

Demand for Constraints (Dfc) Commercial Design Webinar

23rd June 2026

Introduction

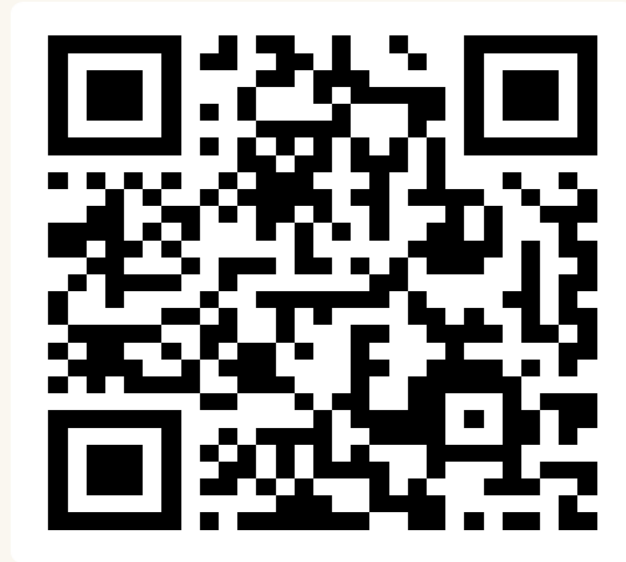
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<u>Agenda</u>	<u>Timings</u>	<u>Speaker</u>
Introduction and housekeeping	10:30 – 10.35 (5 mins)	Qi Zhong
DfC: High-level design, summary of RFI responses	10:35 – 10.45 (10 mins)	Alifa Starlika
DfC: Eligibility criteria	10.45 – 11.00 (15 mins)	Alifa Starlika
DfC: Commercial design	11.00 – 11.25 (25 mins)	Dave Phillips Steve Kelly Alifa Starlika
Provider Engagement: Opportunities for Site Visits	11.25 – 11.30 (5 mins)	Jeremy Taylor
Next Step and Q&A	11.30 – 11.55 (25 mins)	Jeremy Taylor
Closing	11.55 – 12.00 (5 mins)	Qi Zhong

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Housekeeping

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Key asks for the session



Today's webinar focuses on the **commercial design**. Please submit questions through Slido (code: #DfC). The QR code has been shared in the chat and is on each page of the presentation.



For questions on any other topics, please submit via box.market.dev@neso.energy



Please be mindful that we may not have all the answers but will take things away if needed, and publish Q&A along with the slides and recording.



Please ensure cameras & microphones are disabled to protect the bandwidth quality.

Webinar Norms

Listen to each other

Engage in the process

Know what to let go

No question too stupid

Defer judgement

Seek clarity



High-level design, summary of RFI responses

Alifa Starlika

High Level Design of Demand for Constraints

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Definition	A long-term contract to procure additional, flexible and final demand , which provides dedicated capacity able to increase electricity consumption at times of thermal constraints following NESO's instruction.
Purpose	To incentivise new, flexible demand capacity in constrained areas to alleviate thermal constraints; flexible demand to demonstrate meaningful, beneficial activities that supports efficient system actions.
Proposed commercial design	<ul style="list-style-type: none"> • Availability payment: contribution towards new investment required to deliver additional flexible capacity for DfC (£ per settlement period based on available MW capacity). • Utilisation: Assets are registered and dispatched through the Balancing Mechanism (BM) via Bid and Offer Acceptance (BOA) based on merit order and paid the utilisation fee (£ per MWh) when dispatched.
Delivery window	Tender process starts in 2026, contracting for delivery from 2028 to end 2037.
Delivery timeline	Delivery timeline will depend on operational readiness of existing and new assets.
Location	Scotland, focusing on constrained boundaries.
Service retirement	As a novel approach, DfC is designed as an interim service. All assets are in BM when contract ends.

Recap from the 5th March Webinar and RFI

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- DfC technical and dispatch design webinar was held on 5 March 2026. Materials are available [here](#)
- NESO also launched a voluntary Request for Information (RFI) to gain feedback on the technical design and gather information to shape DfC commercial design.
- High-level summary of RFI responses:

➔ **17** responses received; **13** follow-up meetings organised. Respondents have proposed **21+** potential assets.

➔ Responses suggest a potential volume of up to **3.7 GW** across **34+ sites**, covering **4 technologies** (industrial process, electrolyser, commercial demand and heat network / district heating).




➔ **10%** respondents are currently registered in BM; over **50%** plan to register in BM.

➔ **26** distribution connected sites; **8** transmission connected sites.

Key messages from RFI responses

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	You said	We did	Next step
 Commercial design	<ul style="list-style-type: none"> Utilisation payment needs to consider grid charges and FCL. No guarantee of dispatch could affect Capex cost. Various views on contract length. Connections process is challenging. 	<ul style="list-style-type: none"> Factored in the industry inputs, as part of the commercial design work. Reviewed the opportunity of site visits to align NESO's design with market's need. 	<ul style="list-style-type: none"> NESO is presenting it's minded to position on commercial design today and your feedback is welcome. We will outline future external engagement, including site visits to Scotland.
 Technical design	<ul style="list-style-type: none"> A longer notice period is needed when dispatch from non-zero FPN. Technical delivery limits manufacturing processes. Utilisation is limited to demand capacity. Demand shift could be demonstrated in operation. 	<ul style="list-style-type: none"> Reviewed Time to full delivery and Notice to deviate from zero to maximise participants. Assessed potential demand shifting pattern, and interaction between baseload and flex demand. Clarified stacking rules for DfC assets. Defining process and timing of releasing assets from DfC obligation. Working together with Elexon and DNOs on Active Network Management (ANM). 	<ul style="list-style-type: none"> NESO will update industry in next DfC webinar in September.
 Wider benefits	<ul style="list-style-type: none"> Opportunity of energy transition, decarbonisation, job creation and helping fuel poverty. 	<ul style="list-style-type: none"> We are considering ways to assess and incorporate wider benefits of Demand for Constraints market. 	<ul style="list-style-type: none"> Ongoing process

Eligibility

Alifa Starlika

Detailed overview of eligibility criteria

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Criteria		What does this mean?	Why does this matter?
1	Additional & Flexible	<ul style="list-style-type: none"> • New demand assets and existing* demand assets with intention to expand its flexible capacity, over and above their baseline. • These assets will have capability to turn up their consumption of electricity in real time. • New flexible capacity that would not otherwise be operational without the DfC contract. 	<ul style="list-style-type: none"> • Additional flexible capacity presents an investment hurdle that DfC can help address. This criterion ensures that the scheme delivers value for money for end consumers. • Constraint volumes are largely driven by high wind output; flexible demand helps balance supply and demand.
2	Final demand	<ul style="list-style-type: none"> • Final Demand means electricity which is consumed other than for the purposes of generation or export onto the electricity network.¹ 	<ul style="list-style-type: none"> • Final Demand uses surplus renewable generation, preventing electricity from being exported back at a later time to the grid and exacerbating constraints .
3	Meaningful and beneficial activities	<ul style="list-style-type: none"> • Eligible demand activity supports efficient system actions, decarbonisation, and avoids energy waste. 	<ul style="list-style-type: none"> • To deliver wider benefits to GB consumers. • To ensure energy consumptions are not wasted.
<p>*Note:</p> <ul style="list-style-type: none"> • Demand assets in operation before January 2027 will be considered as <u>existing</u>. • Demand assets or any additional capacity due enter operation / be commissioned after January 2027 will qualify as <u>new</u>. 			

To help us finalise the eligibility criteria, please share your feedback outlining your potential proposal in the preliminary Expression of Interest (EOI) in September.

¹Source: CUSC Direction

Eligibility by examples

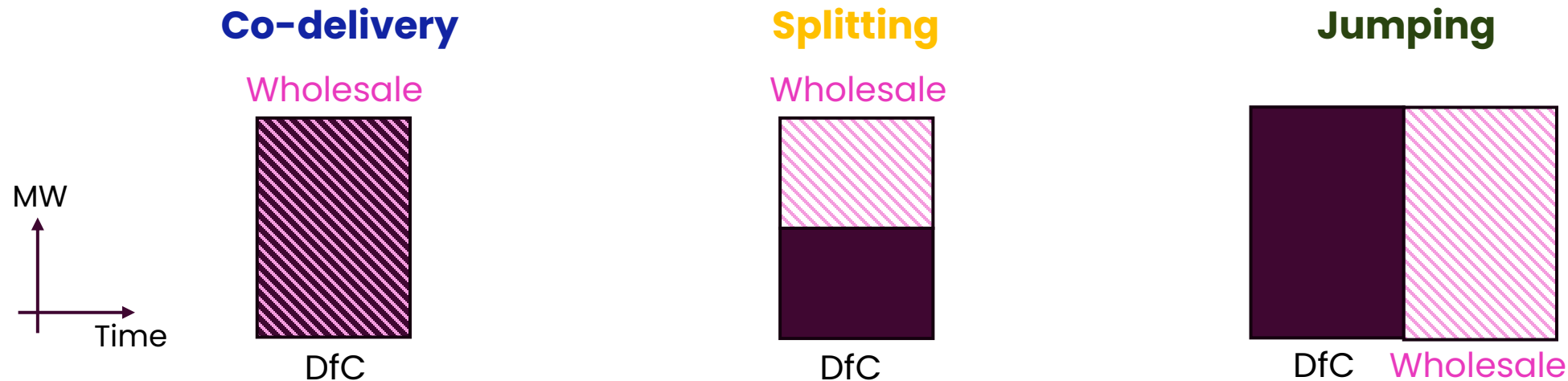
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Example	Eligibility & rationale
<p>Example A:</p> <ul style="list-style-type: none"> • A 100 MW demand asset, received connection agreement and plan to be operational in 2030. • The asset is already flexible by default and would like to offer 100 MW capacity for DfC. 	<p>Not eligible.</p> <p>Asset neither provides additional flexible capacity, nor presents investment need to be flexible.</p> <p>Further clarifications on flexibility requirement will be shared in the September webinar.</p>
<p>Example B:</p> <ul style="list-style-type: none"> • A 500 MW demand asset, received connection agreement and plan to be operational in 2030. • The asset is currently not flexible but intend to install a 100 MW behind meter battery to be flexible with additional incentives. 	<p>The additional 100 MW capacity is eligible.</p> <p>Energy absorbed by the battery must be consumed by the demand asset, thereby satisfying the final demand criterion, and must not be exported to the grid following the DfC delivery period.</p> <p>NESO will introduce a performance monitoring algorithm and an audit process.</p>
<p>Example C:</p> <ul style="list-style-type: none"> • A standalone 100 MW LDES or BESS 	<p>Not eligible.</p> <p>LDES or BESS is not final demand.</p>

Stacking Rules for Demand for Constraints Asset

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Co-delivery

A DfC unit can co-deliver the service in the same direction, i.e. Demand Turn Up, via self-dispatch in the wholesale or DSO market. Co-delivery has no adverse impact on the service delivery as the net effect is the same. During co-delivery, DfC availability pay remains.

Splitting

Units participating in DfC may split with services in the same direction as DfC i.e. Demand Turn Up, in the wholesale market or DSO market. During splitting, DfC availability pay remains.

Jumping

When there is no constraints forecasted and the unit is released from its DfC contract, jumping would allow a unit to participate in other markets

Day-ahead notification process, tools to safely release DfC capacity to other markets, and auction time alignment with DNOs are being finalised. Further update will be shared in the next webinar.

Commercial Design

David Phillips

Steve Kelly

Alifa Starlika

Overview of Commercial Design

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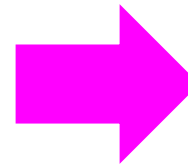


Quantity

- How much MW do we need to procure?
- Where shall we procure?
- What is the expected frequency required (hours)?

Contract Length

- How long does the contract need to be to meet system needs and providers' investment need?



Price Structure

- What are the principles in designing the payment structure?
- What is our proposed payment structure?

Next steps: tender process

- What is our tender approach to ensure we're procuring competitively?
- How will we award the tender and pay demand providers?

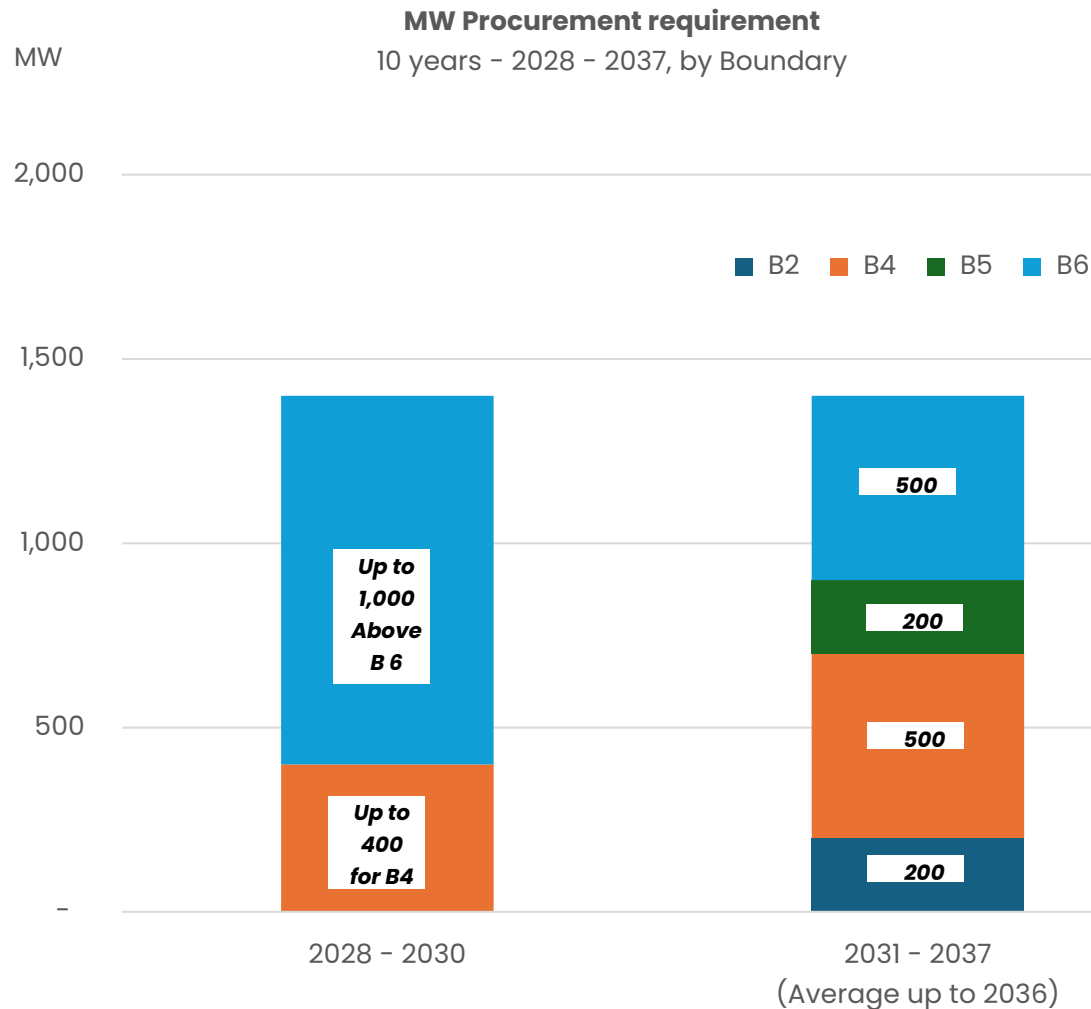


**Quantity:
How much to procure?
Where shall we procure?
What is the expected
required hours?**

David Phillips

Procurement volume, locations & required hours

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Projected MW requirement and how many hours we expect

During 2028 – 2030: target procuring up to 1,400 MW

- ≥12.5% total hours, e.g. annual average equivalent 3 hrs/day
- Estimated total yearly dispatched energy of 1.5 TWh / year

2031 – 2037 – ongoing requirement of 1,400 MW:

- 30% total hours, e.g. on average estimated >7 hours/day
- B6 average hours projected to increase to 35% from 2032 to 2035
- Estimated yearly dispatched energy approximately 4 TWh / year

Locational Effectiveness & boundary nesting considerations

- Model assumes B6 can be eased from anywhere within Scotland
- Accounted for Boundary “nesting”, but not able to model any more detailed distributions of MW across higher boundaries
- Assumes 1 MW DfC = 1 MW easing. Effectiveness to be assessed at tender



Contract length: How long will be the contract?

Steve Kelly

Service window and contract length

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To procure up to 10 years, providing a flexible service delivery window from 2028 to the end of 2037. This window is expected to deliver the greatest impact in meeting system needs and maximise investibility for providers based on the feedback through RFI.

- Contract length subject to project readiness and system benefit; delivery can be any point within window that demonstrates net benefit.
- Providers able to commence service delivery as early as 2028; forecast ~12.5% of hours (3 hrs/day averaged over 3 yrs).
- **From 2030s we will need to review system requirements** and consider new tenders, subject to system need and additional value for consumers.



Demand for Constraints
Service - Go Live

Review system needs: Additional tender considered for supplementary MW of new capacity anytime after 2030



Price:
**What is the principle to
design payment?**
**What is proposed
payment structure?**

Alifa Starlika

Principle in designing payment structure

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We design a payment mechanism that balances the build out of new flexible demand capacity and utilisation of the service to deliver system benefits. This means:

Availability



Utilisation (in the Balancing Mechanism)

- **Availability pay** contributes towards new investment required to deliver additional flexible capacity for DfC.

- Units dispatched through BOA in merit order and are paid a **utilisation fee (£ per MWh)**.

NESO's Minded to Position

- Availability Payment + Utilisation via BOA. The BOA is subject to a cap proposed by providers during tender stage.
- This model delivers value for money by increasing revenue certainty for providers, reducing costs and price risk for NESO, and enabling flexible, straightforward participation.

The payment mechanism ensures total cost of Demand for Constraints (availability pay + utilisation via BM) is cost effective for end consumers

NESO's minded to position on payment structure

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Provider

Tender stage

- Submit availability price (£/MW) based on capex needs.
- Submit expected "cap" bid price (£/MWh) for future dispatch accounting for short run costs and risks.
- Submit other information (connection, contract length etc.) – details to be determined during tender consultation.

Operation timescale

- DfC unit is eligible for co-delivery and splitting.
- If released from DfC, units can participate in other markets (jumping).
- If not self-dispatched or in DSO markets, submit bid up to "cap" level.

Post delivery

- Follow performance monitoring rules to submit data if necessary.
- BOA will be settled as usual.

NESO

- Run commercial assessment considering:
 - Availability price
 - "Cap" utilisation price

All offers to be considered against counterfactual to ensure system benefits.

- **At day-ahead, when no active constraints forecasted and no operational concerns**, send notification to release DfC obligation. (timing TBD).

- **At day-ahead, when constraints forecasted active**. Dispatch in BM based on merit-order price.

- Pay availability based on performance.
- Payout (monthly or quarterly) and price index will be determined in tender consultation.
- Opportunity to review bid "cap" periodically.



Provider engagement: opportunities for site visits

Jeremy Taylor

Opportunities for Site Visits

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How to participate

- If you are interested in hosting the DfC project team for a site visit, please send the following to box.market.dev@neso.energy by 3rd July 2026:
 - Proposed plans
 - Project details
 - Timeline
 - Meeting Duration & requirements
 - Location

Key Milestone	Date
Submissions window opens	9 th June 2026
Submissions deadline	3 rd July 2026
Providers notified	Earliest 10 th July
Site visits completed	4 th September

Important note: Any site visit which is undertaken will not be automatically considered as part of the formal tender process. **A contract will not be awarded as a result of hosting a site visit.**

Next Steps

Jeremy Taylor

Next Steps

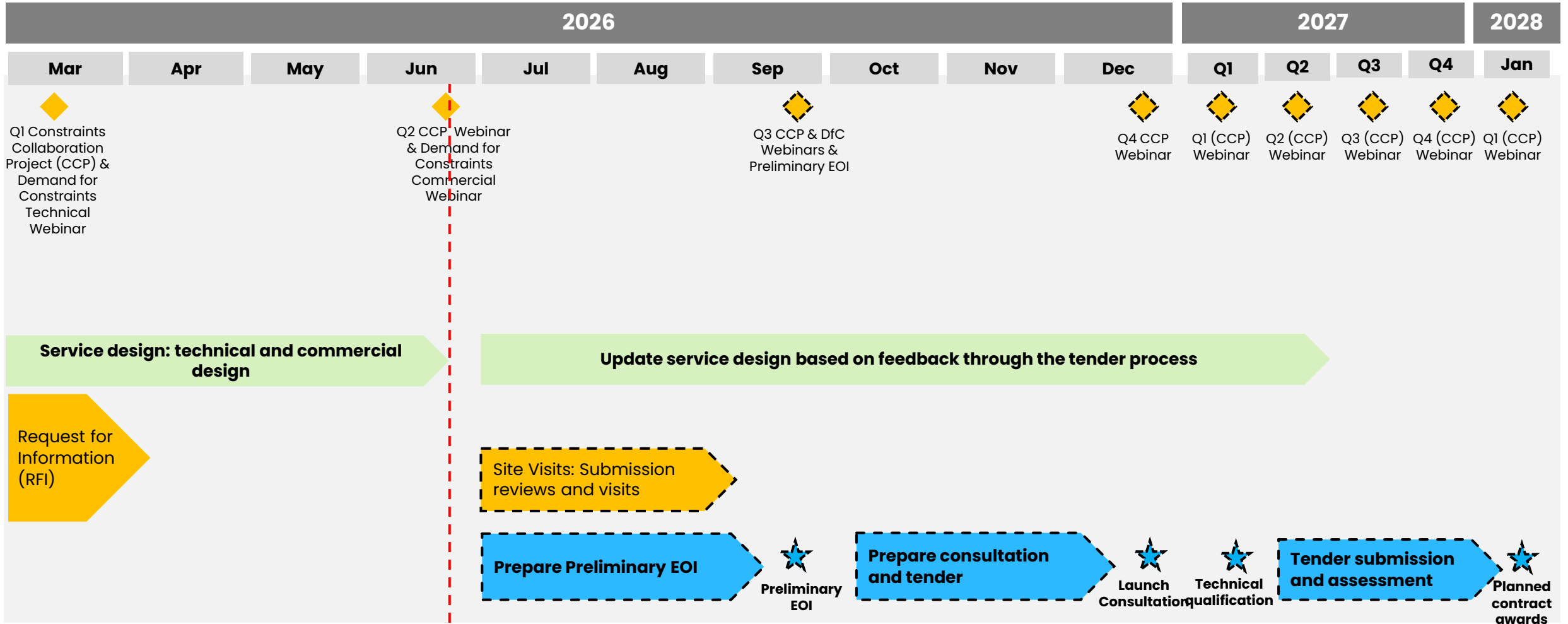
Note: dates are indicative subject to change.

- Service design
- Procurement
- Stakeholder engagement

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----- TBC ◆ Engagement



Today, 23 June 2026



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Q&A Session



Thank you!

Please reach to
box.market.dev@neso.energy
for further engagement.