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### **ED3 Sector Specific Methodology Consultation**

EPEX SPOT, as a power exchange and flexibility market operator, welcomes the opportunity to provide input to the ED3 Sector Specific Methodology Consultation. The upcoming price control period (2028-2033) will coincide with a rapid increase in electricity demand alongside further growth in intermittent generation and storage. Markets will play a significant role in optimising flexibility resources to help manage the network.

We are confident that Great Britain can meet this challenge as it has already made significant progress in developing liquidity in its flexibility markets, which are now regarded as world-leading. EPEX SPOT frequently engages with international stakeholders (most recently from Japan, Canada, Australia and South Korea) who seek to learn from the UK's success in establishing and scaling local flexibility markets.

The Clean Flexibility Roadmap puts flexibility as a cornerstone for integrating renewables and achieving clean power by 2030 and net zero by 2050 and we welcome Ofgem's commitment that local flexibility will remain a critical tool for DNOs for the ED3 period and beyond.

Networks services need to work in the best interest of consumers, through creating a smarter, more secure and resilient network. A well-functioning flexibility market is essential in delivering these objectives. We welcome the messaging around the importance of flexibility. Our experience when discussing the ED3 framework decision with market participants was that it had created uncertainty regarding the future of local flexibility markets through moving away from flex first. We are pleased that Ofgem has clarified that it expects the use of flexibility markets to deliver high levels of consumer service, including improvements in connection times and continued reliability. And we would also argue value for money.

From our point of view there are three main areas which we see as important to continue to develop flexibility markets. First, flexibility offers a cheaper option to overbuilding the network – it allows the SOs to more efficiently use the existing infrastructure. Secondly, flexibility is hard to price particularly when considering whole system value. Simple to explain and understand use-cases such as deferred infrastructure build costs

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are valuable when trying to understand the value of flexibility. Thirdly, NESO and DSOs must work together to develop the demand-side of the flexibility markets. The supply side of the flexibility markets is being addressed through the Market Facilitator but strengthening the demand in the market will help drive value and investment.

- Better consumer value. There should be confidence that the network will develop according to central planning but there should also be recognition that copper-plating the network is an extremely costly approach for consumers. As described in the document flexibility is complementary to the network build. There should be pragmatism to the amount of network build that can be delivered in a timely and cost-efficient manner. Therefore, deferring network build should remain a tool that is available to DNOs to give themselves headroom to operate the network and not be marginalised to rare examples. We believe flexibility should be encouraged to ensure the safe operation of networks whilst giving the System Operators time to upgrade the network in a timely and cost-effective manner. Flexibility markets contribute critically to the adequacy of the network through the reservation of flexible assets. This also provides a means to increase headroom in the network and provide more resilience avoiding supply disruptions. We agree flexibility should not be used so System Operators can avoid upgrading their network when needed, but there should be a balanced approach between the two.
- Value of flexibility. We support the use cases described in the consultation for flexibility. Namely, operational actions to cover planned and unplanned outages, to support the delivery of consumer outcomes such as rapid connections and to reduce curtailment. The challenge remains how to best value flexibility for these different use cases. One of the advantages of the network deferral use-case is that it presents a more straightforward calculation regarding to value of flexibility procurement. From our experience, simplicity is important when trying to develop markets. It allows transparency, creates trust and confidence to garner participation. The more complex the market, the harder it is to participate with confidence. Based on our experience with the wholesale market, complexity in products will follow, but only after the fundamentals of the market, such as reliable price formation, have been proven and liquidity developed. Investment deferral is an easier to understand use case, which can be more easily articulated in terms of value.
- Improved T-D Coordination. Linked to establishing the value of flexibility is the need for better T and D coordination. The consultation document describes how the DNOs will have a role to play in unlocking whole system value of local flexibility. This requires the decision making to allow the DNOs (or NESO) to value the impact of their procured flexibility across the system. We would welcome system operators' obligations to continue to incentivise better coordination between NESO and DNOs to further develop the demand side of flexibility and increase the value in flexibility markets. Technically, the EPEX Spot Localflex platform already has the capability to optimise based on network constraints and facilitating optimisation across different voltage levels.

The market platform can already provide market access, enable revenue stacking, and strengthen coordination between local and national networks. The challenge remains how the SOs coordinate and value their actions within their own competencies.

EPEX SPOT appreciates the opportunity to contribute to this consultation and fully supports Ofgem's ambition to embed flexibility as a core component of network planning and operation during ED3 and beyond. We believe that a balanced approach—combining timely network reinforcement with the strategic use of flexibility—will deliver the best outcomes for consumers in terms of cost, reliability, and sustainability. We would welcome the opportunity to engage further with Ofgem and industry stakeholders to share our experience and explore practical steps to strengthen flexibility markets, improve T-D coordination, and ensure that Great Britain continues to lead globally in this area.

## **About EPEX SPOT**

EPEX SPOT is a leading European power exchange, operating transparent and efficient electricity markets across multiple countries. Our mission is to enable secure, sustainable, and cost-effective energy systems through robust market design and innovation.

In Great Britain, EPEX SPOT plays a pivotal role in both wholesale and flexibility markets. We operate one of Europe's most liquid wholesale electricity markets, providing reliable price signals and market integration that underpin system security and efficient investment. This expertise extends to local flexibility markets through our Localflex® platform, which enables Distribution System Operators (DSOs) to procure flexibility in a transparent and competitive way.

Building on projects such as Enera in Germany and GOPACS in the Netherlands, EPEX SPOT launched Localflex® in Great Britain. Since late 2024, UK Power Networks has been co-optimising day-ahead flexibility with long-term reservation contracts, selecting the most cost-effective option to deliver direct savings for consumers. This is enabled through the Localflex® platform, operated by EPEX SPOT, which streamlines bidding, trading, and settlement while ensuring compatibility with the national market structure and scaled for over 100 providers and 200k assets. Currently, this is facilitating clean flexibility procurement for UKPN.

EPEX SPOT combines deep experience in wholesale trading with cutting-edge flexibility solutions, creating synergies that strengthen coordination between local and national networks. Our commitment is to support Great Britain in achieving its clean energy goals while maintaining reliability and affordability for consumers.