

# Report Phase Consultation Responses

E L E X O N

## P415 ‘Facilitating Access to Wholesale Markets for Flexibility Dispatched by VLPs’

This Report Phase Consultation was issued on 17 April 2023, with responses invited by 17 May 2023.

Phase

Initial Written Assessment

Definition Procedure

Assessment Procedure

Report Phase

Implementation

### Consultation Respondents

Respondent	Role(s) Represented
E.ON UK	Supplier
Association for Decentralised Energy (ADE)	Trade Body (The ADE is the UK’s leading decentralised energy advocate, focused on creating a more cost effective, low-carbon and user-led energy system. The ADE has more than 160 members active across a range of technologies, including both the providers and the users of energy equipment and services. Our members have particular expertise in demand side energy services including demand response and storage, combined heat and power, heat networks and energy efficiency.)
Drax BSC Parties (including Opus Energy and Drax Energy Solutions)	Generator, Supplier, ECVNA, MVRNA
OVO	Supplier
DR4EU	Industry Group
Voltalis	Virtual Lead Party

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## Question 1: Do you agree with the Panel's initial majority recommendation that the P415 Alternative solution should be approved?

### Summary

Yes	No	Neutral/No Comment	Other
2	3	1	0

### Responses

Respondent	Response	Rationale
E.ON UK	Yes	Views have not changed since response to Assessment Consultation (Supportive of Compensation 1 - VLP pays Supplier compensation)
ADE	Yes	Views have not changed since response to Assessment Consultation (Supportive of Compensation 1 - VLP pays Supplier compensation)
Drax BSC Parties	No	<p>We support mechanisms to enhance and extend the value and access of consumer flexibility in the wholesale market, and with increased engagement of demand side response. However, we do not believe that P415 achieves this in a proportionate, practical and efficient way.</p> <p>One of the P415 principles was that the registered Supplier at a site where the customer has chosen to use a VLP independent aggregation service should receive no direct benefit or detriment from the service.</p> <p>However, the impact would increase cost and complexity and require Supplier system changes to accommodate the proposed extension of the VLP principle. This would include changes in many different areas including hedging and forecasting, trading, billing and settlement, and balancing of power. The cost and complexity of making changes to processes and associated systems should not be under-estimated.</p> <p>We believe that further work is needed to ensure the solution, is proportionate, practical and delivered in a way that creates a level playing field for industry participants and delivers value for consumers.</p> <p><b>Potential abuse/gaming</b> Under the majority Workgroup preferred Alternative Solution, VLPs are liable to pay compensation costs</p>

Respondent	Response	Rationale
		<p>for volumes adjusted by that VLP, with compensation paid at a price that approximates the Supplier's expected sourcing costs, obtained by using Ofgem's published Price Cap Methodology.</p> <p>While we understand the complexities of deriving a methodology to calculate the reasonable compensation, the solution as currently designed is open to potential abuse/gaming. For example, in a falling market where the Day Ahead Price is lower than the Wholesale cost allowance within the Price Cap, VLPs could purchase volumes at a lower Day Ahead price whereas Suppliers would be required to pay VLPs at the higher Cap Price. This opportunity for gaming could distort the market to the detriment of consumers and Suppliers.</p> <p>We therefore believe that P415 as currently drafted is negative towards Applicable BSC Objective C) "Promoting effective competition in the generation and supply of electricity, and (so far as consistent therewith) promoting such competition in the sale and purchase of electricity".</p> <p><b>Hedging and forecasting and reporting impacts</b>  The proposals would lead to an increased need for more granular forecasting on a site basis. This would result in an increased administrative burden for Suppliers as well as more complex hedging requirements. In addition, reporting and reconciliation practices may need to be amended to reflect the site-specific pass-through of imbalances, costs and compensation values. This is likely to lead to significant implementation costs associated with IT change and testing as well as ongoing administrative costs.</p> <p>With regards to new customers, the proposals are likely to lead to more complex tariff offerings or inability for Suppliers to price contracts accurately due to an increased lack of certainty over the customers' consumption volumes across the contracted period. More importantly, from a customer perspective, there will be a higher risk of being exposed to volatile imbalance prices that will be passed through on a site basis. Currently, many customers benefit from imbalance risks being socialised across a Supplier's portfolio. This gives them certainty over their total charges and reduces their risk of being exposed to extreme imbalance</p>

Respondent	Response	Rationale
		<p>prices. This solution would lead to customers facing the volatility of imbalance charges and associated risk premia that Suppliers may charge, resulting in overall higher cost to consumers over the supply contract period.</p> <p><b>Liquidity issues</b> Suppliers are required to provide credit cover for the volumes they wish to trade. However, the credit cover they provide may not match the actual volume needed due to VLP actions. While the intent is for Suppliers to be compensated for the wholesale price, they won't be compensated for the cost of the credit cover. This would give a competitive advantage to VLPs because although they would be required to lodge credit cover themselves, this would be to cover volumes which are within their control and so they should be able to forecast more accurately. As such, we believe this would be negative towards Objective C) "Promoting effective competition in the generation and supply of electricity, and (so far as consistent therewith) promoting such competition in the sale and purchase of electricity".</p> <p><b>Costs and complexity</b> Assuming that increased competition (stemming from VLPs having better market access) will drive down prices for Suppliers is not necessarily correct. It will be more complex for Suppliers to manage their costs and imbalance position within their own portfolio. For example, significant changes in volumes associated with large Demand Side Response customers will significantly impact forecast consumption at MPAN level and the portfolio as a whole.</p> <p><b>In summary</b> For the collective reasons set out above, we believe P415 would be negative towards:</p> <ul style="list-style-type: none"> <li>• <b>Objective b)</b> - "The efficient, economic and co-ordinated operation of the National Transmission System" - because we do not agree that P415 is better than the current baseline. In this response we have set out a number of issues regarding the proposed Supplier compensation together with the potential for abuse/gaming by VLPs. P415 as currently proposed introduces significant complexity and risk of consumer harm for an unquantified and non-specific benefit.</li> </ul>

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		<ul style="list-style-type: none"> <li>• <b>Objective c)</b> - “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” – because, although this modification may result in better market access for VLPs, there are a range of negative consequences that outweigh the benefits, given the potential for abuse/gaming by VLPs and non-level playing field of Supplier impacts, including to systems.</li> <li>• <b>Objective d)</b> – “Promoting efficiency in the implementation and administration of the balancing and settlement arrangements” - given the added complexity associated with the solution.</li> </ul>
Ovo	N/A	<p>In addition to our submission to the Assessment Procedure Consultation, we would like to make the following comments:</p> <p>Our concerns, and some relevant concerns raised by other parties have not been appropriately reflected in the Consultation document. We also note that the majority of the respondents are VLPs, with poor representation from suppliers and no generation representation. We also note that some of the VLPs are not actually active or have no experience in the UK market, with 3 of them (Dcbel, Sympower and Volatlis UK) clearly duplicating eachother’s responses (large portions are identical). However, the summary of votes is represented volumetrically and we feel this bias in respondents isn’t appropriately considered in the Consultation document.</p> <p>An example of our points that were not reflected in the summary:</p> <ul style="list-style-type: none"> <li>• The report summarises the answer to the question: “Do you agree with the Workgroup’s assessment of the impact on the BSC Settlement Risks?” as “Respondents either agreed with the assessment of impacts on the BSC Settlement Risks or remained neutral on this point.”. However, we identified key concerns with the assessment of settlement risk.</li> </ul> <p>Additionally, we find the CBA analysis insufficient as the basis of such a significant market impact. Given the scale of this change, we would recommend a Significant Code Review be launched, to consider</p>

Respondent	Response	Rationale
		the various interacting factors, such as the impacts to recovery of network costs, appropriate regulation of entities offering flexibility services to domestic customers, and the impact on markets themselves.
DR4EU	No	<p>In the UK, DSR is becoming increasingly important as the energy system evolves towards a more decentralised and renewable-based model. DSR will need to reduce or shift demand, on a large scale, during peak periods or when renewable generation is low, reducing the need for expensive and polluting back-up power plants, therefore supporting the UK's Net Zero ambitions.</p> <p>In the mid and long term, one cannot assume people would simply stand by their appliances to switch them on and off depending on wind and sun. For DSR to provide the hundreds of GWh per day that will be needed by the power systems, consumers will need to have the necessary infrastructure and technology in place to adjust their electricity usage automatically. Besides, in the cost of living crisis and with the uncertainty on retail prices, the upfront cost of such investments in automation can deter many households. Relying on households' decisions to invest in new appliances and DSR technology will take decades.</p> <p>To accelerate the adoption and usage at scale of DSR, it is therefore essential that aggregators get access to the wholesale market, making it economically viable for them to invest in the infrastructure and to roll out the necessary automation in large numbers quickly, making aggregator-led DSR an easy and attractive choice for consumers. This is what the P415 should aim to achieve.</p> <p>The proposed solution rewards aggregators for the activation of DSR via a full payment for their service, while suppliers benefit from lower power prices. Suppliers may mutualise the cost of the foregone revenues for the power that hasn't been used nor generated (given DSR is sold in the market instead of generation), and this payment is well below the benefits they get from lower power prices.</p> <p>The alternative solution does not take into account the full benefits of DSR, estimating that flexibilities will be rolled out 'anyhow'; therefore disregarding what happens in the real world – that aggregators</p>

Respondent	Response	Rationale
		<p>roll out flexibilities at scale when given the right market conditions.</p> <p>The alternative solution recommends that VLPs pay suppliers for the power that consumers haven't used and that is not generated. Doing so artificially inflates the cost of DSR activation, hindering aggregators' investment. The UK market won't then benefit from sufficient DSR capacities and activation, hence power prices will be kept high.</p> <p>Moreover, the CBA acknowledges that a wholesale market with VLPs being charged the cost of compensation to suppliers will not create enough value for VLPs to have a business model allowing for the investment. In practice, only access to the large trading volumes of the wholesale market can support the rollout of DSR technologies at scale and the large usage that will be needed daily by the power system in the UK.</p> <p>The alternative solution distorts the power market towards production, which will be its main beneficiary. We therefore recommend that the regulator chooses the proposed solution, where compensation costs are mutualised among market undertakings, which is the only solution allowing for DSR automation to be rolled out at scale, on a market basis. As such, only the proposed solution promotes effective competition in the generation and supply of electricity and (so far as consistent therewith) promotes such competition in the sale and purchase of electricity (objective c), while also having a positive effect on (objective e's) compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency.</p>
Voltalis	No	<p>In the context of the UK's electrification of heating and transport, DSR is going to be needed on a very large scale to reduce energy demand when renewable generation is low. The Climate Change Committee assessed that, by 2035, 20% of demand will need to be flexed as 70% of production will come from renewables. Historically DSR has been provided by industry in the UK – noting that industrial DSR relies on large capacity payments and sparse activations. The systems of the future will need DSR every day, several times a day. This can only be delivered by using the flexibility from buildings. However we cannot assume consumers will stand by</p>

Respondent	Response	Rationale
		<p>their heat pumps in order to switch them on and off when needed to alleviate renewables' intermittency at scale; DSR will need to be automated.</p> <p>Given the uncertainty on retail prices and cost pressures on consumers, the rollout of DSR is likely to be a slow process if the automation relies on consumers' investment. The proposed P415 solution, on the other hand, gives wholesale market access to aggregators without barriers, which allows them to roll out their solutions quickly, at large scale. We know by experience that, given that they do not pay the cost of the technology, an aggregator-led rollout of DSR capability is an easy decision for consumers, who engage in vast numbers.</p> <p>Aggregators can accelerate the adoption of the technology and deliver the necessary volumes of DSR needed for today and tomorrow's power systems. The rollout of DSR technology by aggregators is however directly dependent on the volumes they are allowed to place on the markets. When aggregators have access to market volumes, being fully rewarded for their actions (as per the proposed solution), they have a positive business case to invest. Aggregators' actions on the power markets in turn have a proven effect on lowering power prices, benefitting all consumers and suppliers. The proposed solution relies on mutualising the cost (or lost revenues for the power that hasn't been used), the benefits suppliers getting from lower power prices well exceeding mutualisation costs. On the other hand, the alternative solution does not take into account the benefits DSR entails for suppliers. And the comparison is based on the (unrealistic) assumption that flexibilities will be rolled out 'anyhow' i.e. disregarding real-life effects of direct compensation on the rollout of DSR – that aggregators only roll out flexibilities at scale when they do not encounter barriers (which include compensation).</p> <p>The alternative solution recommends that VLPs pay suppliers for the power that consumers haven't used and generators haven't produced, thanks to DSR being sold in the market instead of generation. This lose-lose scenario will result impeding DSR participation in the market, hence in higher power prices for suppliers and consumers, and power systems won't have the daily level of DSR needed to maintain capacity adequacy. Even the CBA</p>



Respondent	Response	Rationale
		<p>acknowledges that a wholesale market with direct compensation from VLPs to suppliers will not create enough value for VLPs to have a business model allowing for the investment from wholesale market revenues, which in practice will create a barrier to investment and therefore will dramatically lower DSR volumes.</p> <p>Aggregators currently have access to the Balance Mechanism, but access to the wholesale markets, much wider, is necessary to change the scale of the investments made. Only the proposed solution promotes effective competition in the generation and supply of electricity and (so far as consistent therewith) promotes such competition in the sale and purchase of electricity (objective c), while also having a positive effect on (objective e's) compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency</p>

## Question 2: Do you agree with the Panel that the redlined changes to the BSC deliver the intention of P415 for the Proposed and Alternative Modifications?

### Summary

Yes	No	Neutral/No Comment	Other
3	1	2	0

### Responses

Respondent	Response	Rationale
E.ON UK	Yes	Views have not changed since response to Assessment Consultation (Supportive)
ADE	Yes	Views have not changed since response to Assessment Consultation (Supportive)
Drax BSC Parties	No	As set out above, although we support mechanisms to enhance and extend the value and access of consumer flexibility in the wholesale market, and with increased engagement of demand side response we not believe that P415 achieves this in a proportionate, practical and efficient way. We believe that further review and cost benefit analysis is required.
Ovo	Neutral	Views have not changed since response to Assessment Consultation (Neutral)
DR4EU	N/A	None provided
Voltatis	Yes	Views have not changed since response to Assessment Consultation (Supportive)

## Question 3: Do you agree with the Panel's recommended Implementation Date for P415?

### Summary

Yes	No	Neutral/No Comment	Other
1	4	1	0

### Responses

Respondent	Response	Rationale
E.ON UK	Yes	Views have not changed since response to Assessment Consultation (Supportive)
ADE	No	Views have not changed since response to Assessment Consultation (Faster implementation preferred)
Drax BSC Parties	No	We believe that, for the reasons as set out in our response above, considerable work is still required in order to ensure that a practical and cost-effective solution is developed, and which does not introduce unnecessary risk to industry participants. Once this has been achieved, we would require at least 12 months lead time following an Authority Decision in order to implement required changes to our systems and processes.
Ovo	No	Views have not changed since response to Assessment Consultation (Date is too ambitious)
DR4EU	N/A	None provided
Voltalis	No	Views have not changed since response to Assessment Consultation (Faster Implementation preferred)

## Question 4: Do you agree with the Panel's initial view that P415 should not be treated as a Self-Governance Modification?

### Summary

Yes	No	Neutral/No Comment	Other
1	0	4	0

### Responses

Respondent	Response	Rationale
E.ON UK	N/A	None
ADE	N/A	None
Drax BSC Parties	Yes	Given the impacts and complexities associated with P415, and the risks that the current solutions introduce, we agree with the unanimous Workgroup and Panel opinion that it should not be treated as a Self-Governance Modification.
Ovo	N/A	None
DR4EU	N/A	None provided
Voltatis	N/A	None

Question 5: Do you agree with the Panel's initial consideration 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
3	0	3	0

### Responses

Respondent	Response	Rationale
E.ON UK	Yes	Views have not changed since response to Assessment Consultation (Supportive)
ADE	Yes	Views have not changed since response to Assessment Consultation (Supportive)
Drax BSC Parties	Yes	We have no comments at this time.
Ovo	Neutral	Views have not changed since response to Assessment Consultation (Neutral)
DR4EU	N/A	None provided
Voltatis	Neutral	Views have not changed since response to Assessment Consultation (Neutral)

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

### Summary

Yes	No
0	6

### Responses

Respondent	Response
E.ON UK	None
ADE	None
Drax BSC Parties	None
OVO	None
DR4EU	None
Voltalis	None

## Question 7: Do you have any further comments on P415?

### Summary

Yes	No
0	6

### Responses

Respondent	Response
E.ON UK	None
ADE	None
Drax BSC Parties	None
OVO	None
DR4EU	None