Public

Demand Flexibility Service (DFS)

EBR Article 18 Consultation

Proposed changes to the Demand Flexibility Service Terms and Conditions

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NESO
National Energy System Operator

Public

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10 November 2025

Demand Flexibility Service Terms and Conditions

Dear Industry and Colleagues,

In accordance with Commission Regulation (EU) 2017/2195 of 23 November 2017 as converted into retained EU law (EBR), National Energy System Operator (NESO) is proposing to update its terms and conditions relating to balancing with respect to the Demand Flexibility Service (DFS).

NESO is committed to driving changes to its balancing services markets that create opportunities for flexibility providers and realise consumer value. NESO considers that our proposed changes to the DFS will foster increased participation and enhance market access, in particular the ability to procure demand turn-up volumes in a locational manner. Our strategy aligns with core reform principles and workstreams, such as our Enabling Demand Side Flexibility roadmap, and will ensure that new flexibility volumes can gain confidence in operation and seamlessly integrate into our core markets if appropriate.

The proposed updates have been applied to the Demand Flexibility Service (DFS) Service Terms and Procurement Rules. In accordance with EBR, NESO is now consulting on these updates to those terms and conditions. The consultation will run from 10 November to 10 December 2025.

Please respond by 17:00 on 10 December 2025 using the proforma available on our website and submitting answers using the following MS Forms link below. A word template is also available to support drafting, but final submissions should be made via the link. Submissions made outside of this process may not be accepted due to the volume of responses anticipated.

Demand Flexibility Service Article 18 Consultation Response Form

Annexed to this document is a table showing how we believe the updated terms and conditions (and corresponding parts of the GB codes) map across to the terms and conditions related to balancing described by Article 18 of EBR.

If you have any questions regarding this proposal, please contact us at demandflexibility@neso.energy

Yours sincerely,

Jonathan Wisdom
Head of Market Change Delivery

EBR Article 18 Consultation

Introduction

The Demand Flexibility Service (DFS) was introduced during the winter of 22/23 as part of our winter contingency toolkit. Its purpose was to act as an enhanced action, in addition to the normal electricity market, to be used to access additional megawatts (MW) during times of high national demand, particularly on peak winter days.

Moving into winter 24/25, our winter outlook indicated that margins would be adequate and within the Reliability Standards. This meant there was not the same operational need for DFS as an enhanced action as in previous years, but we wanted to continue to harness the value of demand flexibility and utilise the volumes that had come forward.

We transitioned DFS from a winter-only enhanced action contingency service to a year-round merit-based margin tool to continue access and growth of consumer led flexibility. The evolved service design went live on 27 November 2024 following approval from Ofgem.

The Demand Flexibility Service (DFS) Service Terms and Demand Flexibility Service (DFS) Procurement Rules make up the terms and conditions for our Demand Flexibility Service.

Over the past year we have engaged extensively with service providers through webinars on key reforms, as well as several deep dives and 121 meetings. All the feedback and insights received to date have been considered and input into the following proposals.

In this consultation, we are setting out our proposed changes to these terms and conditions and providing an opportunity for further stakeholder feedback. We will take this feedback into account before submitting our final proposals to OFGEM for regulatory approval.

In this introduction we set out the consultation process and implementation timelines. In 'Summary of changes' we cover at a high level the proposed changes. More detail is subsequently provided on each change.

Consultation process and how to respond

We have published clean and tracked changed versions of the Demand Flexibility Service (DFS) Service Terms and Demand Flexibility Service (DFS) Procurement Rules to aid reviewing the proposed changes. Respondents should review these revised terms alongside this document.

We include questions in this document, though we have separately published a pro-forma which includes all questions and space to draft a written response. We ask respondents to submit their responses through Microsoft Forms to help us collate and compare responses efficiently and effectively.

Once the consultation is closed, we will consider all responses and seek to submit our final proposal to Ofgem as soon as possible. OFGEM will have two calendar months to approve or reject our proposals.

Should you have questions about the consultation process or wish to discuss any of the proposals in more detail, please contact us at: demandflexibility@neso.energy

Implementation

OFGEM may approve our changes by end of March 2026, and we intend to publish new Service Terms and Procurement Rules following approval. These documents would become the prevailing terms and conditions, published on our website.

As we move through the consultation process, we will continue to keep industry updated and informed regarding implementation plans and requirements.

Strategic Alignment

NESO is dedicated to advancing our balancing services markets in ways that enhance opportunities for flexibility providers and deliver significant value to consumers. Over the past year, we have focused on identifying and overcoming the barriers to flexibility, aiming to broaden market participation and transform the Demand Flexibility Service (DFS) into a year-round, merit-based tool.

NESO considers that our proposed changes to the DFS will foster increased participation and enhance market access. Our strategy aligns with core reform principles and workstreams, such as our Enabling Demand Side Flexibility roadmap, and will ensure that new flexibility volumes can gain confidence in operation and seamlessly integrate into our core markets if appropriate.

DFS has played a pivotal role in accelerating the growth and adoption of consumer-led flexibility within the GB energy sector. In collaboration with the government on the Clean Flexibility Roadmap, we are committed to evolving and expanding DFS functionality to provide economical and efficient market entry for flexibility solutions. As a key catalyst

for launching and expanding consumer-led flexibility, we are proud to support the initiatives outlined in both the Clean Flexibility Roadmap and the Clean Power 2030 plan.

Summary of Changes

For each proposal, we are asking respondents to set out whether they agree and to provide supporting rationale. There is also the opportunity to provider any further comments on the proposal and proposed wording.

A high-level summary of each change is provided here for convenience:

- **Demand Turn Up** – we are seeking to expand the capability of DFS to a bi-directional service and introduce the ability to procure negative margin.
- **Locational Assessment & Primacy**
  - Locational Assessment - ability to define volume requirements by zone to maximise operational and economic value. For energy tagged actions we will seek to maintain a national assessment price due to the requirement being nationally driven.
  - Primacy – provide our DNO partners the ability to input into the process of restricting certain MPANS due to network reasons such as constraints, improving whole system co-ordination and aligning to future Primacy obligations.
  - The introduction of zones will also allow NESO to publish Service Requirements for system tagged actions that seek to increase competition for specific locational constraints (subject to the implementation of the above two points).
- **Baseline** – propose to introduce an optional self-nomination baseline for intermittent renewable assets and retain the existing DFS P376 methodology for Domestic and Industrial & Commercial (I&C) participants.
- **ABSVD** – whilst this consultation is not making any immediate changes to the ABSVD structure, we want to flag our intention to align with the outcome of the Issue Group (IG) 114 Working Group in relation to Issue 1.
- **Eligibility Rules & Processes**
  - Eligibility Criteria – reduce the eligibility criteria of a DFS unit from a minimum threshold of 1MW to 0.1MW.
  - Tender and Procurement Processes.
    - Tender Timescales – we propose to modify the current tender process, revising the timescales for issuing Service Requirement notifications and

the provider bidding window to create greater flexibility to support the varying requirement periods with the introduction of negative margin.
    - Ability to publish more than one Service Requirement per day - each Service Requirement will be identified by an Event ID.
    - Stipulate the tender bidding window close time in each published Service Requirement. This will provide us the flexibility to potentially shorten the bidding window from 60 minutes to 30 minutes.
- Removal of the Weekly Indicative Forecast and Anticipated DFS Service Requirement.
- Performance Incentives - we propose to maintain the existing Performance Monitoring structure for negative delivery that we currently use for positive delivery.

More details are provided on these headline changes in the following sections.

1. Demand Turn-Up (Negative Margin)

What is the proposed change?

Expand the capability of DFS to a bi-directional service, introducing the ability to procure upward delivery (negative margin/demand turn up)

Why are we proposing this change?

To further enhance the DFS, we propose adding a Negative Margin (Demand Turn Up) element alongside the existing Positive Margin functionality. By expanding the DFS capability, we aim to increase market access, competition and provide additional tools for our control room during periods where negative margin is required. The industry has consistently provided a positive appetite for the introduction of this delivery, acknowledging the support such market access offers to the growth and focus on consumer-led flexibility.

As part of our DFS Evolution Webinar we shared with industry insights of how much negative margin we procure and typically which periods see the highest payments to and from NESO for these actions. We see value in increasing market access for DFS participants to deliver in both directions, offering additional revenue stacking for providers in their consumer offerings. Our core services (BM and Reserve) will remain the primary markets for this, and capable providers should aim for these. However, we recognise that consumer-led and manual flexibility does not always have this capability and utilises DFS as a route to market.

DESNZ's recently published Clean Flexibility Roadmap sets out the importance and ambition of growing consumer led flexibility with a specific Path building action around growing demand turn up. This DFS evolution will feature as one of NESO's core mechanisms to support the government's Path building action in this space.

Questions

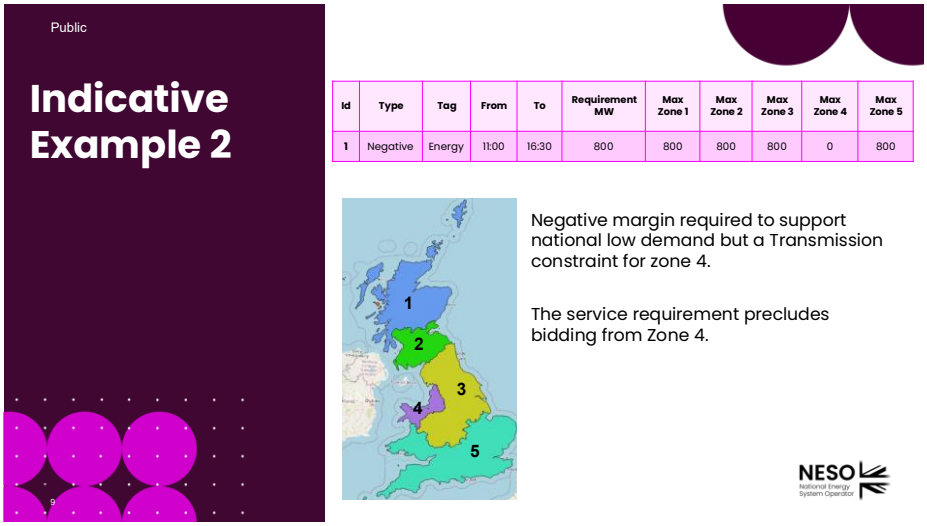
- Do you agree with the proposal to introduce a Negative Margin (Demand Turn Up) element to the DFS? Please provide rationale for your views.
- Do you have any other comments or questions on the proposal and proposed wording?

2. Locational Assessment and Primacy

Locational Assessment

What is the proposed change?

Under the locational developments we are proposing to introduce the concept of Zones whereby NESO will have the capability to limit procurement volumes by geographical regions depending on major transmission constraints. An illustrative example is provided below from our locational deep dive session. For energy tagged actions we will seek to maintain a national assessment price due to the requirement being nationally driven.



To effectively deliver this functionality we have introduced MPAN allocation rules restricting MPANS to only be registered to DFS Units within a zone. Parties will not be permitted to register MPANS in other locational zones. This will require locational information to be included in the Unit Meter Point Schedule.

Initially we intend to stipulate 5 Zones for DFS, and the boundaries of these zones will be shared via a GeoJSON file format on our website. For the purposes of consultation feedback, we have published a draft format of this file to support review. NESO will retain the right to update this file to reshape zones depending on operational circumstances. In practice we foresee minimal changes to this file and would seek to provide as much notice as possible should changes be necessary. We do note that the early Response & Reserve work is indicatively looking at 12 zones and therefore in the future DFS could expand from the initial five zone model.

This development would also unlock the capability for DFS to call specific Service Requirements to support/reduce costs for specific locational constraint challenges (system tagged, therefore indicating a locational pricing signal for specific regional constraints vs energy tagged events for national margin requirements). We see value in building the capability within the terms now to avoid needing to complete an additional EBR consultation to implement. NESO acknowledge that embedding negative delivery, locational volumes and primacy will be required before we can move to this functionality.

Why are we proposing this change?

As part of our Response and Reserve reform work it has been identified that there is both operational and economical value in having an increased functionality regarding the locationality of our procurement/assessment for balancing services. Where NESO have major transmission constraints, we can maximise our operational and economic value of service delivery by being able to procure in areas that deliver consumer value. This would also mean avoiding procurement in areas that don't provide these savings, and we will continue to ensure DFS procurement brings the maximum consumer value as an in-merit service. Please refer to the July 2025 Response & Reserve locational procurement webinar for further details.

As an entry service into flexibility, we have seen some participants transition from DFS into our core services and therefore it is important where possible we align to the core reform activities. This will also sharpen the operational certainty and value of the service enhancing its reliability and confidence in its operation.

Questions

- Do you agree with the introduction of locational procurement for DFS to align with broader balancing services developments and provide additional certainty/visibility of the units for managing margin actions? Please provide rationale for your views.
- Does the example draft GeoJSON file provide you with the adequate information to be able to group your portfolio of assets? If not, is there an alternative format which would facilitate this process?
- Do you have any other comments or questions on the proposal and proposed wording?

Primacy

What is the proposed change?

As well as accounting for transmission constraints with Zones, we propose primacy rules to account for distribution constraints. Primacy is a decision-making framework for procuring flexibility where NESO and DNO system requirements may conflict.

To facilitate primacy in DFS, we are enabling DNOs to indicate, via Risk of Conflict (RoC) reports, where MPANs providing DFS may conflict with a DNO requirement. We in turn will use this information to generate Primacy Exclusion Reports. For DFS participants, this means a unit meter point shall be eligible to participate unless:

a) **The Primacy Exclusion Report** sets out an MPAN is ineligible for a defined time and direction (i.e. turn up or turn down) the following day.

b) **It is the Pre-Participation Waiting Period**, i.e. the day a new MPAN is included in a provider's Meter Point Schedule and the following business day.

If unit meter points are ineligible for one of the above reasons, DFS providers should exclude the unit meter point from their bid volumes as we will not settle the delivery volume of those unit meter points and providers should ensure those consumers are not communicated to participate.

We propose sending DFS Providers the Primacy Exclusion Report each day at 14:00 and it will apply to the following day. The Primacy Exclusion Report will account for any RoCs DNOs have submitted to us by 11:00 that day. RoCs may cover day n+1 (i.e. the following day) to day n+7. The Primacy Exclusion Report will only specify unit meter points that are ineligible for a given time and service direction if the DNO states in the RoC that:

- The MPAN providing DFS risks the operational security of the distribution network, or
- There is at least a 90% chance of a DFS action being countered in part or full by an Active Network Management action (or another DNO flexibility action).
- Unit meter points shall otherwise be assumed eligible. If DNOs do not include an MPAN in their RoC Reports or do not submit the RoC Report, we will not deem the unit meter point ineligible. We will keep the ineligibility criteria under review as we monitor progress.

The Pre-Participation Waiting Period applies from when we issue the validation report (the same day a provider includes a new unit meter point (MPAN) on its Meter Point Schedule if sent by 09:00) to the end of the following business day. The aim is to offer

appropriate time to DNOs to review MPANs before they are eligible to deliver the service. We will share with DNOs the full list of MPANs within their network area included on Meter Point Schedules (from the effective date of the new DFS terms following the consultation period) at 11:00 daily. This gives the DNO 24 hours to provide a RoC Report by 11:00, that will be applicable to the following day when the Waiting Period expires and the MPAN becomes eligible.

Proposed changes to reporting:

- Changes to Unit Meter Point Schedule process (zones, postcodes, etc.)
- Moving pre-qualification to next day.
- MPAN data sharing with DNOs for Primacy
- Handling of Primacy, RoC, and rejected MPANs.

Why are we proposing this change?

Without primacy rules, there is a risk NESO flexibility actions cause operational issues for the distribution network or cause the DNO to take actions which effectively unwind the NESO action. For example, if a NESO instruction triggers a DNO's Active Network Management (ANM) curtailment instruction, then the service NESO was procuring is not realised. Embedding primacy rules can promote secure operation of networks and improve efficiency of procurement, driving consumer value.

As part of the Open Networks project, we agreed to implement the ENA Primacy Rules Framework. Where a NESO action causes or exacerbates a conflict (e.g. positive flex on an export constraint), 'DSO Primacy' should apply, meaning NESO should not take the flexibility action.[1] The Market Facilitator has since taken responsibility for coordinating and developing primacy arrangements. Delivering risk of conflict reporting and primacy rules are the Market Facilitator's priorities, as set out in its Draft Delivery Plan.

Our proposal for implementing primacy in DFS builds on the work done in the Market Facilitator's (and previously the ENA's) Primacy Working Group, including harnessing RoC Report template and NESO-DNO data exchange functionality developed in that group.

[1] NESO primacy shall apply where DNOs would counter a NESO action which flexes away from a DNO constraint, i.e. DNO flex action absorbs the newly created capacity. We are introducing DSO primacy first, which is the scope of this paper.

We are introducing Primacy within DFS ahead of other services, reflecting our understanding that demand turn-up at lower voltages (as proposed in DFS) is more likely to interact with distribution network requirements. We recognise that DNOs have varying capability in visibility and forecasting conflicts at these voltage levels, but we think it is right to give DNOs the opportunity to signal risks to their network. We also acknowledge Ofgem's principle that it is not acceptable to block participation in markets due to lack of visibility or NESO-DSO coordination,[2] and aim to embed an assumption of eligibility in our processes.

We also consider this is an opportunity to learn about the scope and scale of conflicts, to build capability and share learnings.

Questions

- Do you agree with the proposal to enable us to deem unit meter points ineligible due to distribution network requirements as indicated by DNO Risk of Conflict reports? Please provide rationale for your views.
- Do you agree with introducing a Pre-Participation Waiting Period with respect to MPANs newly appearing on Unit Meter Point Schedule, to give time for DNOs to review conflicts with relation to that MPAN?
- If yes, do you agree with our proposal that the Period shall apply from the validation of the MPAN to the expiry of the following business day? Is this length of time appropriate to account for DNOs to generate RoC reports and Providers to digest Exclusion Reports ahead of bidding? We ask industry to be mindful of the volume of unit meter points under DFS in their response.
- Do you have any other comments or questions on the proposal and proposed wording?

3. Baseline

What is the proposed change?

We are proposing to retain the agreed industry methodology based on P376, with the within day adjustment removed for Domestic and Industrial & Commercial (I&C)

[2] Ofgem, Flexibility Digital Infrastructure: Strategic direction setting page 16

participants and introduce an optional self-nomination baseline for intermittent renewable assets.

Why are we proposing this change?

Relating to retaining the existing P376 baseline methodology, this is because the accuracy of the current baseline is not problematic for the delivery of the service and whilst we have received some industry feedback to review the method, there has been insufficient evidence that an alternative methodology would provide meaningful increased accuracy at a portfolio level. Not changing the baseline methodology also provides consistency for parties whilst we introduce broader change and processes for DFS around bi-directional and locational aspects.

In expanding the service to negative margin, we recognise that a different form of baseline will be beneficial for wind and solar participation. Through our Optional Downward Flexibility Management Service (ODFM), which sought to deliver negative margin, we successfully onboarded more than 3.5GW of assets. Most of this volume has since not had a route to market and the expansion of the DFS provides a mechanism to utilise this flexibility. We believe the existing methodology not to be optimal in achieving the most accurate baseline for intermittent renewables and therefore we are seeking to introduce a self-nominated option for these assets which can reflect changing weather conditions closer to real time. This approach aligns with where we see renewable assets currently participating in areas such as the Balancing Mechanism and our Local Constraints Market. This self-nominated baseline will need to be submitted daily as the requirements are not known in advance, which will improve our operational awareness of capabilities of intermittent renewables.

Through this additional option those who have intermittent renewables in their portfolio will be able to select for those assets whether to utilise the existing methodology or follow this new methodology. NESO intend to facilitate a process whereby parties can submit a self-nominated baseline at the day ahead stage for the following operational day. Parties will be permitted to update this file within that period until any Service Requirement is subsequently published. The last submitted baseline file will then be used to determine delivery. If no baseline is submitted within that period, the asset would not be permitted to participate.

Questions

- Do you agree with the proposal to retain the existing DFS P376 baseline methodology? Please provide rationale for your views.
- Do you agree with the proposal to introduce a self-nominated baseline for intermittent renewable assets? Please provide rational for your views.
- Are there any additional considerations you believe that need to be given where domestic consumers have intermittent renewable assets considering the existing asset metering ruleset?
- Do you have any other comments or questions on the baseline proposals?

4. Applicable Balancing Services Volume Data (ABSVD)

What is the proposal?

For DFS, we are seeking to align with the outcome of the Issue Group (IG) 114 Working Group in relation to Issue 1. Whilst this working group and subsequent changes are progressed, we will be looking to maintain the existing rules as to how ABSVD applies to DFS until the proposed changes from Issue Group 114 are implemented.[3]

Why are we proposing this?

Following the consensus reached by the Issue Group, NESO are preparing a code modification to introduce a Direct Compensation mechanism, enabling Elexon to make payments to (or from) Suppliers in such cases. Separately, Elexon would make opposite payments to (or from) the Independent Aggregator. The proposed solution will apply to balancing services delivered via a BM Unit or a non-BM route (e.g. through P354 for Virtual Lead Parties). The key principle being that if a Supplier's imbalance position is

[3] Issue Group (IG) 114 is a collaboration between several organisations working towards identifying a solution for the imbalance in the Balancing and Settlement Code for payments to (or from) Suppliers when their Imbalance position is adjusted (using ABSVD). This issue is referred to as Issue 1.

adjusted due to a third party's action (regardless of BM status), then there should be a direct mechanism for financial compensation.

We are seeking to align with the outcome of this workstream, following the process, ensuring consistency across our core markets. For the avoidance of doubt as part of this consultation we are proposing to maintain the existing ABSVD structure and process but wanted to flag our intention as this industry working group progresses over time.

Questions

- Do you agree with our proposal to align with the outcome from Issue Group 114 for ABSVD? Please provide rationale for your views.
- Do you agree with the proposal to maintain the existing ABSVD rules in place for DFS until the resolution from Issue Group 114 for Issue 1 has been implemented? Please provide rationale for your views.
- Do you have any other comments or questions regarding the application of ABSVD for DFS?

5. Eligibility Rules and Processes

Eligibility Criteria

What is the proposed change?

We propose to reduce the eligibility criteria of a DFS Unit from a minimum of 1MW to 0.1MW.

Why are we proposing this change?

Through our broader market engagement and Demand Side Flexibility Routes to Market Review we committed to review the 1MW minimum unit size to support removing barriers to entry for flexibility. From industry feedback we have heard that this can support unlocking new parties and volume entering the market especially where larger commercial customers do not necessarily want to be aggregated with other

commercial entities. Through our engagement to date this proposal has received widespread positive feedback. As part of our deep dive sessions, we ran an attendee poll to capture views on this proposal. We received twenty-three responses overall and of the twenty-three, over 90% voted in favour of this change. There were two respondents who voted no, however when asked why, they did not wish to provide any rationale for their views. The recently published Clean Flexibility Roadmap refers to sub 1 MW and non-integer bids being a key enabler for demand side flexibility. DFS already facilitates non integer bids.

Reducing the eligibility criteria to 0.1MW is also a necessary change as we seek to introduce locational aspects for DFS and ensuring units are only aggregated within their specific zones. This lower threshold reduces the risk of any parties not being able to aggregate within a zone and opens the opportunity for more participants to access the service, making it more inclusive.

Questions

- Do you agree with the proposal to reduce the eligibility criteria from 1MW to 0.1MW? Please provide rationale for your views.
- Do you have any other comments or questions on the proposal and proposed wording?

Tender and Procurement Processes

What is the proposed change?

1. Tender Timescales – we have previously indicated that the requirements for negative margin will largely fall outside of core business hours. Across weekends and Bank Holidays we anticipate the likely hours of requirement will predominantly range between 11:00 and 16:00 with this broadly shifting to 13:00 – 15:30 on weekdays. Following further analysis, we also foresee that we could potentially have a requirement for negative margin in the early hours, typically between 1am to 5am with a Service Requirement issued between 8pm to 10pm the evening prior. Therefore, we will need to modify the current tender process, revising the timescales for issuing Service Requirement notifications and the provider bidding window. Our initial indicative proposal is demonstrated in the image below. These timings and requirement windows are indicative and contractually we are proposing the ability to issue a Service Requirement at any

time throughout the day for any delivery period (subject to derogation compliance). However, we would value feedback from industry on their ability to submit bids and participate in the proposed Requirement Windows, indicated in scenarios 1, 2 and 3. NESO anticipate scenarios 2 and 3 as being the core introductory periods but we wanted to outline the additional periods for industry planning and capability purposes.

Indicative Requirement Notice & Service Window Timings for a bi-directional DFS

Negative Margin – Demand Turn Up (new additions to the DFS)

Scenario	Issue Service Requirement	Requirement Windows
1	8pm to 10pm	Early Morning - 1am to 5am
2	8am to 9am	Weekday Solar Peak - 11am to 3pm
3	8am to 9am	Weekends & Bank Holidays - 10am to 5pm

Positive Margin – Demand Turn Down (no change)

Scenario	Issue Service Requirement	Requirement Windows
4	9am to 12pm	Winter (GMT) - 4pm to 7pm
5	9am to 12pm	Summer (BST) - 4pm to 11pm

1. Ability to publish more than one Service Requirement per day and each Service Requirement will be identified by an Event ID. This could be for upwards or downwards flexibility and will also specify a national requirement, as well as any zonal limitations.
2. Reduce the tender bidding window from 60 minutes to 30 minutes where necessary to facilitate the change in tender timescales for negative margin. Contractually we have kept this flexible through specifying the DFS Bid Submission close time for bids in the published Service Requirement itself.
3. Removal of Weekly Indicative Forecast and Anticipated DFS Service Requirement.

Why are we proposing this change?

1. As we transition DFS into a bi-directional service, through introducing a negative margin aspect, this will bring about several process changes to effectively deliver this capability. As the requirements for negative margin will largely fall outside of core business hours and the current process timings for positive margin, we need to ensure that the tender process works for one and/or both aspects. Through

engagement as part of the DFS deep dive sessions, we asked parties about their ability to participate across weekends and bank holidays. Of the thirteen responses received to this question, 6 (46.15%) said yes, they can do so and a further six responded with whilst they do not have the operational capability here and now, they are working on developing current processes to be able to do so. Only one respondent (7.69%) said no, however they did not provide any rationale for this answer.

2. Through seeking to transition DFS into a bi-directional service, there will be instances where we may need to issue more than one Service Requirement per day, one to instruct each of the service directions i.e. positive or negative. Where feasible and aligned to any updated derogation we will seek to undertake this in one publication where possible to ensure efficiencies in the process and bidding. It also supports the introduction of locational procurement and the proposal to bring in the concept of zones. As we will look to set limits to how much of the national requirement is procured from each zone, the concept of Event ID will be utilised. This will facilitate us setting out clear, easy to understand instructions. NESO will continue to use a national assessment price for margin instructions but limit volumes by zone. Assessment values will vary by zone as we look to introduce system tagged actions to support constraint specific actions.
3. Whilst we are looking to support the move to bi-directional capabilities, we recognise that the hours for which we are likely to have a requirement for negative margin are different to the current positive margin requirements and will bring about a change to the tender timescales to ensure we operate them in core business hours as much as possible. This is turn impacts the notice period for which a provider will have to notify and instruct customers to act. Therefore, we see merit in condensing the tender timescales and provider communication period, to meet the start of the likely requirement period and facilitate a tender process that is within core working hours predominantly.
4. With the move to within-day procurement last winter, the notice period was moving closer to any Service Requirement and therefore, we did not believe the Anticipated DFS Service Requirement Notice offered the same value in previous iterations of the service. Whilst we retained the capability to publish the notice contractually last year, we have yet to issue one since the service re-started as a merit-based margin tool on 27th November 2024. Therefore, we propose to remove this altogether as it no longer proves useful. Similarly, with the Weekly Indicative Forecast, we propose to remove this step from the weekly provider process as it does not provide us with any beneficial information. During the Eligibility Rules & Process deep dive session we held in September, we asked industry if they would

agree with our decision to remove both. We received a total of twelve responses and 100% of those who answered said yes, they were in favour.

Questions

- Do you agree with the changes to the tender timescales and the indicative timings provided? Please provide rationale for your views.
- Do you agree with our proposal to introduce the ability to publish more than one Service Requirement per day where necessary? Please provide rationale for your views.
- Do you agree with the need to include an Event ID within a Service Requirement? Please provide rationale for your views.
- Do you agree with the aim to reduce the tender bidding window from 60 minutes to 30 minutes where necessary to facilitate the change in tender timescales for negative margin? Please provide rationale for your views.
- Are you in agreement to keep flexibility in the contracts and introduce a mechanism whereby we will specify the DFS Bid Submission close time for bids in the published Service Requirement? Please provide rationale for your views.
- Do you agree with our plans to remove the Weekly Indicative Forecast and Anticipated DFS Service Requirement? Please provide rationale for your views.
- Do you have any other comments or questions regarding tender and procurement processes for DFS?

Performance Incentives

What is the proposal?

We propose to maintain the existing Performance Monitoring structure for negative margin that we currently use. This is to settle based off delivered volume within an envelope from 50%-120% of the contracted volume. NESO are seeking to continue to cap payments at 120% of contracted volume and under 50% are subject to a sliding scale as per the formula whereby no payment will be made under 25%.

For Auto Opt-in Unit Meter Points, we have maintained the rule whereby delivery against the service would result in that meter point adversely impacting the Units delivery and would be subject to pay NESO if overall delivery were in the incorrect direction.

Why are we proposing this?

Industry feedback was largely in favour for the introduction of this performance structure for the positive delivery and through our deep dive sessions most participants agreed that the current structure in terms of the process and the scale of the performance incentives was a fair balanced position.

Questions

- Do you agree with the proposal to maintain the existing performance incentive structure and extend for negative margin? Please provide rationale for your views.
- Do you have any other comments or questions on the proposal and proposed wording?

6. Housekeeping Changes

In this section we flag some of the general housekeeping changes which will be visible through the redline versions of the contractual document. Whilst we have no specific questions on these there is a general observations option at the end of the form to highlight any feedback from industry on general housekeeping feedback.

New names or changes to the previous defined terms:

- Consumer Type – Increased to five types: Domestic, Industrial & Commercial, Generation Asset being solar, Generation Asset being wind and other Generation Asset
- Opt in and Opt out – these have been changed to 'Auto Opt in' and 'Manual Opt in' to help provide further clarification.

New Defined Terms:

- Event ID
- Generation Assets Demand Turn Up and Demand Turn Down
- DFS Zone
- Pre-Participation Waiting Period
- Primacy Excluded
- Primacy Exclusion Report
- Zonal Cap
- DFS Procurement Period

Removed:

- GSP Group
- Weekly Indicative Forecasts and Anticipated DFS Requirement Notice
- Active Network Management Scheme – this will be superseded by the introduction of the Primacy process.

Questions

- Do you have any other comments or questions on the Housekeeping Changes?

7. Generic Questions

- Appendix 1 – Do you have any comments on the highlighted Article 18 mapping for the Demand Flexibility Service?
- Do you agree with the overall proposal for the Demand Flexibility Service?
- Do you have any other comments on the overall Demand Flexibility Service proposal?

Appendix 1: Mapping Table

EBR Article 18 mapping for Demand Flexibility Service Terms and Conditions

Please note: The table below cross references the terms and conditions related to balancing described in article 18 of Commission Regulation (EU) 2017/2195 of 23 November 2017 (as converted into assimilated EU law, and as amended by the Electricity Network Codes and Guidelines (Markets and Trading) (Amendment) (EU Exit) Regulations 2019/532) ("**EBR Article 18**") against the corresponding parts of the GB codes and relevant contractual provisions, with particular reference to the Demand Flexibility Service. This cross referencing includes the terms and conditions for balancing service providers and the terms and conditions for balance responsible parties.

Nothing in this table shall prejudice or otherwise affect the operation of the GB codes and relevant contractual provisions, and furthermore in the event of any conflict or inconsistency between this table and EBR Article 18 the latter shall prevail.

Table 1 – Mandatory Elements

Below is the mapping of EBR Article 18 with references to the relevant Demand Flexibility Service terms and conditions

Article	Text	Code or Document	Section
18.2	The terms and conditions pursuant to paragraph 1 shall also include the rules for suspension and restoration of market activities pursuant to Article 36 of Regulation (EU) 2017/2196 and rules for settlement in case of market suspension pursuant to Article 39 of Regulation (EU) 2017/2196 once approved in	Grid Code	OC9.4
		BSC	G3, P1.6, P5, Q4.3.4, Q5.4, Q5A and T1.7

	accordance with Article 4 of Regulation (EU) 2017/2196.		
18.4	The terms and conditions for balancing service providers shall:	-	-
18.4.a	Define reasonable and justified requirements for the provisions of balancing services;	DFS Procurement Rules DFS Service Terms	**DFS Procurement Rules** 4 – Registration of DFS Units 5 – Registration as Registered DFS Participant 6 – DFS Operational Baselines 8 - Primacy 9 – Updates to Unit Meter Point Schedules 11 – DFS Submissions 15 – Delivery of DFS **DFS Service Terms** 5 – Service Delivery
		BSC	A, H3, H4.2, H4.7, H4.8, H5.5, H6, H10, J3.3, J3.6, J3.7, and J3.8
		CUSC	4.1.3
		Grid Code	BC1, BC2, BC3 & BC4
18.4.b	allow the aggregation of demand facilities, energy storage facilities and power generating facilities in a scheduling area to offer balancing services subject to conditions referred to in paragraph 5 (c);	BSC	K3.3, K8, S6.2, S6.3 and S11, S12, S13 and S14
		Grid Code	DRSC 4.2, BC1.4
		DFS Procurement Rules	**DFS Procurement Rules** 4 - Registration of DFS Units

			5 – Registration as Registered DFS Participant Schedule 2 – Registration and Pre-Qualification Procedure
18.4.c	allow demand facility owners, third parties and owners of power generating facilities from conventional and renewable energy sources as well as owners of energy storage units to become balancing service providers;	BSC	K3.2, K3.3, K8
		DFS Procurement Rules	**DFS Procurement Rules** 4 - Registration of DFS Units 5 – Registration as Registered DFS Participant Schedule 2 – Registration and Pre-Qualification Procedure
18.4.d	require that each balancing energy bid from a balancing service provider is assigned to one or more balance responsible parties to enable the calculation of an imbalance adjustment pursuant to Article 49.	BSC	T4, Q7.2, Q6.4
18.5	The terms and conditions for balancing service providers shall contain:	-	-
18.5.a	the rules for the qualification process to become a balancing service provider pursuant to Article 16;	DFS Procurement Rules	**DFS Procurement Rules** 4- Registration of DFS Units 5 – Registration as Registered DFS Participant Schedule 2 – Registration and Pre-Qualification Procedure

		Grid Code	BC5, BC4.4.2
		CUSC	4.1
		BSC	J3.3, J3.6, J3.7, J3.8, K3.2, K3.3 and K8
18.5.b	the rules, requirements and timescales for the procurement and transfer of balancing capacity pursuant to Articles 32 and 34;	-	-
18.5.c	the rules and conditions for the aggregation of demand facilities, energy storage facilities and power generating facilities in a scheduling area to become a balancing service provider;	DFS Procurement Rules	**DFS Procurement Rules** 4 - Registration of DFS Units 5 – Registration as Registered DFS Participant Schedule 2 – Registration and Pre-Qualification Procedure
		BSC	K3.3 and K8
		Grid Code	BC1.4 and BC1.A.10
18.5.d	the requirements on data and information to be delivered to the connecting TSO and, where relevant, to the reserve connecting DSO during the prequalification process and operation of the balancing market;	DFS Procurement Rules DFS Service Terms	**DFS Procurement Rules** 4 – Registration of DFS Units 5 – Registration as Registered DFS Participant 6 – DFS Operational Baselines 8 - Primacy 11 – DFS Submissions 17 - Confidentiality Schedule 2 – Registration and Pre-Qualification Procedure

			Schedule 3 – DFS Operational Baselines **DFS Service Terms** 5 – Service Delivery 6 – Performance Monitoring 13 – Communications 17 – Records and Audits
		BSC	O
		Grid Code	DRC, BC5, BC1.4
		CUSC	4.1.3.14 and 4.1.3.19
18.5.e	the rules and conditions for the assignment of each balancing energy bid from a balancing service provider to one or more balance responsible parties pursuant to paragraph 4 (d);	BSC	T4
		DFS Procurement Rules DFS Service Terms	**DFS Procurement Rules** 15 – Delivery of DFS **DFS Service Terms** 18 – Assignment
18.5. f	the requirements on data and information to be delivered to the connecting TSO and, where relevant, to the reserve connecting DSO to evaluate the provisions of balancing services pursuant to Article 154(1), Article 154(8), Article 158(1)(e), Article 158(4)(b), Article 161(1)(f) and Article 161(4)(b) of Regulation (EU) 2017/1485;	DFS Service Terms	**DFS Service Terms** 5 – Service Delivery 6 – Performance Monitoring 17 – Records and Audits
		Grid Code	BC1.4, BC1.A.10
		CUSC	4.1.3.19

18.5. g	the definition of a location for each balancing product taking into account paragraph 5 (c);	DFS Procurement Rules	**DFS Procurement Rules** 4 – Registration of DFS Units
		Grid Code	BC1.4
18.5.h	the rules for the determination of the volume of balancing energy to be settled with the balancing service provider pursuant to Article 45;	BSC	T3
18.5. i	the rules for the settlement of balancing service providers defined pursuant to Chapters 2 and 5 of Title V;	DFS Service Terms	**DFS Service Terms** 7- Utilisation Payments 8 – Payment Procedure Schedule 1 – Utilisation Payments Schedule 2 – Payment Provisions
		BSC	T1.14, T3 and U
		CUSC	4.1.3.9 and 4.1.3.9A
18.5. j	a maximum period for the finalisation of the settlement of balancing energy with a balancing service provider in accordance with Article 45,	DFS Service Terms	**DFS Service Terms** 8 – Payment Procedure Schedule 2 – Payment Provisions

	for any given imbalance settlement period;	BSC	U2.2
		CUSC	4.3.2.6
18.5. k	the consequences in case of non-compliance with the terms and conditions applicable to balancing service providers.	DFS Procurement Rules DFS Service Terms	**DFS Procurement Rules** 5 – Registration as Registered DFS Participant 11 – DFS Submissions Schedule 2 – Registration and Pre-Qualification Procedure **DFS Service Terms** 6 – Performance Monitoring 12 – Provision of Other Services Schedule 1 – Utilisation Payments
		BSC	H3, Z7 and A5.2
		CUSC	A.1.3.9, 4.1.3.9A and 4.1.3.14
18.6	The terms and conditions for balance responsible parties shall contain:	-	-
18.6. a	the definition of balance responsibility for each connection in a way that avoids any gaps or overlaps in the balance responsibility of different market participants providing services to that connection;	BSC	K1.2, P3 and T4.5

18.6. b	the requirements for becoming a balance responsible party;	BSC	A, H3, H4.2, H4.7, H4.8, H5.5, H6, H10, J3.3, J3.6, J3.7, J3.8, K2, K3.3 and K8
18.6.c	the requirement that all balance responsible parties shall be financially responsible for their imbalances, and that the imbalances shall be settled with the connecting TSO;	BSC	N2, N6, N8, N12, and T4
18.6. d	the requirements on data and information to be delivered to the connecting TSO to calculate the imbalances;	BSC	O, Q3, Q5.3, Q5.6, Q6.2, Q6.3, Q6.4
		Grid Code	BC1.4.2,3,4, BC1 Appendix 1 BC2.5.1
18.6. e	the rules for balance responsible parties to change their schedules prior to and after the intraday energy gate closure time pursuant to paragraph 4 of Article 17;	BSC	P2
		Grid Code	BC1.4.3,4
18.6.f	the rules for the settlement of balance responsible parties defined pursuant to Chapter 4 of Title V;	BSC	T4, U2
18.6.g	the delineation of an imbalance area pursuant to Article 54(2) and an imbalance price area;	-	*GB constitutes one imbalance area and imbalance price area and they are equal to the synchronous area.*
18.6.h	a maximum period for the finalisation of the settlement of imbalances with balance responsible parties for any given imbalance settlement	BSC	U2.2

	period pursuant to Article 54;		
18.6.i	the consequences in case of non-compliance with the terms and conditions applicable to balance responsible parties;	BSC	H3,Z7 and A5.2
18.6.j	an obligation for balance responsible parties to submit to the connecting TSO any modifications of the position;	BSC	P2
18.6.k	the settlement rules pursuant to Articles 52, 53, 54 and 55;	BSC	T4, U2
18.6.l	where existing, the provisions for the exclusion of imbalances from the imbalance settlement when they are associated with the introduction of ramping restrictions for the alleviation of deterministic frequency deviations pursuant to Article 137(4) of Regulation (EU) 2017/1485.	Deterministic frequency deviation is a continental European concept and is not a characteristic of the GB system. Therefore, this requirement does not apply to GB.	N/A

Table 2 - Non- Mandatory elements

Article	Text	Comment
18.7. a	-	Sub-paragraph 18.7.a was repealed pursuant to paragraph 18(6)(a) of Schedule 2 of the Electricity Network Codes and Guidelines (Markets and Trading) (Amendment) (EU Exit) Regulations 2019/532.
18.7. b	where justified, a requirement for balancing service providers to offer the unused generation capacity or other balancing resources through balancing energy bids in the balancing markets after day ahead market gate closure time, without prejudice to the possibility of balancing service providers to change their balancing energy bids prior to the balancing energy gate closure time due to trading within intraday market;	NESO does not expect to require this from Balancing Service Providers, except where balancing capacity or energy has been contracted. Although in the BM defaulting rules apply if data is not updated, there is no legal requirement for parties to offer unused generation capacity or any other balancing resource.
18.7. c	-	Sub-paragraph 18.7.c was repealed pursuant to paragraph 18(6)(c) of Schedule 2 of the Electricity Network Codes and Guidelines (Markets and Trading) (Amendment) (EU Exit) Regulations 2019/532.
18.7. d	specific requirements with regard to the position of balance responsible parties submitted after the day-ahead market timeframe to ensure that the sum of their internal and external commercial trade schedules equals the sum of the physical generation and consumption	NESO does not expect to require this from Balancing Service Providers. No BSC party is required to contract to match its Final Physical Notifications (FPNs).

	schedules, taking into account electrical losses compensation, where relevant;	
18.7. e	an exemption to publish information on offered prices of balancing energy or balancing capacity bids due to market abuse concerns pursuant to Article 12(4)	NESO does not expect to require this exemption. Such data is published on Insights Real-Time Information Service (IRIS).
18.7. f	an exemption to predetermine the price of the balancing energy bids from a balancing capacity contract pursuant to Article 16(6)	Not applicable to DFS.
18.7. g	An application for the use of dual pricing for all imbalances based on the conditions established pursuant to Article 52(2)(d)(i) and the methodology for applying dual pricing pursuant to Article 52(2)(d)(ii).	NESO does not expect to apply for the use of dual pricing for all imbalances. A single imbalance price was adopted by the GB market in November 2015.