Flexibility market arrangements: long-term goal and engagement

Publication date: 03 November 2026

This is an open letter that was sent to key stakeholders in November 2026. It outlines our long-term goal for flexibility market arrangements, and a planned programme of industry engagement.

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Open letter to industry on flexibility market arrangements

To interested parties

Jessica Skillbeck

Director, Retail Pricing and Systems

Date: 3 November

This open letter sets out the outcomes Ofgem wants flexibility market[1] arrangements to support and explains our[2] planned programme of policy work and industry engagement in relation to relevant industry workgroups.

Long-term goal

Ofgem's Strategic Direction Statement (SDS) sets the strategic direction for industry codes, helping coordinate and prioritise the code changes needed to deliver government's and Ofgem's policy priorities. We set out our expectations for enabling flexibility in the second preliminary SDS[3].

Building upon this, **we want to make clear that our long-term goal is that the flexibility market arrangements deliver system and consumer value, and help to bring down bills for all consumers.**

We recognise that encouraging increased participation and competition can support this long-term goal, but this should not come at the expense of that goal.

Market arrangements

We consider this long-term goal relevant to industry thinking and code modification development on flexibility market arrangements.

There are multiple live code modifications on flexibility market arrangements. This includes P509, P510 and P502, relating to compensation arrangements between

[1] Including the wholesale market and explicit flexibility markets
[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) support GEMA in its day-to-day work.
[3] Second-preliminary-Strategic-Direction-Statement-for-industry-codes-2026.pdf

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suppliers and aggregators in flexibility markets. We recognise that there are varying industry views on these modifications.

We have contributed to the P509 and P510 workgroups on compensation arrangements in wholesale markets, including presenting challenges with the existing P415 arrangements[4]. We have not yet formed a position on the current modifications. We will assess all modifications against the Applicable BSC Objectives along with our principal objective and statutory duties.

As outlined in the second preliminary SDS, a number of stakeholders have called for a broader look at how flexibility markets operate. This includes how aggregators can participate, whether market signals and rules encourage the right sort of flexibility in line with system need, and how aggregators should interact with suppliers.

Wider areas are already receiving greater attention across the industry. For example, an issues group is being formed to consider the compensation reference price[5], while recent industry feedback has highlighted concerns about baselining. We recognise that factors beyond compensation methodology have an impact on the delivery of system and consumer value.

Planned forward work and engagement

In response to this, we will undertake further engagement with industry in late 2026, with potential continuation into 2027. This engagement will focus on the links between different market arrangements and the challenges they present. This will include focus on areas such as baselining and compensation reference price. We will use this engagement, alongside continued policy work, to inform our next steps and to determine whether regulatory intervention is needed. Where appropriate, it will also help to inform our contributions to existing industry workgroups.

Yours faithfully,

Jessica Skilbeck

[4] P510-WG2-Slides_v1.0.pdf
[5] Issue 124 Supplier Compensation Reference Price Review - Elexon BSC

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Director

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