



Making a positive difference
for energy consumers

Sara Vaughan
BSC Panel Chair
Elexon
350 Euston Road
London
NW1 3AW

Date: 31 March 2026

Dear Sara,

BSC modification proposal P510 'Introducing Direct Compensation for Virtual Trading Party actions in the Wholesale Market' (P510) – decision on urgency

On 5 March 2026, Flexitricity (the 'Proposer') raised BSC modification proposal P510.¹ Following the BSC Panel meeting, we² received a letter of request from the Chair of the BSC Panel, together with support from the Proposer, that P510 be treated as an urgent modification proposal.

This letter sets out our decision that P510 will not be progressed on an urgent basis.

¹ [P510 Introducing Direct Compensation for Virtual Trading Party actions in the Wholesale Market](#)

² References to the "Authority", "Ofgem", "we", and "our" are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day-to-day work. This decision is made by or on behalf of GEMA.

Background

On 6 October 2023, Ofgem approved BSC code modification P415: 'Facilitating access to Wholesale Markets for flexibility dispatched by Virtual Lead Parties (VLPs)'.³ P415 aimed to facilitate access to wholesale electricity markets for flexibility dispatched by independent aggregators, along with introducing mutualised compensation for suppliers who have been affected by this activity. P415 also introduced the role of a 'Virtual Trading Party' (VTP) as a BSC party. VTPs are independent aggregators who trade a customer's flexibility in the wholesale market.

The Proposer states that under the current mutualised compensation arrangements, VTPs have not been incentivised to provide bidirectional flexibility. This creates an incentive for VTPs to provide demand reduction only and constrains the development of demand creation in periods of excess renewable generation. The Proposer states that this is a barrier to deliver the demand turn up actions targeted in the Clean Flexibility Roadmap.⁴

P510 proposes replacing the existing mutualised compensation arrangements with direct compensation. This would align compensation mechanisms for the wholesale market and balancing mechanism (BM) following Ofgem's decision for direct compensation in the BM via P444.⁵ The Proposer states that direct compensation would also reduce the potential supplier "double benefit" gaming risk that was identified in the P415 CBA, whilst also improving price signals for both demand shifting and demand creation.

Also on 5 March 2026, Voltalis raised BSC modification proposal P509 'Consumer benefits and safety net for Demand Side Response participation in the wholesale market'.⁶ P509 proposes that Elexon undertake regular benefit assessments and publish aggregated insights on DSR performance. If repeated negative net impacts are identified, the framework would provide appropriate governance, escalation arrangements and regulatory oversight. On 18 March 2026, Axle Energy raised BSC modification proposal P511 'Eligibility Boundaries for Generation Participation in P415'.⁷ P511 proposes

³ [Ofgem decision P415 'Facilitating Access to Wholesale Markets for Flexibility Dispatched by VLPs'](#)

⁴ [Clean flexibility roadmap](#)

⁵ [P444 Compensation for Virtual Lead Party actions in the Balancing Mechanism](#)

⁶ [P509 Consumer benefits and safety net for DSR participation in the wholesale market](#)

⁷ [P511 Eligibility Boundaries for Generation Participation in P415](#)

introducing a trading eligibility threshold, above which, generation assets would be ineligible to participate in the wholesale market via VTPs.

The proposers for P509, P510 and P511 noted that there has been a recent increase in the volume and cost of the P415 mutualised compensation fund, which is used for compensating suppliers when they are affected by a VTP action. Analysis of Elexon's MR1A data from 1 September 2025 to 28 February 2026 showed that approximately £19 million of supplier compensation cashflow has been mutualised.

The proposers noted that this recent increase in the mutualised compensation fund appears to originate from large generators, that already have established routes to market, using VTP arrangements. This creates a risk of potential double remuneration for certain generation assets, that can be paid both by their VTP and their power offtaker, which could have unintended consequences on market signals and efficiency.

Whilst P510 was not originally intended to be urgent, the Proposer noted that supplier concerns and recent data had prompted the urgency request. The scale and materiality of mutualised compensation was highlighted, as well as the potential near-term consumer detriment. The proposers for P509 and P511 also requested urgency for their modifications.

The Proposer believes urgency for P510 is justified as:

- The cost impact for suppliers has increased exponentially
- Independent aggregators are not competing on a level playing field, due to generators being able to receive double payments
- A continuation of these volumes could cost upwards of £60 million to consumers annually

The Proposer therefore believes that P510 meets Ofgem's urgency criteria by addressing an issue that has a potential impact on customers and market participants. The Proposer also believes that the increased costs of mutualised compensation could threaten consumer support for flexibility.

BSC Panel View

At the BSC Panel meeting on 12 March 2026, the BSC Panel (the ‘Panel’) discussed P510 and the related code modification P509 before coming to a decision on urgency. The Panel agreed by majority to recommend to Ofgem that P510 should be progressed as an urgent modification proposal.

The Panel considered whether the issues presented could be managed through existing Ofgem monitoring or enforcement powers, whether the observed outcomes represented isolated behaviour or a systemic risk, and whether P510 was the right urgent instrument, given its breadth and potential market impacts.

The discussion was finely balanced. Concern was voiced that P510 is a wide-ranging structural change, and that urgent progression would inevitably compress workgroup time and limit the exploration of alternatives. Several members also warned of the risk of unintended consequences for nascent flexibility markets.

However, these concerns were weighed against the risk of inaction, with multiple Panel members expressing the view that allowing the current arrangements to continue unchecked could significantly worsen consumer outcomes.

The Panel ultimately considered that P510 was seen as responding to an immediate and escalating cost issue with potential short-term consumer harm.

Our decision

In reaching our decision on the urgency of P510 we have considered the details within the proposal, the justification for urgency, and the views of the BSC Panel. We have also considered this alongside the related urgency requests for P509 and P511.

We have assessed the request against the urgency criteria set out in our published guidance.⁸

⁸ [Ofgem Guidance on Code Modification Urgency Criteria](#)

Our guidance sets out that an urgent modification should be linked to an imminent issue or a current issue that if not urgently addressed, may cause:

- a significant commercial impact on parties, consumers or other stakeholder(s)
- a significant impact on the safety and security of the electricity and/or gas systems
- a party to be in breach of any relevant legal requirements

Whilst we consider that the issue identified, if not urgently addressed, may cause a significant commercial impact on parties, consumers or other stakeholders, we disagree that P510 should proceed on an urgent timescale. The scope of P510 goes beyond the immediate urgent issue identified and is instead considering the enduring framework for P415 arrangements.

We recognise that the Panel was finely balanced, with concerns being voiced about P510 being a wide-ranging, structural change, whilst also highlighting the risk of inaction and potential negative consumer outcomes. Whilst we agree with the concern for consumers, we also consider that P510 proposes significant changes to the current P415 arrangements. We believe this requires careful consideration and robust assessment to prevent unintended consequences and needs sufficient time for workgroup development. We therefore do not think it would be appropriate to proceed this modification on an urgent timescale. We also note that the Proposer did not initially intend for P510 to be treated as urgent.

We recognise that the proposers of P509 and P511 have also submitted urgency requests regarding this issue. Our decision on urgency for P510 has been made in conjunction with our urgency decisions for P509 and P511. Overall, in considering the three related requests and each of the items raised with them, we have decided that the specific issue that may have a significant impact on consumers should be addressed on an urgent basis (P511), with the enduring arrangements for P415 considered on a non-urgent timeframe (P509 and P510) to allow for full consideration of the costs and benefits, and appropriate stakeholder consultation. We consider that this approach strikes the appropriate balance

between addressing risks in a timely manner whilst also allowing due consideration for any significant changes.

We therefore do not consent to this modification proposal being treated as urgent and expect it to proceed on a standard timescale. However, as per our guidance on urgency criteria, we recognise that the urgency status of a modification proposal can be changed if a change in circumstances relating to that proposal requires it.

For the avoidance of doubt, in making our decision on whether to grant the modification proposal urgent status, we have made no assessment of the merits of the proposal and nothing in this letter in any way fetters our discretion in respect of the proposal.

If you have any comments or questions about this letter, please contact Olivia Jones at industrycodes@ofgem.gov.uk.

Yours sincerely,

Maryam Khan

Head of Electricity Security & Market Management

Duly authorised on behalf of the Authority