using a supplier average sourcing cost would therefore favour larger suppliers to the detriment of smaller energy suppliers, with financial impacts which could limit the level of competition amongst GB suppliers, to the detriment of end consumers.</p>
Enel X	Yes	Yes, this should work well enough. The precise methodology does not matter all that much: it just needs to produce a reasonable estimate of supplier costs, so that suppliers cannot argue that they are out of pocket (from it being consistently low), and not too much money is wasted on needless windfalls (from it being consistently high).
Equiwatt Limited	No comment	None Provided
Flexitricity	Yes	Yes, we believe this is an appropriate reference price to be used in compensation.
Ovo	No	<p>No. There are material issues with the Price Cap Methodology, and it is currently under review. Additionally, it is intended to represent a Cap on the market for the purposes of addressing a loyalty penalty. Its' use for this purposes would be far outside it's intended purpose, risking unintended outcomes.</p> <p>There are also specific issues. The principle of post-period reconciliation now seen in a number of cost elements (including wholesale balancing and weather risk costs) is fundamentally at odds with the application to a customer cohort that are primarily highly engaged. Additionally, the CFD approach – utilising LCCC forecasts rather than actual achieved costs – results in real-time material differences between the allowance and real costs. Given the impact of CFD prices on the wholesale market, the correlation impacts could drive significant market distortion.</p>
ADE	Yes	Yes. Although there is no definitive way to calculate exact supplier sourcing costs (without adding unduly

Respondent	Response	Rationale
		burdensome administrative processes on all parties) we believe the PCM is the most equitable approach. While purchases in forward markets will not comprise the totality of electricity bought for any single site, neither will additional trades at the spot price. Therefore, it seems most sensible to land in the middle, acknowledging that this is a separate issue to imbalance exemption which is also covered.
EON UK	Yes	We believe that whilst Ofgem's Price Cap Methodology is not perfect, it is the best available option that can be easily implemented and that captures most of the costs incurred by suppliers.
NGESO	Yes	The method seems appropriate.

Question 17: Having considered the findings of the P415 Final CBA Report in Attachment C, do you believe the benefits of implementing P415 will outweigh the costs?

## Summary

Yes	No	Neutral/No Comment	Other
5	1	2	4

## Responses

Respondent	Response	Rationale
Dcbel Europe	Other	<p>The Cost Benefit Analysis highlighted that costs of implementation are not negligible (low £10s millions up front implementation costs with £1s millions annual costs) and could outweigh benefits if P415 delivers only very small amounts of additional flexibility.</p> <p>In the compensation 1 scenario - which will lead to restricted volumes of demand response for the reasons shown in previous answer – the benefits of P415 are therefore limited., therefore providing very low flexibility returns to end user (and unfair given their flexibility impact in increasing the overall socio economical welfare).</p> <p>The CBA however estimates that “the potential upside benefits could dwarf implementation costs if P415 results in even moderate volumes of additional flex.”</p> <p>Because a mutualised compensation allows – for the reasons shown in previous answers – for a large rollout of demand response capability as well as a wide utilisation of flexibility, P415’s benefits far outweighs the costs in compensations methods 2 &amp; 3.</p>
Ecotricity Ltd	Neutral	Couldn’t say until we see the proposed detail of the obligation on the supplier
Sympower	Other	<p>The Cost Benefit Analysis highlighted that costs of implementation are not negligible (low £10s millions up front implementation costs with £1s millions annual costs) and could outweigh benefits if P415 delivers only very small amounts of additional flexibility. In the compensation 1 scenario - which will lead to restricted volumes of demand response for the reasons shown in previous answer – the benefits of P415 are therefore limited. The CBA however estimates that “the potential upside</p>



Respondent	Response	Rationale
		benefits could dwarf implementation costs if P415 results in even moderate volumes of additional flex." Because a mutualised compensation allows – for the reasons shown in previous answers – for a large rollout of demand response capability as well as a wide utilisation of flexibility, P415's benefits far outweighs the costs in compensations methods 2 & 3.
Senior Research Fellow	Yes	Yes.  In the Model 1 compensation scenario, whereby the VLP pays compensation, the net benefits of P415 are relatively limited. However, the conclusion points to benefits that dwarf implementation costs if P415 results in even modest amounts of additional flexibility, which is much more likely under the mutualization scenarios. It is important to recognize that the benefits of P415 will extend beyond the wholesale market because access to the latter will provide scale economies for DSR, which can then be supplied to other markets.
Voltalis UK	Other	The Cost Benefit Analysis highlighted that costs of implementation are not negligible (low £10s millions up front implementation costs with £1s millions annual costs) and could outweigh benefits if P415 delivers only very small amounts of additional flexibility.  In the compensation 1 scenario - which will lead to restricted volumes of demand response for the reasons shown in previous answer – the benefits of P415 are therefore limited.  The CBA however estimates that "the potential upside benefits could dwarf implementation costs if P415 results in even moderate volumes of additional flex."  Because a mutualised compensation allows – for the reasons shown in previous answers – for a large rollout of demand response capability as well as a wide utilisation of flexibility, P415's benefits far outweighs the costs in compensations methods 2 & 3.
Enel X	Yes	Yes. We expect that the costs will be trivial compared to the benefits, as it unlocks a substantial additional value stream that will lead to greater participation from existing customers and attract

Respondent	Response	Rationale
		participation by many more customers, as discussed in our response to Q7.
Equiwatt Limited	No comment	None Provided
Flexitricity	Yes	Yes we believe there is a clear case the P415 will introduce greater volumes of flexibility compared to the baseline.
OVO	No	No, we believe the impacts are ill-defined (as they are mixed in with the general benefits of flexibility, and the benefits of VLPs)  The costs are under-represented, as the detail of the proposal was insufficient at the time (and still is) to effectively estimate cost of impact. Additionally, supplier engagement has been poor throughout, so it's likely the supplier impact is under-represented.
ADE	Yes	We strongly agree with the finding that the benefits of P415, especially relating to overall system benefits, will outweigh the relatively low implementation costs.
EON UK	Yes	We do believe that there is a case to be made for the inclusion of VLPs in the wholesale market in terms of the benefits of greater competition driving more customer involvement and engagement. We would like to understand better the costs associated with a more complicated and less transparent settlement system, but overall, our belief is that the benefits outweigh the costs/risks.
NGESO	Other	Please refer to our consultation response to the CBA. We have attached with this document.

## Question 18: Do you have any further comments on P415?

### Responses

Respondent	Comments
Dcbel Europe	<p>CEPA’s CBA mentions that VLPs might not have a viable business case to invest if the Compensation 1 method is to be used in the wholesale market. If the Compensation 1 method trickles to other market products, the UK power markets’ attraction might be too low to justify investment from VLPs. This is all the more truer as many countries are competing to decrease their power prices, and aggregators will have to prioritise countries that offer the most attractive market conditions.</p> <p>The UK market has a huge potential; it is currently leading the way in flexibility provision – partly because the market products offered do not apply compensation. If the UK does not wish to replicate the French market’s collapse when compensation 1 was introduced, and would rather let flexibilities be paid for by the markets (than by subsidies), the UK must either choose not to compensate (based on the net benefit), or use a mutualised compensation: methods 2 or 3.</p>
Ecotricity Ltd	<p>Yes – in the same way suppliers have to show competence to assume VLP status, VLPs should have to pass stringent assessments to ensure they are capable to trade, and have sufficient liquidity and credit lines to be able to do so. We have all seen the cost to industry of supplier failures</p> <p>Estimated Elexon cost of £2.2-3.2 million is for a ‘volume of flex that could be deployed as a result of P415 (which is) highly uncertain’, as the Assessment Procedure says. It would be instructive to see just how much additional volume has come into the Wider BM through VLPs (relatively speaking) before speculating on how much flex value can be delivered merely through a relatively small number of VLPs being able to access the wholesale market</p>
Sympower	<p>It is proposed that the compensation applied to the wholesale market by the P415 be applied to the Balance Mechanism (BM) by the P444 code modification. If most of the volumes are delivered by the wholesale market, attention should be paid to market operators (including VLPs) who have already invested in the UK on the basis that ancillary products did not attract compensation, or wish to invest. The business case for those market players would not be economically viable in the future if compensation is applied to the BM, and there is a risk that they might exit or not enter the UK market, or at best defer investment.</p> <p>Moreover, CEPA’s CBA mentions that VLPs might not have a viable business case to invest if the Compensation 1 method is to be used in the wholesale market. If the Compensation 1 method trickles to</p>

Respondent	Comments
	<p>other market products, the UK power markets' attraction might be too low to justify investment from VLPs. This is all the truer as many countries are competing to decrease their power prices, and aggregators will have to prioritise countries that offer the most attractive market conditions.</p>
Senior Research Fellow	<p>I would like to thank the organizers and consultants for all their work and to reinforce the need for speed, either in the implementation of P415 or in developing other fast-track methods for promoting aggregation and DSR while P415 is discussed and implemented.</p>
Voltalis UK	<p>It is proposed that the compensation applied to the wholesale market by the P415 be applied to the Balance Mechanism (BM) by the P444 code modification.</p> <p>If most of the volumes are delivered by the wholesale market, attention should be paid to market operators (including VLPs) who have already invested in the UK on the basis that ancillary products did not attract compensation. Such market players' operations might not be economically viable in the future if compensation is applied to the BM, and there is a risk that they might exit the UK market, or at best defer investment.</p> <p>Moreover, CEPA's CBA mentions that VLPs might not have a viable business case to invest if the Compensation 1 method is to be used in the wholesale market. If the Compensation 1 method trickles to other market products, the UK power markets' attraction might be too low to justify investment from VLPs. This is all the more truer as many countries are competing to decrease their power prices, and aggregators will have to prioritise countries that offer the most attractive market conditions.</p> <p>The UK market has a huge potential; it is currently leading the way in flexibility provision – partly because the market products offered do not apply compensation. If the UK does not wish to replicate the French market's collapse when compensation 1 was introduced, and would rather let flexibilities be paid for by the markets (than by subsidies), the UK must either choose not to compensate (based on the net benefit), or use a mutualised compensation: methods 2 or 3.</p>
Enel X	<p>It's a good thing. It's a shame that it has taken so long. Let's get on with it.</p>
Equiwatt Limited	<p>P415 doesn't address the scenario where a supplier will sometimes be able to see if a VLP has traded some of their customers' load (e.g. if they see a VLP trading on the market, or if a VLP regularly does it for a subset of their customers) and adjust their market position accordingly. In such cases, there should be no need for compensation.</p> <p>Requiring the aggregator / VLP to pay compensation puts uncertainty onto the value of trading flex, which is bad for flexible</p>

Respondent	Comments
	<p>consumers and for flex markets, so if compensation is necessary, it should be socialised, at least while flex markets are still nascent.</p> <p>Calculations of compensation should be based on the suppliers' actual costs. Using a marginal / spot market price is reasonable when trying to incentivise people to maintain a balanced position in the market (i.e. for cash out markets), but in this case we are trying to support development of flex markets. And in any case, there is no reason why the supplier should earn more than their actual costs, as they have done nothing to deliver the flex.</p>
Flexitricity	<p>This is an extremely important and necessary change to the market rules, to enable small scale and demand side response better access to the wholesale market. Wholesale market revenues are an important part of the revenue stack that independent aggregators currently cannot access.</p> <p>Unlike the balancing mechanism, it is a market in which there is a clear merit order of dispatch, with volumes of flexibility determined via market mechanisms, rather than central procurement by National Grid ESO. It is the deepest flexibility market, and merit order dispatch means these volumes are not subject to 'skip rates' that are seen in the balancing mechanism.</p> <p>Moving to half hourly settlement will remove the remaining key barrier to small scale and DSR flexibility, and this is expected from 2025. Once this is in place, much greater volumes of domestic flexibility will be possible, and aggregators are in a unique position to optimise this.</p> <p>Without access to wholesale markets, aggregators will not be able to fully optimise flexibility, and volumes of flexibility brought to the system will be undermined.</p>
OVO	<p>OVO is a strong advocate for flexibility as a crucial resource for achieving a Net Zero energy system at lowest cost. We have a track record of innovation in this space, utilising customer behaviour via our unique "Power Move" and "Shift and Save" trials, as well as optimising flexible assets (such as via our Charge Anytime, and V2X trials). We are fully supportive of exploring approaches to extending the reach and value of domestic flexibility beyond the traditional supplier hub model. We are heavily investing in our Kaluza partner-company to make this a reality. It is important we can access all forms of flexibility, and we should explore all options for maximising this access.</p> <p>It is with that context, therefore, that we raise the following concerns:</p> <ul style="list-style-type: none"> <li>• It is easy to confuse the benefits of flexibility and the VLP model with P415 itself. The benefits of flexibility are not in question here, but the additional benefit that P415 will offer should be explicitly defined.</li> </ul>

Respondent	Comments
	<ul style="list-style-type: none"> <li>• Additionally, throughout the CBA and consultation document, the logic that P415 will extend the amount of flexibility is used to describe P415's benefits, and yet the logic that changes will happen anyway under the VLP model is used to dismiss risks. It is unclear based on the documentation provided, what the additional benefit P415 will provide, and what additional risks it introduces.</li> <li>• There are materially significant unanswered questions on the implementation of P415, which have material impact on the scale and cost of industry impacts. In particular: <ul style="list-style-type: none"> <li>o What is the appropriate value for "deviation volumes" – the principle outlined in this document clearly defines the VLP dealing only in "Deviation Volumes" and not "Metered Volumes". This is a useful distinction as VLPs are not Suppliers, and clearly Supply remains with the Supplier (under a Supply licence). However, the proposed compensation method essentially attempts to value Deviation Volume as a Supplier Volume (i.e. full stack sourcing cost as opposed to a deviation in expected margin)</li> <li>o Customer data sharing – including the sharing of retail contract information – is not resolved</li> <li>o The dislocation of metered from settled volumes has implications for settlement error and dispute resolution. This isn't explored.</li> <li>o The SOLR / insolvency process isn't explored – if a VLP defaults what happens to their contracted position? A supplier could end up suddenly being responsible for significant volumes that are no longer controllable or planned to respond to market conditions. The Supplier Compensation Method, and insolvency processes should account for this scenario.</li> <li>o What does this look like for the customer? Throughout the proposal, there are expectations on customer contracting behaviour (e.g. when considering double-selling of flexibility) and customer data sharing. It is unclear in aggregate what experience the customer will have, and whether this is a reasonable experience for them to engage in. Additionally, the issues of dispute resolution, default, and customer service are not explored here but are crucial to get right if the benefits of P415 are to be realised</li> <li>o What is "normal" demand, and who is responsible for hedging it? Should we consider X% of e.g. EV demand to be "flexible"? Should the VLP be responsible for hedging this, or the supplier? This fundamental question impacts how Compensation should work.</li> </ul> </li> </ul> <p>We have observed significant issues with baselining of domestic flexibility volumes during participation in the DFS. We do not think P376 as currently outlined is appropriate for baselining of domestic</p>

Respondent	Comments
	<p>flexibility volumes, and therefore P415 should be restricted to assets with metering</p> <p>The principle of iterating towards an appropriate pricing mechanism is an admirable one, but given the timescales of modifications, we do not think it's an appropriate approach in this case; we are extending the potential scale of impact via P415 before effective iteration towards a Minimum Viable Product is achieved. P415 extends the impacts of the nascent VLP market before essential lessons have been learnt (such as how compensation should work). One approach is to use an SCR to resolve these fundamental questions upfront. Another, is to use the existing VLP activities, with the help perhaps of P444, to iterate with restricted potential downside before finding a solution that can be rolled out further.</p>
ADE	<p>We strongly support this modification and believe it should be progressed at the fastest feasible pace.</p>
EON UK	<p>We do have some concerns that compensating a supplier simply for the energy they have procured and not been able to sell does not capture all the costs that a supplier would look to recover through a tariff's unit rate. By reducing a customer's demand through demand destruction means that a supplier who attributes some fixed costs e.g. operational costs to their unit rate will have less volume in which to recover these costs. In order to correctly set a unit rate that captures all these costs in the unit rate, a supplier will have to estimate the amount of demand destruction that might be caused by VLP actions. Whilst we appreciate that this new risk will be small for a large supplier, it might have a more significant impact on a small supplier with less volume in which to recover these additional costs and for whom the change in volume will be more impactful. We believe that this code modification ought to quickly ascertain a 'fair' price for compensation based on an efficient supplier's sunken cost base e.g. energy plus some fixed costs that is recovered through the unit rate.</p>
NGESO	<p>We have concerns however in terms of data provision. This modification would not require VLPs to provide data to ESO or their supplier. Without this data, additional demand flexibility will manifest as additional demand uncertainty, leading to additional reserve capacity requirements and ultimately additional costs. If not properly arranged, the additional uncertainty could significantly erode the potential benefits.</p> <p>Any demand side service which is not notified to ESO directly or indirectly will increase the risk of inaccuracies in forecasting. In this scenario, VLPs would not have to notify the ESO or the supplier in regards to their activities, which would lead to the risk of significant increased cost in system operation as more reserve would be held and could lead to detrimental system impacts and increase industry costs.</p>