Balancing and Settlement Code (BSC) P511: Eligibility Boundaries for Generation Participation in P415 (P511)

Decision	The Authority[1] directs that this modification be made[2]
Target audience	National Energy System Operator (NESO), Parties to the BSC, the BSC Panel and other interested parties
Date of publication:	10 August 2027
Implementation date:	24 August 2027

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.

[1] 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.
[2] This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989.
[3] Ofgem decision P415 'Facilitating Access to Wholesale Markets for Flexibility Dispatched by VLPs'

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Earlier this year, concerns were raised by Axle Energy (the 'Proposer') regarding a rapid increase in the volume and cost of the P415 mutualised compensation fund.[4] This increase appeared to originate from generators using VTP arrangements. The Proposer noted a risk whereby certain generation assets could receive double remuneration because they can be paid both by their VTP and their power off-taker. In addition, actions taken by VTPs trigger mutualised compensation, which led to a risk that these actions were increasing costs for consumers.

There were also concerns from the Proposer that this activity does not align with the original policy intent of P415, which was understood by the Proposer to provide a route to market for genuine consumer-led flexibility, and assets who could not obtain value from the wholesale market unless they entered into agreements with their supplier to do so.

The modification proposal

P511 (the 'Proposal') was raised by the Proposer on 18 March 2026. On the same date, the BSC Panel unanimously recommended P511 be treated as urgent.[5] We approved the BSC Panel's urgency request on 31 March 2026.[6] We stated that the economic incentives presented by the current P415 arrangements for generators could result in the mutualised compensation fund increasing rapidly. [7] We therefore considered that the issue, if not urgently addressed, may have a significant impact on parties, consumers or other stakeholders and therefore met our urgency criteria.

[4] 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.
[5] P511 Eligibility Boundaries for Generation Participation in P415
[6] P511 Balancing and Settlement Code (BSC) urgency decision
[7] Note that our decision on P415 relied on the cost benefit analysis and other materials submitted to us at the time. However, we do not consider those materials determinative here. In particular, they did not account for the unforeseen competitive distortion that has since emerged.

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P511 proposes introducing revised eligibility criteria for participation under the arrangements established by P415. The objective is to address the ongoing risk of double payment of generation assets with alternative routes to market, by providing a distinction between consumer-led flexibility and predominantly export-led generation assets. This would use objective measures derived from metered data as administrable and auditable proxies for that risk.

The Proposal introduces eligibility criteria determined by the largest half-hourly Active Export recorded by the Supplier Volume Allocation Export Metering System for a Metering System Identifier (MSID) Pair over the previous 365 days.

- MSID pairs with a largest export below 2MW (Lower Trading Eligibility Threshold) would remain eligible.
- MSID pairs with a largest export above 10MW (Upper Trading Eligibility Threshold) would be ineligible.
- MSID pairs with a largest export between 2-10MW would be subject to an additional assessment. This requires comparing total Active Export against total Final Import over the previous 30 days. An MSID pair would be ineligible where it is net exporting on this adjusted basis.

The Proposal adopts a lower threshold of 2MW to enable a continued route to market for smaller export-capable sites where P415 may be the only practical route to market. The workgroup considered that, below this threshold, it is less economically viable for sites to establish bespoke, commercial agreements or access alternative wholesale market routes. The workgroup decided that setting the lower threshold at 0MW would risk capturing assets that P415 was intended to support.

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The upper threshold of 10MW was selected to separate out larger, export-led sites operating at a scale where alternative routes to market are typically available. The workgroup noted that 10MW aligns with established industry reference points, eg the upper end of G99 Type B.[8] The workgroup considered that sites above this threshold are less likely to rely on P415 as their sole route to market.

The Proposal adopts an additional behavioural test between 2-10MW to better distinguish between sites that are anchored to on-site demand from those that are predominantly export-led. This approach was considered by the workgroup to be a proportionate and operable way to target the urgent risk identified, while avoiding the unnecessary exclusion of consumer-led flexibility.

P511 also includes an amendment which would enable the BSC Panel to remove a party's qualification specifically in respect of its role as a VTP. Currently, the BSC Panel can only prevent a party from acting as a VTP by expelling the party from the BSC, which results in the loss of qualification across all roles. The Proposer considers that the Proposal is more proportionate where the non-compliance is related only to its VTP activities.

The Proposer and a majority of the workgroup believe that P511 better facilitates BSC objective (c).[9] They believe that P511 preserves the integrity of P415 as a route to market for independent aggregators. In their view, supplier compensation should not be used to facilitate double payments to generation assets and instead be retained to make suppliers whole where their volumes have been reduced by genuine consumer-led flexibility. They also

[8] Engineering Recommendation (EREC) G99 details the requirements for the connection of generation equipment to the electricity distribution networks. It categorises generating units by size and technical characteristics. Type B Power Generating Modules have a Registered Capacity of at least 1 MW and less than 10 MW.
[9] 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

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believe that P511 maintains a proportionate and clearly defined eligibility framework that supports continued participation by aggregators and consumers.

A minority of the workgroup believe that P511 does not better facilitate BSC objective (c) because the proposed thresholds create ‘cliff edge’ effects and could restrict routes to market for some sites, therefore reducing competition and customer choice.

The Proposer and a majority of the workgroup believe that the Proposal better facilitates objective (d).[10] They believe that the Proposal reduces the risk of unintended behaviours scaling over time, therefore promoting a more stable and efficient implementation of the balancing and settlement arrangements. They state that clearer boundaries support operational certainty and reduce the likelihood of increasingly complex mitigations or retrospective corrections being required.

A minority of the workgroup believe that the Proposal is neutral against objective (d).

The Proposer and the workgroup believe the Proposal is neutral against all other Applicable BSC Objectives.

BSC Panel[11] recommendation

At the BSC Panel meeting on 11 June 2026, a majority of the BSC Panel considered that P511 would better facilitate Applicable BSC Objectives (c) and (d). The Panel therefore recommended its approval.

[10] Promoting efficiency in the implementation and administration of the Balancing and Settlement Arrangements.
[11] The BSC Panel is established and constituted pursuant to and in accordance with Section B of the BSC and Condition E1 of the Electricity System Operator Licence.

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Our decision

We have considered the issues raised by the Proposal, the Final Modification Report (FMR)[12] dated 12 June 2026, and the responses to the industry consultation which are attached to the FMR. We have concluded that:

- implementation of the Proposal will better facilitate the achievement of the Applicable Objectives of the BSC[13]
- directing that the Proposal be made is consistent with our principal objective and statutory duties[14]

Reasons for our decision

We consider the Proposal will better facilitate BSC Objective (c) and has a neutral impact on the other Applicable Objectives.

(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

We consider that, on balance, the Proposal will better facilitate BSC Objective (c). In coming to our decision, we have considered the evidential limitations, the expected impacts on affected parties, and the options available to us.[15]

[12] BSC modification proposals, modification reports and representations can be viewed on the Elexon website at www.elexon.co.uk
[13] As set out in Condition E1 of the Electricity System Operator Licence.
[14] The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Electricity Act 1989.
[15] We are also aware of other live code modifications considering compensation arrangements in the wholesale market (P509 and P510).

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We agree with the BSC Panel that the Proposal will remove an unforeseen competitive distortion by preventing predominantly exporting generators larger than 2MW from receiving double payments and having a competitive advantage over other assets in the wholesale market.

We further recognise that, if left unaddressed, these arrangements could incentivise other generation assets to adopt similar arrangements to obtain advantages in the wholesale market. This could reinforce and widen the competitive distortion by these assets, while the associated compensation costs would be mutualised across suppliers. P511 introduces objective eligibility criteria targeted at assets which can receive a competitive advantage. We therefore consider that the Proposal reduces the scope for predominantly exporting generators larger than 2MW to obtain an advantage that is not available on equivalent terms to other market participants, in particular generators smaller than 2MW. This is because these smaller generators are not expected in principle to have access to the wholesale market other than through the VTP route and therefore are not expected to obtain double remuneration.[16] The Proposal also reduces the incentive for generators to enter the wholesale market via VTPs specifically to take advantage of this. We therefore consider that the Proposal supports effective competition by materially reducing an unforeseen distortion and levelling the playing field between market participants relative to the status quo.

However, we have weighed this against concerns raised in the consultation responses that the Proposal could restrict routes to market for certain assets, either due to being above the eligibility thresholds or due to operational or data issues. This could therefore exclude some assets who need to use the VTP route from the wholesale market and therefore reduce competition and consumer choice.

[16] The workgroup considered that, below this threshold, it is less economically viable for sites to establish bespoke, commercial agreements or access alternative wholesale market routes.

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We have carefully considered this in our assessment. Whilst in workgroup development, the eligibility thresholds were considered alongside evidence presented by Elexon. This included Elexon's analysis of metered export data and stakeholder-provided information on current and predicted export capability, which indicated that material export capability is concentrated in a relatively small cohort of higher-capacity sites. Although P511 will remove a route to market for the small number of ineligible assets, we understand from the FMR that these assets should be able to access the wholesale market through other routes. Therefore, we understand that P511 should not result in the complete removal of these assets from the market.

We note that the Proposal was adapted throughout the development process, based on feedback from the workgroup. Originally, all generators above an export-based eligibility threshold (originally proposed at either 5MW or 10MW) would have been excluded. Following further consideration in the workgroup, the current proposal aims to find an optimal balance of mitigating the largest harms to consumers, whilst maintaining a market access route for smaller and net-importing assets. This minimises the number of assets that are excluded from this particular route to market, enables consumer-led flex and smaller generation assets to continue competing effectively in the wholesale market, whilst balancing risk to consumers of rapidly increasing costs. We therefore consider that the eligibility thresholds proposed are reasoned, proportionate and enable the continuation of this route to market for appropriate assets.

We have also considered wider concerns raised in the consultation responses, including that the Proposal is discriminatory because it applies different eligibility consequences to assets; that there is insufficient evidence to justify the eligibility boundaries; that it could restrict future flexibility development; that it should include a review mechanism or appeal route for

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edge cases; and that the lookback period should use a shorter assessment window. We considered the options available to us, including issuing a minded-to-decision for consultation to gather comments and evidence from affected parties; issuing a direct, targeted request for information to gather more evidence; undertaking an Ofgem-led impact assessment or cost benefit analysis; rejecting the proposal pending development of other code modifications; and sending back the Proposal and directing for additional evidence gathering and analysis to be undertaken by the workgroup. However, we considered that these options would delay implementation whilst work was being undertaken and could increase the risk of consumer detriment during the intervening period. Whilst we recognise that more analysis and further workgroup development could have refined the proposal, we believe that the workgroup took a proportionate approach in balancing further evidence gathering and development of the proposal against the increasing mutualisation concern and potential consumer harm.

We recognise that assets participating in the wholesale market via P415 have differing characteristics and that the P511 thresholds have been designed at pace within the confines of an urgent modification process. We consider that the differential treatment is sufficiently and objectively justified in the context of this urgent measure. The criteria are objective and auditable proxies, which have been informed by workgroup discussion and are based on the evidence provided by the workgroup and standard industry reference points. They are directed at the identified risk of export-led assets over 2MW using the VTP route to the wholesale market. The intermediate behavioural assessment also reduces the risk that a single capacity threshold would exclude assets unnecessarily, and, moreover, the Proposal restricts access to one particular route to market rather than excluding affected assets from wholesale market participation more generally. Overall, we consider that P511 is a proportionate solution as a targeted, urgent intervention to mitigate consumer harm and the significant risk of increasing consumers' bills.

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However, we note that the workgroup did not establish that the selected thresholds are uniquely correct, that every ineligible asset has an alternative, practical route to market, or that transition will be immediate or costless. We understand that there may be some edge cases where an asset is inadvertently deemed ineligible, due to data or operational issues, seasonality, or other barriers. We have taken those limitations into account. We encourage industry to keep these arrangements under review and progress any changes required to ensure routes to market remain viable for those who genuinely need them.

As part of our assessment, we have also noted the views from the BSC Panel, the Proposer, and a majority of the workgroup that the Proposal facilitates effective competition by preserving the integrity of P415 and returning the market closer to the original intent of P415. The workgroup discussed the original policy intent of P415 and there was broad agreement that it was to facilitate access to the wholesale market for consumer-led flexibility and assets who did not have other routes to market. We believe the Proposal achieves this intent by keeping open a route to market for consumer-led flex and smaller generation assets that may not have viable alternatives.

(d) promoting efficiency in the implementation and administration of the Balancing and Settlement Arrangements

On balance, we consider that the Proposal is neutral against objective (d).

The Proposal has been carefully designed to restrict eligibility to access the wholesale market via VTPs to smaller generation assets and consumer-led flex. We agree that it aligns the balancing and settlement arrangements with the policy intent agreed by the majority of the P511 workgroup, which promotes efficiency in the arrangements. We note the views from

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the Proposer and a majority of the workgroup, that clarifying eligibility provides operational certainty and prevents unintended consequences scaling over time.

However, we consider that this is offset by the potential to incentivise generators to distort their output or change their operations to remain eligible. We recognise that fixed thresholds may create cliff-edges that could incentivise generators, who would otherwise be deemed ineligible, to change their output or split their output into smaller loads to remain eligible. We believe that this could undermine the eligibility criteria whilst creating further distortions within the market. This could undermine efficiency in the balancing and settlement arrangements. We encourage industry to keep the effectiveness of P511 under review.

We also recognise that the Proposal will introduce new processes and requirements to ensure ongoing compliance. VTPs will likely need to increase their monitoring of assets to ensure compliance with the eligibility criteria. Most consultation respondents who indicated that they would need to introduce new processes or system upgrades suggested the impact on them could be medium. The Proposal may also increase the number of compliance cases for Elexon, although we recognise Elexon has indicated that they expect the impact on them to be low. While the introduction of these processes could reduce efficiency in the implementation of BSC arrangements, we consider these requirements to be a necessary trade-off to reduce the risk of increasing costs for consumers.

We note views from the Proposer that P511 reduces the risk of complex mitigations, retrospective corrections, or future administrative inefficiencies. While we understand the Proposer's view, no evidence has been presented to indicate that P511 would remove the need for further mitigations or corrective actions.

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We have also noted that the Proposal includes an amendment to enable the BSC Panel to remove a party's VTP qualification specifically in respect of its role as a VTP, where non-compliance is related only to a party's VTP activities, rather than requiring the party to be expelled from the BSC. We consider that this is a proportionate and appropriate amendment.

Having assessed each of these points, we consider that P511 is neutral overall against objective (d).

Ofgem's Principal Objective and Statutory Duties

In coming to our decision, we have also assessed the Proposal against our Principal Objective and Statutory Duties. In particular, we have considered our Principal Objective to protect the interests of existing and future consumers, alongside the matters identified in section 3A of the Electricity Act 1989.

We recognise that the ability for generation assets to receive double remuneration could incentivise other generation assets to use this route to market, with the potential to drive a significant and rapid increase in the mutualisation fund. The Proposer projected that P511 would avoid between £35 million and £500 million of mutualised costs initiated by generators over the next 12 months,[17] which is the equivalent to approximately £1.10 to £17.10 on a consumer bill.[18]

We have therefore carefully considered all relevant factors in our decision. Based on the evidence available, we consider that mitigating the risk of rising consumer costs is consistent with our Principal Objective and Statutory Duties. Although P511 does not eliminate the

[17] The Proposer projected forward 12 months of either continued growth of the mutualisation fund at the same rate, or continuation of the current cashflow.
[18] Mutualised across 30m GB households.

possibility of double payments entirely, we consider that the risk is notably reduced because generating assets below 2MW in principle do not have alternative routes to market and are therefore not expected to receive double remuneration. The Proposal also limits the size of generation assets that can trigger compensation costs, which reduces the risk of consumer costs escalating rapidly as a result of assets benefiting from double remuneration.

We expect industry to continue to monitor these arrangements, particularly their impact on market access and consumer protection. If there is new evidence that the arrangements materially reduce access to the wholesale market, or that consumer costs rise again because of unintended behaviour, further action may be required.

Decision Notice

In accordance with Condition E1 of the Electricity System Operator Licence, the Authority hereby directs that modification proposal BSC P511: Eligibility Boundaries for Generation Participation in P415 be made.

Grendon Thompson

Deputy Director System Operation and Markets

Signed on behalf of the Authority and authorised for that purpose

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