

Demand for Constraints Commercial Design Webinar – 23 June 2026

Q&A pack

The following questions were submitted by stakeholders collaborating with NESO on Tuesday, 23rd June as part of NESO's latest quarterly update on the NESO's Demand for Constraints service.

List of Abbreviation

- BESS – Battery Energy Storage System
- BM – Balancing Mechanism
- BOA – Bid-offer acceptance
- CAPEX – Capital Expenditure
- CMIS – Constraint Management Intertrip Scheme
- CMP – CUSC modification Proposal Form
- CSNP – Central Strategic Network Plan
- CUSC – Connection and Use of System Code
- DESNZ – Department for Energy Security and Net Zero
- DfC – Demand for Constraints
- DFS – Demand Flexibility Service
- DSO – Distribution System Operator
- DSR – Demand-side Response
- FCL – Final Consumption Levy
- FES – Future Energy Scenarios
- FID – Final Investment Decision

HAR – Hydrogen Allocation Round

LCM – Local Constraint Market

MNZZ – Minimum Non-Zero Time

NESO – National Energy System Operator

RESP – Regional Energy Strategic Planning

SSEP – Strategic Spatial Energy Plan

tCSNP – Transitional Central Strategic Network Plan

TO – Transmission Operator

Questions		Answers
1.	If contract delivery is 2028 - that is very short timeline for most flexible demand technologies at any scale to bring forward new assets - are you expecting this to be predominately existing assets using this product?	<p>The cut-off date for distinguishing between new and existing assets under the Demand for Constraints (DfC) service is January 2027. Assets that are operational before January 2027 will be classified as existing assets, while those that become operational from January 2027 onwards will be classified as new assets for the DfC market. We plan to launch the tender in 2026, with the procurement process expected to continue into 2027.</p> <p>On page 18 of the slide deck, we have allowed for a flexible service delivery window between 2028 and 2037. This means that assets can begin delivering the service as early as 2028, or later, depending on when they are ready to provide the service</p>
2.	Slide 10 - Final Demand, does this exclude the generation and storage of locally produced Green Hydrogen?	Eligibility criteria shall be applied holistically. If the green hydrogen facility is willing to install storage for green hydrogen, which helps them become flexible, yes that would be eligible.

3.	Is the DfC service stackable with other ancillary service revenue streams or are there exclusive terms and conditions prohibiting that?	DfC service is designed for constraints management, the unit is eligible to participate to other ancillary service markets (e.g., response and reserve) once we release the obligation.
4.	Can you tell me whether the availability payment will interact with planned negative demand charges under CMP440, if approved by Ofgem?	<p>The availability payment is designed to support new investment required and address barriers to delivering additional capacity for Demand for Constraints.</p> <p>The payment will be paid based on the availability of a DfC unit for constraint management, so this is unlikely to interact with negative demand charges under CMP440.</p>
5.	<p>You want new demand. This means that most will not have a connection agreement with this demand (even if connection exists). Given inability to apply for a mod app for that demand how will this work?</p>	<p>A cut-off date is introduced to distinctly differentiate between new and existing assets – any assets in operation post January 2027 will be treated as new assets.</p> <p>In terms of connections, we hope that by the time the DfC tender is launched at the end of 2026, industry participants will have a clearer view of the connection agreements resulting from the current Gate 2 application window. By September 2027, we would also expect there to be greater clarity on the status and timelines of the next Gate 2 application window.</p> <p>We would like to maximise the participants to Demand for Constraints market, so we are in close contact with the connections team and we're designing the tender process to be as complementary as possible.</p>
6.	Do the eligibility criteria include expected duration of delivery of demand turnup?	The duration of the delivery, including restrictions on BM parameters such as MNZT are being finalised following the RFI and will be explained in next webinar.

7.	Does the demand need to be new? Would a new behind the meter battery with no export on existing demand be eligible?	In essence, an existing demand facility is eligible for Demand for Constraints provided it demonstrates capability and potential to create additional flexible demand. This example reads like our example B on Page 11, so yes this would be eligible. However, the eligibility criteria needs to be assessed holistically at tender stage.
8.	What are the stack-ability rules for CM-contracted new BESS?	BESS is not final demand and is therefore not eligible for the service. In general, splitting and co-delivery with wholesale market or/and DSO markets in the same direction only (demand turn up) is allowed.
9.	On boundary requirements - if a project is behind B1, is it assumed to alleviate constraints across B2-6 as well?	It would be generally correct to say projects connected in many further north locations effective for the transmission network could be considered for alleviating more nested constraint. The current modelling treats all the area above each boundary as effective, for example, demand located above B1 as fully effective for B2. Locational effectiveness will be reviewed in detail on a proposal-by-proposal / site / connection point basis looking in detail at locations where effectiveness for constraints at transmission network boundaries might show limited effectiveness or might help with more than one boundary. However, a caveat to the latter is demand can only reduce flows once. Demand dispatched for B4 that happens to be located above B2 can't be dispatched for say 30% of hours for both B4 and B2. This is because Scotland main transmission boundaries can show high correlation.

<p>10.</p>	<p>Very interested in co-delivery with Wholesale market - this really makes the service a lot more attractive/functional (and will be easier for NESO control room). Be good to understand more how it would work in practice</p>	<p>Thank you for the comment. We are minded to enabling co-delivery to maximise value for flexibility wherever this is possible, and we are working on to finalise operability details. We will keep industry updated.</p>
<p>11.</p>	<p>How do the constraint forecasts align with Strategic Planning through SSEP and CSNP?</p>	<p>Projections are estimates based on FES25 and tCNSP2 inputs. NESO is moving towards a more coordinated strategic planning framework in which SSEP, CSNP, RESPs and Future Energy Pathways are increasingly aligned and informed by a common set of assumptions and pathway decisions. As alignment proceeds these inputs should be viewed as moving parts in the analysis.</p>
<p>12.</p>	<p>The 12.5% figure in 2028 seems low given 39% of the time saw system actions in b6 and 79% north of B4 last year. Can you share the detail on that?</p>	<p>DfC modelling takes new inputs into account to project the requirement in 2028 and years beyond, as far as these are available to-date, so we would expect to see differences. These new inputs include the use of the new CMIS 2.0 to increase flows of energy from Scotland and treats positive priced units as actioned ahead of zero-or-lower BM bid price units. The percentile of utilisation aligns with the procurement MW requirement. The DfC procurement analysis seeks to achieve value for money for the consumer, by aiming to make good use of the procured volumes which means the hours reflect when excess flows are at or above this level. There may be additional hours where less than the total procurement required MW is needed and some DfC demand in merit, but at this stage of service design our approach ensures we model the potential for full level demand to bid successfully and be used at least 12.5% of hours.</p>

<p>13.</p>	<p>If DFS is going to be used potentially up to 7 hours per day, why is this still being primarily treated as a flexibility service?</p>	<p>We presume your question is regarding Demand for Constraints (DfC) rather than Demand Flexibility Service (DFS), otherwise please get in touch via our email.</p> <p>The utilisation hours analysis is a high-level projection based on our system requirement assessment. This is the indicative information based on current FES25 and tCSNP2 assumptions and analysis. The actual utilisation could be different in real time. The procured demand is flexibility because the dispatchable MW is committing to be available to follow NESO's BM instruction based on system need.</p>
<p>14.</p>	<p>Does "within Scotland" cover the Outer Hebrides? I have posed the same question to the LCM team, and I am waiting on a response as it's not clear on Piclo. Louis Fairfax from CUB</p>	<p>We will look to include all areas which can be effective for easing transmission boundary constraints. Other operators or network owners may ask NESO to exclude certain specified areas because they are served by network assets or circuits with specific fault management or network management requirements - and especially locations on the periphery of the network at the ends of radial circuit routes. At time of procurement, all capacity for DfC will be subject to the usual TO transmission assessments and any Operator requests to exclude managed areas where demand may be of limited benefit.</p>
<p>15.</p>	<p>Is the intention to be one contract per asset or can we aggregate across a geographically dispersed portfolio into a single contract?</p>	<p>If assets are geographically dispersed, then our current view would be that each asset would need to submit a bid, as that asset will need to be instructed individually. If the question is being raised in that the intention is purely to do this as a legal/administrative measure to cover multiple assets under one contract, whilst ensuring each asset is instructible individually, then we can take this away and consider this further.</p>

16.	<p>On the forecast hours of operation – is this assuming that participants in DfC are first dispatched in BM, mid merit or high on the expensive side?</p>	<p>DfC units would be dispatched in merit subject to any relevant operational considerations.</p>
17.	<p>1) Can you define boundary "nesting" please? 2) Slide 16 (I believe) states assumption that B6 can be eased from anywhere in Scotland – is this limited to south of the B4? Otherwise, I interpret that this demand would fall into the B4 volume on the left hand of the bar plot?</p>	<p>1) Nesting refers to one boundary falling within flows that then impinge on a downstream boundary. The term is used when referring to several interactions that must be considered when resolving boundaries. These include the effect that several Scotland boundaries can frequently be active at the same time, and where the flows of energy encounter a succession of simultaneously biting boundaries (typically as these flow southwards in Scotland), these boundaries must be resolved in north to south progression to avoid duplicated action further north for a more northern boundary. Another effect is that occasionally MW capacity (either wind to curtail or demand to turn-up) located above more northern boundaries in effective locations might prove helpful for multiple boundaries.</p> <p>2) The requirements slide (16) analysis and figures show what would be required for each boundary after resolving boundaries in this north to south succession, e.g. the same direction as the typical flows within Scotland. So, in the projections shown in the left-hand bar, the up-to 1000 MW shown for "Above B6" is procured for B6 and is additional to allowing up to 400 MW for the B4. This 400 MW could be procured on top of the B6 1000 MW even if that some is located above the B4. Hence the bars are shown stacked and the total projected for Scotland is up to 1400 MW based on current assumptions.</p>

18.	Do the current estimates of procurement volume consider the impact of upcoming Eastern Green Links, as these would alleviate the B2-B6 constraints, leading to a decrease in the MW requirements?	Yes, we can confirm the Eastern Green Link projects are considered in our models and boundary capabilities.
19.	An energised Scottish BESS already relieves constraints via the BM today – why have NESO classed this as ineligible when you’ve just said Scottish demand reduces constraint costs?	<p>An asset which can immediately participate in our markets, with no investment hurdle, does not need the availability payment we are offering to cover additional capex to become flexible.</p> <p>If you are already participating in the BM, you are already providing the type of flexibility that the system requires – which we appreciate. However, this scheme is specifically designed to incentivise additional flexible demand assets that are currently unable to access the BM due to investment barriers.</p>
20.	For planned electrolyzers, could CAPEX additions to hydrogen off taker facilities to allow them to take the hydrogen flexibly meet the eligibility requirement of needing investment for the electrolyser to operate flexibly?	We’d need to understand exactly what is being proposed but in principle if it is able to facilitate the hydrogen facility to increase demand as requested by NESO, then that would be included.
21.	Demand for constraints seems to have a big focus on constraints above the B6 boundary, which is currently being addressed by the LCM. Will the implementation of demand for constraints override LCM? Or will it continue to operate?	<p>The LCM is currently operational on the B6 and B4 and is for non-BM assets, which are already flexible.</p> <p>DfC is targeting assets that are not currently participating in the BM but could provide flexibility with some additional investment. We want to create routes to market for both BM and non-BM assets, allowing the two to operate alongside one another.</p>

<p>22.</p>	<p>I am really confused by your tender process. You talk about a cap on the bid price. Isn't the bid price (in the BM) what the counterparty pays NESO to buy energy from NESO? If you cap the price doesn't that limit the benefit to customer? Wouldn't it make more sense to set a floor on the bid price?</p>	<p>NESO uses the BM to ask flexible asset behind the constraint to 'bid' to increase their consumption of electricity (demand turn up) and generators to reduce their output (generation turn down). The bid price is what NESO pays to a flexibility service provide. Following the post-webinar meeting, we understand there might be a terminology confusion between the "cap price" and "price floor". We aim to align with industry terminology and will update in next DfC webinar.</p>
<p>23.</p>	<p>Is DfC expected to be stackable with the Low Carbon Hydrogen subsidy?</p>	<p>DfC is designed to incentivise the development of flexible capacity within hydrogen assets. Securing a DfC contract could strengthen the investment case for a hydrogen project and enable participants to submit more competitive bids into future Hydrogen Allocation Rounds. In turn, this could help reduce the strike price required, ultimately lowering costs for consumers. However, we cannot guarantee the exact timeline for future DfC tenders at this stage, and NESO has limited control over, or influence on, the timelines and eligibility criteria associated with the Hydrogen Production Business Model.</p>
<p>24.</p>	<p>My understanding of what has been said on what is considered new demand is that pre-FID, if a project can show it cannot be built without the DfC revenues this could be used by HAR projects - is that the case?</p>	<p>To be eligible for Demand for Constraints, both new and existing assets must demonstrate that the installation of flexible capacity is contingent upon support from a DfC contract and would not otherwise proceed. This additionality requirement helps ensure that the scheme delivers value for money for end consumers.</p> <p>For example, a project that has reached Final Investment Decision (FID) prior to the launch of a Demand for Constraints tender would not satisfy the additionality criterion, as it indicates that the project is commercially viable and</p>

		<p>capable of proceeding without support from NESO.</p> <p>In terms of interaction with HAR, our product is not focused on any one specific asset class/technology, so NESO is not in the position to provide advice on a case-by-case basis and if a DfC project meets HAR criteria.</p>
<p>25.</p>	<p>Previous NESO work on constraints has been blighted by excessive conservatism, with wind curtailment costs escalating and better alternatives neglected. The 12.5% figure doesn't change this pattern. Are you really going far enough here?</p>	<p>We recognise the concern. Demand for Constraints is a new and innovative approach to addressing network constraints while incentivising demand turn-up from new assets. Constraint costs and renewable curtailment have been rising, so DfC needs to unlock credible demand-side alternatives rather than add only a small incremental option. The 12.5% is an early-years planning assumption for 2028–2030, based on current studies of system need, location, expected utilisation, availability cost and consumer value. this % is based on the targeted MW. Forecasted % could change subject to the procured MW. We do so prior to 2031 to avoid the risk of procuring more than that the consumer can fully benefit from. We can confirm higher utilisation is being considered in later years. As we presented, current analysis indicates materially higher utilisation from the 2030s, including more ambitious cases on constrained Scottish boundaries such as B6. The current approach therefore reflects both the early-years requirement, and the trajectory of increasing system need, while avoiding the risk of procuring more standing capacity than consumers are likely to benefit from at this stage.</p> <p>So, yes, NESO is seeking to go further and to do so in an evidence-led, competitive way that protects consumers. We will continue to update our modelling, market feedback and project-readiness evidence becomes available,</p>

		including evidence that supports higher volumes or higher utilisation so that we deliver the best possible consumer value.
26.	Can demand side providers stack this payment with the capacity mechanism?	<p>The latest commercial design stipulates that revenue stacking is possible where a DfC unit can either co-deliver services or stack with services operating in the same direction as DfC (i.e. demand turn-up).</p> <p>The Capacity Market is designed to incentivise DSR assets to reduce demand (demand turn down), whereas DfC focuses on incentivising increased demand. As the two schemes operate in opposite directions, revenue stacking between DfC and the Capacity Market is not possible.</p>
27.	The single focus seems to be Scotland. While I understand the need to focus on the area of maximum impact, there are plenty of opportunities in localized areas with offshore wind farms where we can accelerate decarbonization. Is anything outside Scotland out of scope?	The focus is on Scotland based on NESO's modelling of constraints over the coming years. The Scottish boundaries show the biggest constraints and there is also the greatest opportunity for new flexible demand in Scotland. We could consider other locations in future, however for now the focus is just Scotland.
28.	What will you be doing to ensure efficient dispatch by NESO? This is a well-known problem area in NESO services. If capacity is neglected it won't be as effective when things are really tight.	<p>Our dispatch transparency team is looking at the issues we've had with dispatch recently and have succeeded in bringing down skip rates.</p> <p>We are aware that demand-side assets could have also been subject to skips and whilst volumes are low in the BM, we are aligning with the dispatch workstreams who's already working on making sure that this is not an issue and we will align with the policy when DfC is live.</p>

29.	What is the process for determining merit order during signal dispatch?	The merit order in Balancing Mechanism market ranks available assets by the price they submit to either increase or decrease their outputs. In dispatch time scale, NESO control room will consider all submitted bids to decide which unit is to be dispatched. This is our current dispatch procedure.
30.	Can you confirm what "delivery" in 2028 means? The slide from Jeremy suggested it is contract award in early 2028 rather than assets being operational and delivering in 2028.	We are currently planned to get the contract awarded in Jan 2028 and develop internal NESO system and process to be ready by that time, so the providers could be operational and start to deliver the service as soon as they are ready after the contract awarded.
31.	Will the availability payment submitted by providers be placed in merit order then cleared on marginal cost? Or will each individual provider have a unique availability payment?	<p>No, the merit order mechanism applies in the real time in the BM.</p> <p>At the time of tender, providers should submit their availability price, reflecting their capital expenditure together with a range of expected bid price for NESO to assess.</p>
32.	Would having/getting a DfC contract prioritise a site in the demand connections queue?	<p>We recognise connection challenge is an industry-wide issue and NESO are working closely with government, Ofgem and networks to find a resolution.</p> <p>We are in contact with the connection team to explore a designation process for Demand for Constraints and how such a process could align with wider Government initiatives to accelerate electricity network connections for strategic demand.</p> <p>Please note that embedded demand or distributed connected demand is currently out of scope of the NESO gated application window and remain within DSO remit.</p>

<p>33.</p>	<p>I think it was stated that assets becoming operational post 2027 would be new demand but the following slide said an asset commissioning in 2030 would not be eligible as developer had already committed to this which appears to be contradiction, or did I misunderstand?</p>	<p>It is correct that demand assets, or any additional capacity commissioned after January 2027, will qualify as 'new'. However, in addition to meeting the 'new' criterion, demand assets must also satisfy three other requirements: they must be flexible, constitute final demand, and deliver meaningful benefits.</p> <p>The example on slide 11 illustrates that, if an asset is already inherently flexible and does not face any investment barriers, it would not be eligible for Demand for Constraints.</p> <p>We would welcome your feedback to help finalise the eligibility criteria, please message us on box.market.dev@neso.energy.</p>
<p>34.</p>	<p>Will DfC participants remain exempt from / compensated for non-commodity costs or Final Consumption Levies?</p>	<p>Government increasingly acknowledges the challenges that FCLs place on demand and consumers of all types. Policy decisions such as FCL exemptions are outside NESO's remit. Our role includes influencing policy makers and we continue to highlight multiple barriers to demand turn up flexibility through our Demand Side Flexibility Route to Market Review. Ofgem, DESNZ and NESO committed to looking at solutions to unlock demand turn up in the Clean Flexibility Roadmap (CFR Action 5), including the issue of FCLs.</p> <p>DESNZ has announced an innovative trial (Government to make 'plug-in solar' available within months), which aims to ensure that demand turn up would become a more cost-effective option compared to curtailment. NESO continues to support assessment of options to mitigate the impacts of FCLs on DTU with DESNZ and Ofgem, including supporting trial design</p>

35.	<p>Will you factor utilisation duration capability into the economic assessment of a tender? That is, a short-duration asset might have to bid a lower availability price to be accepted? And does that mean you have to buy more longer-duration assets to make up the event duration you need?</p>	<p>We are developing the economic assessment rule and methodology and shall be able to communicate soon.</p>
36.	<p>How is a decision made on which projects are successful? A project with a cap -75 that pays all grid charges and FCLs may be better value to the system than one with a cap of -20 that does not pay FCLs or grid costs. Both could have the same availability payment. Which is best?</p>	<p>As part of the Demand for Constraints eligibility criteria, eligible assets must be additional, flexible, and constitute final demand. As a result, they will be subject to Final Consumption Levies whenever they are instructed to increase demand, unless and until enduring policy changes are introduced by DESNZ.</p> <p>Work is underway to develop the tender strategy and evaluation process. Fairness remains at the heart of our approach, ensuring a level playing field for all assets while delivering value for money for consumers.</p> <p>In parallel, we are considering how to assess the wider benefits of flexible demand and exploring mechanisms to ensure these benefits are appropriately recognised and rewarded within the Demand for Constraints market.</p>
37.	<p>How would the utilisation payment be calculated for co-delivery with the wholesale market?</p>	<p>If a provider chooses to self-dispatch and increase demand before gate closure in the wholesale market, its FPN will be adjusted to reflect that the available capacity has been fully utilised.</p> <p>As a result, after gate closure the provider will no longer be available for dispatch through the Balancing Mechanism (BM) and will not receive any utilisation payments from NESO.</p>

<p>38.</p>	<p>Is there a provision to unlock the H2 contract for projects under HAR to better utilize electrolyzers for additional hydrogen production when they are not operating? I believe HAR prevents these assets from producing outside the hydrogen business model.</p>	<p>We recognise the limitations of the current Hydrogen Production Business Model (HPBM). However, as our product is not focused on any one specific asset class, addressing every contractual detail of revenue support mechanisms such as HAR is not within our scope.</p> <p>NESO continues to work closely with DESNZ to review and improve the design of the HPBM. Our role includes influencing policymakers to help ensure that support mechanisms are designed in a way that complements constraints management.</p> <p>The Government is currently seeking views on proposals to incentivise electrolyzers to respond more dynamically to price signals, while also identifying any technical constraints that may limit such flexibility. Please see the link below for further information: Flexibility in electrolytic hydrogen production and use: call for evidence.</p>
<p>39.</p>	<p>Utilisation price cap: I accept that you need this, but how will this operate if circumstances change materially during the contract period? It would be normal to have provision for this in a contract of this length.</p>	<p>We would like to introduce periodical reviews during the contract which is to ensure the contract and price aligns with ongoing policy changes, for example, the exemption of Final consumption levies.</p> <p>Also, the proposal is our current minded-to position, and we would like to hear your thoughts. Please get in touch through box.market.dev@neso.energy.</p>