

Public

Demand Flexibility Service Submission Document

Proposed changes to the Demand
Flexibility Service Terms and Conditions
30 January 2026

Public

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30 January 2026

Demand Flexibility Service Terms and Conditions Submission

Dear James,

In accordance with Commission Regulation (EU) 2017/2195 of 23 November 2017 as converted into retained EU law (EBR), we are proposing to update our terms and conditions relating to balancing with respect to the Demand Flexibility Service.

NESO is committed to driving changes to its balancing services markets that ensure system security, drive effective competition and realise consumer value. Our Demand Flexibility Service (DFS) has been embedded as an additional tool to support positive margin since moving to a merit-based margin tool in November 2024. Changes proposed in this consultation will expand the capability of the service to include negative margin capability (demand turn up actions), improve its operational effectiveness, promote further growth of consumer led flexibility and enhance security, competition and value for money.

The proposed updates have been applied to the DFS Service Terms and Procurement Rules. In accordance with EBR, we have now concluded consulting on these updates. This document includes all the relevant information and details of this consultation.

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 queries, please contact Richard.Hanson2@neso.energy.

Yours sincerely

Jonathan Wisdom

Head of Market Change Delivery

Introduction

The DFS Service Terms and Procurement rules make up the terms and conditions for our Demand Flexibility Service.¹

Over the past year we engaged extensively with current and prospective service providers on these terms and conditions, including multiple service design webinars, Markets Forum events, 1-1 meetings and a pre-consultation webinar. On 10 November 2025, we published a consultation setting out a range of proposed changes reflecting this engagement alongside our internal priorities.²

We received 16 responses to this consultation of which the feedback has supported shaping the final submissions. On several topics we have engaged further with providers to understand their feedback and explore possible revisions. In addition to the 16 responses, we receive several confidential responses that also fed into our decision-making process. The feedback from confidential submissions is shared with Ofgem as part of the process.

This document is structured as follows:

- In the introduction, we set out our approach to the consultation and submission document
- In the ‘Summary of changes and implementation’ section, we set out at a high level the proposed changes, when we intend for them to come into effect, as well as monitoring and enforcement considerations.
- In the Submissions part of the document, we provide detail on each of the terms and conditions changes we are proposing to make as part of this consultation process. We summarise the feedback we received, set out how we have considered it including where it has led to changes in our proposed terms and conditions since the consultation, and signpost the relevant parts of the Service Terms and Procurement Rules.

Overview of consultation feedback, and NESO reflections

For each submission (i.e., proposed change), we provide a single overview of the responses received. In this overview, we highlight core themes while ensuring we represent points and questions raised in responses. Where appropriate we have included and asked more quantitative questions which has provided an overall view of general support or opposition for specific changes. We then provide a single response in

¹ Available at: [Demand Flexibility Service \(DFS\) | National Energy System Operator](#)

² Available at: <https://www.neso.energy/document/371766/download>

the ‘Outcome following feedback’ sub section, in which we address the feedback received and our final position.

Submissions

We intend that each of the proposed changes may be considered by Ofgem as separate ‘submissions’ such that they can be reviewed and hence approved by Ofgem in isolation. While in practice we expect all submissions to be approved at the same time, this ensures any delays or concerns by Ofgem around an individual change does not result in an undue delay to other changes independent of that individual change.

Summary of changes and implementation

1. Demand Turn-Up (Negative Margin)

We propose to expand the capability of DFS to a bi-directional service and introduce the ability to procure negative margin.

We received broad support from respondents, so we are proceeding with this proposal.

- Service Terms: 5.2 ii 1 & 2 we have clarified Baselines for Upward Flexibility
- Procurement Rules: 4.3.2 (d) additional new column to the Unit Meter Point Schedule Upwards Flexibility. 10.3.5 added new clause. Schedule 1 new Defined Term, Upwards Flexibility.

2. Locational Assessment and Primacy

Locational Assessment

We propose to introduce the ability to define volume requirements by zone to maximise operational and economic value.

We received broad support for our proposal from the respondents. There were questions raised around intended plans to use DFS in future for constraint management actions, calls for zones to be aligned with DNO boundaries/licensed areas and concerns around additional complexity.

We are proceeding with this proposal.

- Procurement Rules: 12.2 updated clause. Schedule 1 – new Defined Term Zonal Cap

Primacy

We propose to 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.

We received broad support from the respondents in our proposal to embed primacy rules within DFS. Generally, stakeholders recognised the role of primacy in effective whole system coordination though asked us to ensure the transparency of these arrangements in practice.

We are proceeding with our primacy proposals. This enables us to deem certain meter points ineligible due to distribution network requirements as indicated by DNO Risk of Conflict (Roc) reports. We will also introduce a Pre-Participation Waiting Period to give time for DNOs to review any conflicts when MPANs are first included on a Meter Point Schedule.

- Procurement Rules: Added Primacy wording to clauses 4.10, 6.2, 11.5.7 (a) and 15.2. Section 8 is a new section on Primacy. Schedule 1 – added new Defined Terms: Primacy Excluded and Primacy Exclusion Report. 10.3.4, 12.2 a) 12.3 new clauses for Zonal Cap. Schedule 1 New Defined – Zonal Cap

Locational Procurement – Zones

We propose to introduce the concept of zones which will allow NESO to limit procurement from certain zones to ensure effective operational delivery and to publish Service Requirements for system tagged actions that seek to increase competition for specific locational constraints. Our proposal is to introduce 12 zones.

We have introduced the concept of zones throughout the contractual terms with the specific zone boundaries being shared through a file on our DFS webpage. For clarity the number of zones that we seek to use are not specified in the terms to offer flexibility should these need to change due to system reasons. As part of our engagement and consultation we indicated our intention to initially introduce 5 zones. However, as part of the feedback some respondents suggested there was merit in aligning with the core reform work with our Response & Reserve services and look to introduce 12 zones from the start.

We took on board this feedback and are proposing to implement 12 zones in the first draft of our DFS Zone file. Should NESO seek to update this file we will engage with the market accordingly.

- Procurement Rules: 4.3.2 (b) additional column to the Unit meter Point Schedule (DFS Zone). 4.3.2 (i), 9.2.5, 10.3.4, 11.1, 12.3, 12.4, 16.2.2 added word DFS Zone. Schedule 1 new Defined Terms DFS Zone. 10.3.6 new clause energy or system action.

3. Baseline

We propose to retain the existing DFS P376 methodology for Domestic participants

We received mixed feedback from respondents but general support as there was no suitable alternative identified. We will therefore proceed with the proposal to retain the existing P376 baseline methodology for Domestic participants.

- Service Terms: 8.2 vi. new addition to Unit Meter Point Schedule.
- Procurement Rules: Schedule 3 – DFS Operational Baselines – Part 3 – P376 Baseline Methodology, new clause added Audit and Inspection Rights.

We propose to introduce an optional self-nomination baseline for Industrial & Commercial (I&C) participants and intermittent renewable assets.

Overall, we received mixed feedback to introduce a self-nomination baseline for intermittent renewable assets with concerns raised around gaming and the appropriateness of these assets participating in DFS. We are planning to proceed with our original proposal. Whilst we did not propose to introduce this option for I&C participants originally feedback through the consultation supported this approach. Following consideration of the responses, we agree this is a suitable proposal.

- Service Terms: 8.2 vi. new addition to Unit Meter Point Schedule. 8.3 iii. new clause
- Procurement Rules: 4.3.2. (i) new clause. 6.4.1 (b) amended clause. 17.2.2 new clause. Schedule 1 – new Defined Terms Self-Nominated Baseline Methodology and Consolidated MPAN Forecast. Schedule 3 – DFS Operational Baselines Part 2 – Baseline methods 2. added new clause. Part 4 new section added Self-Nominated Baseline Methodology.

4. Applicable Balancing Services Volume Data (ABSVD)

We propose to align with the outcome of the Issue Group (IG) 114 Working Group in relation to Issue 1 (Issue 1 is Supplier Compensation for ABSVD Payments). Whilst this working group and subsequent changes are progressed, we will maintain the existing rules in terms of how ABSVD applies to DFS.

We received general support on this from respondents so the existing terms on this topic will remain unchanged.

5. Eligibility Rules and Processes

Eligibility Criteria

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

Overall, most respondents agreed with this proposal as it is a positive step in removing barriers for entry. We are proceeding with the proposal to reduce the eligibility criteria to 0.1MW.

- Procurement Rules: Schedule 1 – new Defined Term Minimum Submission Size and reduced from 1MW to 0.1MW.

Tender and Procurement Processes

We propose to modify the current tender process, revising the timescales for issuing Service Requirements and the provider bidding window to create greater flexibility to support the varying requirement periods with the introduction of negative margin.

There was general support for the indicative modifications to the tender process and revised timescales. Some concerns were raised by respondents about the time needed to analyse, bid and communicate with customers. We recognise these challenges however, we consider that these proposals will provide the best balance between current business practices by participants and the different requirement we are meeting through this iteration of the product. Therefore, we will proceed with this element of the proposed changes.

- Procurement Rules: 10.3.7 new clause. Schedule 1 new Defined Term DFS Submission Time

We propose the ability to publish more than one Service Requirement per day where necessary and each Service Requirement will be identified by an Event ID

We received broad support for this proposal with 13 respondents agreeing, therefore we are proposing to proceed with this element of the proposal.

- Procurement Rules: 10.3.1, 11.5.1 new clauses. Schedule 1 new Defined Terms Event Day and Event ID

We propose to reduce the tender bidding window from 60 minutes to 30 minutes where necessary to facilitate the change in tender timescales for negative margin. The tender bidding window close time will be stipulated in each published Service Requirement

We received general support for this proposal and although we acknowledge that some respondents highlighted that 30 minutes would not be enough time for them to respond to a Service Requirement we are proceeding with this proposal at this time as it may provide further opportunities for consumer value. The proposal will provide us the ability to evolve and adjust the bidding window over time. We will seek to remain with a one-hour period based on consideration of the feedback until otherwise engaged and communicated with industry

- Procurement Rules: 10.3.7 new clause. Schedule 1 new Defined Term DFS Submission Time

We propose to remove the Weekly Indicative Forecast and Anticipated DFS Service Requirement

Most respondents who answered this question agreed with this proposal but there were a couple of respondents who would like to keep the Anticipated DFS Service Requirement in place. As we have not issued an Anticipated DFS Service Requirement since November 2024 we believe it no longer provides value, we are proceeding with this proposal to remove them from the terms.

Performance Incentives

We propose to maintain the existing Performance Monitoring structure for negative delivery that we currently use for positive delivery.

Most respondents agreed with this proposal therefore, we intend to proceed to maintain the existing Performance Monitoring structure.

- Service terms: 5.2 added new clauses for Service Delivery to cover Downwards Flexibility and Upwards Flexibility. New Defined Terms, Auto Opt-in replaces Opt-in, Manual Opt-in replaces Opt-out, Service Volume replaces Demand Reduction Volume and DFS Submission replaces DFS Bid.

We provide more details in the following sections for each of the above topics.

Submissions

1. Demand Turn-Up (Negative Margin)

Do you agree with the proposal to introduce a Negative Margin (Demand Turn Up) element to the DFS? Please provide rationale for your views.

Responses Overview

Of the 16 responses received, all respondents were in favour of our proposal to expand the capability of DFS to a bi-directional service and introduce a Negative Margin (Demand Turn Up) element.

Many explained they see the introduction of demand turn up a logical next step for DFS and it will play a vital part in supporting growth by broadening market access with one respondent stating it supports the continued participation of domestic and I&C customers, as well as renewables. Respondents also said it will help increase flexibility through providing an accessible route to market for consumer-led flexibility with one respondent referring to this being in line with DESNZ's Clean Flexibility Roadmap. 3 further respondents detailed economic benefits with one explaining that it will help increase the value being offered to their end customers. Another respondent detailed how some customers cannot find any further way to 'turn down' their usage so will appreciate the chance to earn whilst turning up their usage. 3 respondents described how they support the proposal to introduce a negative margin element due to the benefits it brings to supporting system stability and the role it will play in system balancing. One of the three went on to state it will offer significant system value, particularly when addressing system constraints.

Whilst all respondents were supportive of this proposal, a few had several comments they would like us to take into consideration. 3 respondents noted that customers would appreciate as much notice as possible ahead of any turn up events so would welcome as much clarity and guidance as possible in relation to customer communications and dispatch instructions. 1 of the 3 explained it would be helpful if the proposal clarified the exact method and timing for sending dispatch instructions for both demand turn down and demand turn up events. 2 further respondents have queried how the baseline methodology will work for demand turn up events and whether P376 will apply as they believe these events will operate differently from typical DFS events. 1 respondent has asked how a bi-directional DFS will interact with other flexibility schemes and whether DFS demand turn up events will have any scheduling conflicts with other services. One further respondent would welcome clarity as to how ABSVD will be applied for demand turn up events and another commented that if DFS is to remain the primary route to

market for non-BM consumer flexibility assets, DESNZ, NESO and Ofgem must prioritise removing the barriers that have held this market back in particular for demand-turn-up.

Outcome following feedback

NESO were encouraged by the overwhelming support for expanding the existing DFS service to provide negative (demand turn up) margin capability. Based on this feedback we will be progressing with the proposals outlined in our consulted terms. Where respondents raised queries and challenges to other aspects of the service design these will be picked up in latter sections of this document.

2. Locational Assessment

Locational Assessment

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.

Responses Overview

Overall, we received broad support for our proposal to introduce a locational procurement element into DFS with 13 respondents of the 16 agreeing. 2 respondents disagreed and 1 respondent did not provide an answer to the question.

Of the 13 respondents who agreed some have provided further detail as to why they support this proposal with some explaining that DFS procurement will be more deliberate which will result in higher prices for potentially less capacity, has potential to improve system efficiency and as the flexibility landscape becomes more decentralised and more affected by regional network conditions, a locational approach brings clear operational and system benefits. Several respondents approve as they said this change aligns with system needs and will become increasingly important as constraints grow with one also saying it will help reduce network losses associated with transmitting power across the country, and another said it allows for clearer price signals based on locational value to be sent to the market. Two respondents whilst agreeing with locational procurement have suggested the zones should instead be aligned to DNO boundaries/licensed areas as this would allow for easier co-ordination with DSO Flexibility Services.

Two respondents asked further questions around the intended plans to use DFS in future for constraint management actions with one asking how this will differ in intent to the Local Constraint Market (LCM) for relieving grid congestion.

Two respondents expressed strong support for locational procurement in principle however, raised reservations around the plan to introduce 5 zones initially. One said their preference would be to introduce 12 zones in line with the proposals for response and reserve reform as they believe we have not provided a robust enough case as to why five zones should be introduced for DFS. The respondent also mentioned that they are disappointed that this proposal does not currently include plans for DFS to call targeted zones based on locational constraint challenges, only to exclude them from national actions and this is a critical element of the suite of solutions to tackle mounting constraint costs. The other respondent said that while they welcome the intention to move towards more granular zonal configurations over time, similar to the direction of travel for the response and reserve services, they would appreciate more detail on the rationale underpinning the proposed initial design and the pathway toward greater granularity. This respondent also had a concern around the proposed timelines as they appear dependent on the implementation of DNO primacy rules – they have asked us to provide clarity on what can be delivered, and when.

Of the two respondents who disagreed, one explained that this will increase their costs for operating the service because of managing a zonal approach. The other respondent said that whilst they understand NESO’s rationale from a system operation perspective, they do not support DFS transitioning to a locationally procured service at this time. The first reason provided by the respondent is that consumer led flexibility (CLF) is still nascent and procured volumes for DFS are relatively low, so they would first support locational procurement being trialled in other more established NESO markets before being introduced into DFS. This would enable the risks to be better understood and mitigated prior to introducing to DFS. The second reason is that they feel locational procurement will introduce additional complexity and operational challenges for the DFS registered provider and participating customers. Additionally, they said locational procurement would also make forecasting potential returns for consumers more challenging and potentially result in there being winners and losers. They stated that this isn’t likely to be viewed favourably by participating customers and could damage their confidence in participation.

Outcome following feedback

We were encouraged by the broad appreciation and support for the recognition of the operational value locational assessment will bring to the service. Parties were also

supportive of the alignment to the Response & Reserve reform work which is also seeking to introduce such locational zones.

Parties flagged concerns that this could add additional complexity to their unit formation and needing to disaggregate their existing portfolios. As constraint costs continue to rise ensuring we are making procurement decisions that are cognisant and effective against our constraint boundaries is ensuring the best use of the product. We will therefore be progressing with the introduction of locational assessment using zones and believe this early adoption will offer valuable learnings ahead of the core reform work.

Visibility and understanding where MW's will be delivered from non-BM units is a strong theme across our broader market reform work. By aligning these zones to our constraint boundaries, it will help facilitate the future move to enable specific service requirement actions for system reasons (e.g. constraint management) in addition to energy-based margin purposes.

In the consultation we have sought to include a DFS Zone file publication on our website to outline the DFS Zones. Whilst we acknowledge the decision of how many zones are within that file are not a matter for European Balancing Regulations process, we have included insights here to assist industry.

Through our industry engagement to date, we have shared thinking to introduce at launch either a 5 or 12 zone model. As part of the consultation, we shared an indicative 5 zone file for industry review. There was mixed feedback on whether we should use a 5 or 12 zone approach initially which was primarily around complexity/time of re-structuring unit allocations and alignment requests with Response & Reserve reform.

The proposed zones are designed to correspond with the primary transmission bottlenecks while being sufficiently divided to minimise intra-zone congestion. Furthermore, to draw the borders of the zones, we considered the Grid Supply Point (GSP) as a reference. GSPs are points where the transmission network connects to the distribution network. The zones were drawn such that each GSP is in only one zone. Furthermore, the distribution network that each GSP feeds into is also part of the zone of the GSP. In our locational deep dive sessions, we also shared with industry that using the DNO regions is not appropriate as the DNO boundaries do not align with our major constraint boundaries and therefore we do not see adequate operational effectiveness.

Having considered feedback, we will be initially progressing with a 12 zone file as we acknowledge the benefits for optimal operational decisions as it aligns more efficiently with the major boundaries and reduces the burden for providers to re-allocate in the future. Where we have seen DFS volume in the past progress to core markets and

products this will ensure an aligned coherent approach to aggregation which should further support such transitions. It will also provide real life learnings to feed into the core market reform work as they move towards also introducing a 12 zone model. We note for clarity the terms do not fix/specify the exact number of zones and the DFS Zone file can be changed by NESO. NESO would anticipate communicating and engaging in a timely manner should any future changes be required.

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?

Responses Overview

8 respondents agreed with the draft GeoJSON file, 1 disagreed and 2 were unsure in their decision with no clear yes or no indicated. 5 respondents did not provide an answer to this question.

Overall, the 8 respondents who agreed have said the file is suitable and adequate with one explaining that it provides enough information for them to group their portfolio of assets. Another respondent explained that the GeoJSON file helps determine the zonal boundaries being proposed and said they think this file could be reshared to allow providers to navigate 12 zones which would be in line with the Response/Reserve reform proposals. One respondent said they generally support the use of the GeoJSON format but did say we should take into consideration how these zones are managed over time if and when the zones are updated, as well as the sampling and interpolation parameters used. They would encourage the use of other methods to determine, and communicate, asset eligibility that is not solely based on map-based zones, as there can be ambiguity around the edges of the zone areas.

Of the 2 respondents who were unsure, one explained that at a distribution level, they have found some flexibility providers have preferred GeoJSON files, but others have preferred postcode files. Another explained that from DSO flex participation they have seen that postcodes or even GeoJSON files are not 100% guaranteed to locate MPANs into the correct zones so have enquired as to whether NESO would group the MPANs into correct zones or will this need to be done by the provider as their preference would be for NESO to indicate the zones each MPAN qualifies for.

The respondent who disagreed explained that they have practical concerns with the current mapping approach as the CAD-type file provided is not a usable operational tool for them and many of their assets are close to regional boundaries, making visual map checks unreliable. As a minimum, they have said they will need a simple lookup

where they can enter an MPAN or postcode and receive a definitive zone allocation and gave an API or web portal as examples. They also mentioned that using different regional structures for DFS, DNO's and reporting will increase forecasting complexity, compliance burden and cost, particularly for portfolios spanning multiple regions.

We asked respondents for any further additional comments or questions, and we received a handful of responses. One respondent asked whether assets can be added to multiple portfolios in enabling them to participate in both national and regional events, or will every asset still be in only one portfolio. They would like to only have a single portfolio per asset, which can participate in different events, as this would keep operational complexity down. Another respondent enquired as to whether we will be considering aspects of this proposal in its work on Reformed National Pricing and whether we believe we can scale this work up beyond DFS. They also explained how they believe that the 5-zone option should be reviewed as early as possible to bring in more zones that will make the process for providers much easier and align more clearly with other market reforms.

Outcome following feedback

Following review of the feedback we intend to continue with the use of a GeoJSON file format for sharing the zonal information. We acknowledge that this will be a new process and there may be some edge case scenarios to understand. Our account management team will remain on hand to support parties through this process. We will also ensure that we add additional information into our supplementary guidance material to bolster providers understanding of how to make best use of the file.

Primacy

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.

Overall, 9 respondents agreed with our primacy proposal and 2 disagreed. There were 4 respondents who were unclear and didn't indicate a definite answer and 1 respondent did not provide an answer to the question.

Of the 9 who agreed, some respondents highlighted the whole system value of the proposals. One respondent explained that it is vital for whole-system coordination and maintaining distribution network security as it prevents conflicting actions, supports

efficient procurement, and aligns with the Market Facilitator’s rules and ENA Primacy Framework. Another respondent said it is a reasonable and necessary step to protect network integrity and ensure safe system operation. A further respondent explained that they see primacy as being necessary to avoid NESO–DNO actions cancelling each other out and another said they agree with this proposal as it is in line with the industry recognised primacy rules. Respondents also said that this will enable better communication of possible conflicts bringing additional benefits for security of supply and will better enable the introduction of demand turn-up services. One DNO said they welcome the ability for DNOs to identify where there are going to be inefficiencies in service delivery due to conflicts with other services.

Of the two respondents who disagreed, one explained that this will add too much cost and complexity to manage this process. Another respondent said they feel this proposal has the potential to stifle participation in DFS because if consumers are routinely excluded, they will likely become disengaged and no longer seek to participate. The respondent explained that should DNO’s be able to exclude certain meter points from DFS participation, there needs to be transparency, reporting and a consistent approach and DNOs should include the reason why certain MPANs were excluded so this can be explained to customers. Furthermore, they feel a standardised methodology would need to be developed to ensure consistency across DNOs.

A common theme in responses was the importance of transparency in decision-making with two of the respondents who agreed and two who were unclear, also mentioning this in their rationale. This could promote confidence in the efficiency of the primacy solution and address concerns around customer experience. Respondents wanted clear reasons for exclusions and an understanding of the evidence and analysis underpinning the exclusion. Some suggested a role for central reporting and an indication of expected scale of exclusions.

Of the 4 respondents who were unclear in their response, one said that this is something they manage internally to ensure obligations are met so they feel this is a decision for DSOs on whether this is an achievable ask. Another respondent who was unclear explained that ensuring that MPANs under Active Network Management (ANM) can participate will be particularly important for customers in the proposed zones 1 and 2 in Scotland – these customers could offer most system value by offering DTU to avoid generation curtailment, the customers under ANM management will be of particular value to DFS. They also mentioned that as the ENA Primacy Rules Framework of January 2025 did not consider DFS in the in-scope NESO services interaction with ANMs and their application of primacy rules to conflicting actions, they would strongly encourage NESO to engage with the Market Facilitator to add the bidirectional DFS use case to the roll out of the Framework.

Another respondent said there are many challenges with NESO-DSO coordination for flexibility and most are related to data sharing, and the timely availability of relevant datasets. They posed questions such as are the DNOs in a position to provide RoC reports on the time scale required and are there any learnings from the LCM that can be applied. This respondent also believes the co-ordination of DFS with the Flexibility Market Platforms in use by DNO's will be of increasing importance going forward.

A further respondent explained that where exclusions are well-evidenced and properly managed, they recognise this proposal may be necessary. However, they said it should not become a barrier to progress and demand turn-up and locational DFS should be introduced as soon as possible. They also have concerns that there will be a lack of consistency applied across the DNOs in the approach.

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?**

Most respondents agreed with the Pre-Participation Waiting Period with 9 supporting our proposal. 2 disagreed, 3 were unsure and made arguments both for and against and 2 respondents did not provide an answer to this question.

Of the 9 who agreed, one said a pre-participation waiting period of 1 day is acceptable, but it is unclear what will be validated during this time. Another respondent said they agree particularly where large numbers of meter points are being introduced or with a focus in a particular area. One respondent said it would be useful to understand the expected scale of excluded MPANs in the NESO response to the consultation and another respondent said they believe there should be ambition for DNOs and NESO to work towards within day data sharing but recognised this will be a challenge.

Of the three respondents who were unclear, one said they were unsure on how this would work in practice and what the process would be if an MPAN is removed and then re-added. Another respondent explained it would be helpful if the waiting period is kept reasonable and supported by transparent communication from the DNOs and NESO – with clear confirmation of eligibility, along with reasons for any rejection provided. Another respondent said they would appreciate clarification from NESO if they expected service providers to communicate potentially ineligible meter points, particularly if they

are in an ANM. As the DNOs have a more accurate understanding of whether these MPANs would meet the 90% impact threshold, they considered it didn't seem an obvious assessment for service providers to make.

Some respondents had suggestions, questions, and concerns around the process for identifying conflicts and excluding participation. Two respondents suggested that NESO and the DNOs should explore additional data that can be shared to improve forecasting. Another respondent suggested alternative approaches such as introducing limits on capacity or number of participants at any one time in a distribution area or on individual participants. This respondent also expressed concern that demand turn up in summer could risk overloads and current forecasting capabilities do not allow identification of risks within the period provided by the pre-participation waiting period.

Of the two respondents who disagreed one said the proposed Pre-Participation Waiting Period will disrupt and complicate their customer sign up flow. The other explained they have concerns about the proposed DNO conflict checks and two-day waiting period. Whilst they understand the desire to avoid double counting and network conflicts, the current drafting effectively gives DNOs the ability to prevent or remove participation in DFS, despite them having a valid connection agreement to export. The respondent was concerned that this undermines business certainty and forecasting and increases bureaucratic and resourcing burdens. They would be comfortable with a short waiting period in principle, but not with a structure where a third party has an opaque veto over participation.

Concerns from those who opposed the proposals, and from those who overall agreed, were principally on the risk that more assets are included in the Primacy Exclusion Report than efficient. Some respondents questioned the incentive and capability for DNOs to forecast conflicts accurately, and the consistency in approaches and outcomes across DNOs.

Outcome following feedback

After considering the feedback provided, we intend to proceed with the proposed primacy solutions.

We welcome recognition of the role of primacy in promoting whole system outcomes. Reflecting the physical constraints of the distribution network and actions of DNOs means DFS can be provided securely and efficiently. We are working closely with the Market Facilitator and Primacy Working Group to ensure that we both build on work done by the group (such as by using the Risk of Conflict) RoC templates and NESO-DNO data

exchange mechanisms developed in the group) and share learnings with that group to inform the wider development of primacy capabilities.

We understand the concerns around the impact of exclusion on participation. That is why we intend to operate primacy rules in DFS with a bias toward eligibility. This means minimising the pre-participation waiting period and excluding based on primacy by exception, rather than requiring DNO approval before an asset is eligible. It also means having a high threshold for exclusion based on the RoC data i.e. the DNO indicating a risk to operational security or at least a 90% chance of the DNO taking a countering protective action (that would undermine DFS delivery).

We agree it is important for DNOs to develop RoC reports that reflect robust understanding of their network and the costs of limiting participation. We note Ofgem’s expectation that distributed energy resources and consumer energy resources are not blocked from participating in markets due to lack of DSO visibility or lack of NESO–DSO coordination. We will continue to work with DNOs to explore additional data we can offer to aid their conflict forecasting, including as part of the Market Facilitator’s working groups on coordination.

In addition, we consider that we made the process as simple as possible for service providers. Primacy Exclusion Reports are machine-readable, and the Pre-Participation Waiting Period reflects the existing validation checking process that providers are familiar with.

We recognise that transparency is essential. The Primacy Exclusion Reports will provide the reason (i.e. as provided by the DNO’s Risk of Conflict report). In addition, we will continue to work closely with DNOs and Market Facilitator to promote transparency around the evidence and analysis underpinning Risk of Conflict reports.

We will continue to work with the Market Facilitator primacy working group, to explore enhancements to data sharing, forecasting, and process efficiency. We will monitor the impact of the proposals, review exclusion volumes, and keep our processes under review as we gain operational experience.

3. Baseline

Do you agree with the proposal to retain the existing DFS P376 baseline methodology? Please provide rationale for your views.

Responses Overview

Overall, 8 of the 16 respondents agree with the proposal to retain the existing P376 baseline methodology. 3 respondents disagree, 3 were unclear in their response and 2 did not provide an answer to the question.

Of the 8 respondents who agreed, some consider this proposal is sufficient and that as no superior alternative has been found this does not propose unnecessary changes. Another respondent also agreed that consistency in baseline calculation is very important and P376 offers a transparent and predictable way of establishing what the site would have done without an event. This in turn reduces uncertainty in performance assessment and settlement, which supports better operational planning and more reliable bidding. One respondent also explained how they believe the baseline is potentially imperfect and open to gaming, but in the absence of a better alternative, they are happy to retain this for now.

From the 3 respondents who were unclear in their decision, one stated they do not have a firm position and ask that in the longer term, we consider how to align baseline standards as proposed by the Market Facilitator. Another provider explained that whilst it makes sense to remove the same day adjustment to P376 to reduce 'ease of gaming' they asked whether a comparison to baselines used for DSO Flexibility Services had been made, with reference to the recent work by the ENA. The other respondent detailed how they have concerns about weather-based adjustments to baselines for intermittent renewables as they believe it could create excessive reporting and an uneven playing field. The respondent also said changes to baseline design are needed to ensure DFS remains investable, fair and deliverable.

There were 3 respondents who disagreed with the proposal to retain P376 with one saying within-day adjustments lead to random results for industrial users and another explaining they would encourage DFS to align with the baselining methodologies set out by the Market Facilitator. A further respondent who disagreed proposed allowing self-nomination of baselines for I&C customers. The respondent stated that as I&C consumers consumption patterns are unique and can vary significantly between sites and are sensitive to other variables (e.g. the weather), their view is that the P376 methodology isn't appropriate for I&C providers and allowing self-nomination would result in more accurate baselines. They also detailed that allowing self-nomination for

I&C baselines is standard procedure across several local DNO markets and from their experience, suggests that this approach works well.

Outcome following feedback

In line with previous iterations of the DFS, industry broadly agreed that P376 was still the most relevant baseline methodology to use for domestic participation. Based on our engagement ahead of the formal consultation and the absence of suitable alternative proposals we intend to maintain the existing P376 methodology. We will continue to monitor performance and use the audit capability within the terms to learn about the delivery from consumer led flexibility and whether this can lead to any further enhancements or improvements to the baseline methodology in the future. In line with respondents request to align with Market Facilitator rules we have engaged with the Market Facilitator and agreed to feed in any further learning/analysis from the baseline topic to help support future flexibility market rules and discussions on baselines.

We have addressed the question of self-nominated baselines for I&C consumers in the next section.

Do you agree with the proposal to introduce a self-nominated baseline for intermittent renewable assets? Please provide rationale for your views.

Responses Overview

We received mixed feedback on our proposal to introduce a self-nominated baseline for intermittent renewable assets with 7 respondents in agreement and 3 respondents who did not agree. 1 respondent was unclear in their decision and 5 did not provide an answer to this question.

Of the 7 who agreed, one respondent suggested that as an industry we should strive towards standardisation and recommended aligning with the Market Facilitator methodology where possible. Another acknowledged that this proposal is consistent with baseline standards for intermittent renewables, as proposed by the Market Facilitator. Another respondent mentioned that they agree that solar and wind assets will require a different baseline for participation and the proposal appears to be a rational next step. The respondent asked that we provide detail on what they believe to be an enduring option for these assets. One respondent said the option gives renewable asset operators the ability to provide a more accurate view of their expected generation for the event period and this supports fairer settlement and reduces the risk of over performance or under performance being assessed incorrectly. Another respondent

supported our proposal as it removes a barrier to entry for assets which struggle with 10-day baselines under the P376 methodology. The respondent explained this is important given the proposed expansion to demand turn up. They also asked us to clearly define which class of assets this option is open to.

There were 3 respondents who disagreed with our proposal with a few mentioning concerns around the risk of gaming and the inconsistencies self-nominated baselines can bring. One explained that it blurs incentives. Two respondents both said they do not support allowing renewable generation assets to participate in DFS as they feel it should remain a strictly demand-side mechanism. Another provider stated that they believe the baselines set by the Market Facilitator should be sufficient.

The respondent who was unsure stated that the baselines applied should be reviewed with comparison to those defined by the ENA work.

Outcome following feedback

Following review of the consultation responses NESO intend to progress with allowing intermittent renewables the option to utilise a self-nominated baseline approach. Overall, we believe this will provide the most accurate reflection of the assets forecasted generation. As outlined below we have taken appropriate measures to ensure we mitigate any perceived risks with this approach but recognise it seeks to align where appropriate with other markets (e.g. the Balancing Mechanism) and the work of the Market Facilitator.

In response to the two respondents who do not support allowing renewable generation assets to participate in DFS, it is part of our obligation to ensure the service is technology agnostic and therefore, we will not be removing intermittent renewable assets from participation. We also note that embedded generation is permitted to participate in the existing positive margin service terms.

Licence condition C1.5 (b) says that the licensee must: “ensure the effective and non-discriminatory participation of all qualified market participants in the provision of Balancing Services, including not unduly restricting new and existing service providers from competing for the provision of such services.”, and NESO consider that taking steps to exclude certain providers from DFS would not meet the expectation of this licence condition.

Based on the responses we have received, we are proposing to extend the option of the self-nominated baseline methodology to Industrial & Commercial (I&C) participants. As part of the consultation process, we have engaged with one party who provided additional evidence of how the existing methodology may be preventing significant

participation from I&C sectors. Based on this feedback we have opted to offer the self-nomination baseline option to I&C meter points. To ensure we mitigate any perceived gaming risks parties will be required to have submitted a baseline ahead of any published Service Requirement and we have ensured there is a robust audit capability and time restrictions on how far out the baseline can be submitted to ensure it is accurately reflecting the latest view. We will continue to monitor the effectiveness of this decision and its impact on supporting new volumes entering flexibility markets.

In line with the proposal to extend the self-nominated baseline option to Industrial & Commercial (I&C) participants, we have implemented a new mandatory field in the Unit Meter Point Schedule where the providers need to indicate the baseline methodology, they will be applying to each MPAN. Providers will also be required to submit a Consolidated MPAN Forecast which must match the baseline indicated in the Unit Meter Point Schedule. In the instance where a baseline is not submitted or the two files are not consistent, we reserve the right to deem the associated MPAN(s) ineligible, and this will be reflected in the settlement payments to the provider.

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?

Responses Overview

Overall, we received 2 answers to this question with the other 14 respondents providing no answer or answering with simply ‘no’ as there are no additional considerations they wanted to put forward.

Of the 2 responses, one respondent asked for clear guidance on export-limited sites and storage (e.g. home batteries) as this is needed to prevent inadvertent baseline distortions. The other respondent explained that NESO needs to consider fair competition for assets already participating, and to ensure that there is no ongoing differential between the baselines in practice. They also said that additional considerations are needed to maintain metering integrity and fair competition. This respondent suggested we clearly define eligibility so that self-nominated baselines apply only to the intermittent renewable component at domestic sites (e.g., PV output), while all other domestic flexible demand continues to be settled against the standard P376 historic baseline methodology. They explained that this distinction is important to avoid extending nomination to fully controllable loads, which would create avoidable gaming risk and distort competition between domestic and I&C participants.

Outcome following feedback

Following review of all further comments we do not believe there are any additional changes required to the proposals made around baselines. Due to the gaming risks for domestic participation, where domestic households have intermittent assets at this stage, we will not be permitting those assets to utilise a self-nomination baseline and are therefore continuing to ensure all domestic is treated the same way from a baseline perspective. Households with renewable or storage technologies may have part of their demand which is more forecastable such as solar output, but this would not be possible to separate in a baseline from less predictable actions such as heat use or car charging. We thank industry for their feedback on these topics especially the subsequent data and insights provided from some parties.

4. Applicable Balancing Services Volume Data (ABSVD)

Do you agree with our proposal to align with the outcome from Issue Group 114 for ABSVD? Please provide rationale for your views.

Responses Overview

We received broad support with our plans to align with the outcome from Issue Group 114 for ABSVD with 10 of the 16 respondents agreeing with this proposal. 1 respondent disagreed and 5 did not provide an answer to the question.

Of the 10 respondents who agreed, three had commented on how this promotes transparency, ensuring flexibility markets can operate openly and fairly with one also detailing how they feel it simplifies participation, and provides a clear and consistent approach to settlement across balancing services. Another respondent said they see value in all services being aligned with the outcome of Issue Group 114. 1 respondent of the 11 who agreed explained that they believe the party delivering the service should be financially exposed to the energy volume that results, therefore Issue Group 114 makes sense. It creates a level playing field between aggregators and energy suppliers in DFS and encourages more independent providers to participate in DFS. Another respondent would welcome further information on how this will affect independent providers.

One respondent said that whilst they agree, they did note that few DFS providers participated in Issue Group 114, especially those who are not BSC Parties. They suggested NESO should rally participation in modification [P502](#) from DFS providers who are independent aggregators to ensure awareness and input from non-BSC aggregators.

Another respondent said that they support direct compensation and NESO’s approach taken on this matter as they had concerns that indirect/ mutualised compensation models, such as the one used in [P415](#), could inadvertently incentivise economically inefficient load shifting and this is due to the costs associated with the demand-turn-down element of the load shift are socialised without providing appropriate price signals for the Demand-Turn-Up during a period that would benefit the system.

The respondent who disagreed with our proposal explained how this would create an unlevel playing field between suppliers and non-suppliers as those two entity-types, participating with the exact same assets, would be exposed to different costs.

As part of the question ‘Do you have any other comments or questions regarding the application of ABSVD for DFS?’, one respondent wanted to highlight that this proposal could have unintended consequences of reducing participation volume. With ABSVD adjustments eliminating supplier exposure to imbalance price risk, suppliers will need to evaluate the best revenue stream for their flexible load before each tender. They will assess whether the flexible load is best utilised for portfolio balancing, ‘Net Imbalance Volume (NIV)’ chasing, or participation in a dispatchable service such as the DFS.

Outcome following feedback

We welcome the broad support received for our suggested approach to ABSVD.

We will continue with our proposal to align with the outcome from Issue Group 114 and modification P502 as we believe this is the best way to ensure a clear and consistent approach that is aligned with our core markets. We will ensure we reach out to respondents who requested further information on the effect on independent providers.

We acknowledge the concerns raised by respondents and will ensure that NESO considers this as part of its leadership of P502 and its further participation in Issue Group 114. We continue to encourage all industry stakeholders to feedback through the formal Issue Group 114 and P502 BSC modification proposal processes.

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.

Responses Overview

In total, we received 10 responses to this question from the 16 submitted overall and of those 10, 9 respondents were supportive of us retaining the existing ABSVD rules for DFS until the resolution from Issue Group 114 for Issue 1 has been implemented. 1 response was unclear, and 6 respondents did not provide an answer to this question.

From the 9 respondents who agreed, the majority were in agreement that this is the best way forward as other approaches may introduce interim changes that could create confusion or require system modifications that may later need to be reversed. A respondent suggested that there is no sensible way to amend the rules in a timely fashion ahead of the formal process, and that it would be more efficient for all parties affected to progress this change through the BSC modification process rather than through a piecemeal and unclear pathway.

The respondent who was unclear suggested that as the Local Constraints Market currently applies an ‘ABSVD opt-out’ as an interim solution, this could also be used for DFS prior to the implementation of the resolution proposed by Issue Group 114 and that this would provide consistency for providers between the two services.

Outcome following feedback

We recognise the majority of the respondents agreed with this proposal and given the positive feedback, we intend to maintain the existing ABSVD rules in place for DFS until Issue Group 114 for Issue 1 progresses to a solution through modification proposal P502. We will keep industry updated on any progress and when any changes will apply to DFS.

With regards to the suggestion to consider implementing the LCM ‘ABSVD opt-out’ interim solution for DFS, we want to ensure consistency across our core markets and implementing a short-term solution for DFS would deviate from this approach.

5. Eligibility Rules and Processes

Eligibility Criteria

Do you agree with the proposal to reduce the eligibility criteria from 1MW to 0.1MW? Please provide rationale for your views.

Responses Overview

All of the 16 respondents agree with our proposal to reduce the eligibility criteria from 1MW to 0.1MW.

Of the 16 respondents, 7 explained that this was a positive step as this was removing barriers to entry for flexibility. These 7 and other respondents noted this will enable participation from domestic consumer led flexibility, supports new parties and volume entering the market and incentivises smaller providers to participate. One also went on to acknowledge the alignment with changes being made to Static Firm Frequency Response. One provider explained that they believe that we could consider reducing the threshold even further in future e.g. to 0.025MW.

One of the respondents who agreed stated that NESO must ensure that the relevant IT systems and platforms are in place to deal with challenges that will result from lowering the criteria such as selection of bids and offers, dispatch, settlement, data reporting, and others.

As part of the question 'Do you have any other comments or questions on the proposal and proposed wording', we received 2 responses. One said to enable fair competition and wider participation in flexibility markets, they would insist that no exclusivity clauses are applied in the updated DFS terms. The other respondent noted that the current minimum aggregation size for DSO Flexibility Services is 0.01MW, as a consideration of how aggregators are participating in DSO Flexibility Services today.

Outcome following feedback

Overall NESO were pleased with the level of support and appetite for this change. We recognise that a 1MW threshold has been cited as a barrier for flexibility for several years and features in several prominent flexibility workstreams across industry. We also believe that the threshold reduction is necessary specifically for DFS due to the small average unit meter point delivery values as we move to a zonal model of aggregation. We therefore will be progressing the change as outlined in our proposals.

Tender and Procurement Processes

Do you agree with the changes to the tender timescales and the indicative timings provided? Please provide rationale for your views.

Responses Overview

We received 8 responses to this question and 8 did not provide an answer. 5 agreed with the recommended changes to the tender timescales and the indicative timings provided. 3 respondents disagreed.

Of those who agreed, one respondent stated they believe moving closer to real time is of benefit to both them and the customer and this would make for a more engaging proposition to end customers, and another said that they will need reliable APIs to work with. One of the 5 respondents that agreed has asked NESO to ensure that they work directly with DFS participants to build these changes into normal operations, making the bidding process as streamlined as possible. Another respondent explained how the revised timescales give a clearer window for preparing bids, aligning asset availability, and coordinating with customers. They explained that this in turn should help reduce last minute operational risk and improve the reliability of the service.

The 3 respondents who disagreed would ideally like more time to plan and respond with one detailing how they would prefer to have 2 hours' notice. A respondent explained how manual industrial and commercial process interruption requires planning and consequently an adequate notice period to provide any response. They also stated that given the timescales are outside of standard working hours, participation will likely be limited. A respondent who disagreed suggested more automation and better processes to help aid the changes is required.

Outcome following feedback

NESO were pleased with the level of support for the developments to the tender and procurement process and that several aspects of these changes should not only ensure that we can successfully deliver both a operationally valuable margin service but the amendments to the terms create additional flexibility for ensuring needs are published alongside other corresponding margin actions our Electricity National Control Centre consider ensuring that we continue to procure volume where it provides a clear economic benefit.

These changes will be crucial for NESO to ensure that with the introduction of negative capability we can facilitate an efficient competitive process. NESO appreciate that the

likely time of our requirement for negative margin may mean a tender process within core business hours will reduce delivery notice periods. On balance we believe that this is the better option than seeking to run the tender events outside of core business hours of DFS providers

Under the proposed terms we have built in the flexibility to publish a Service Requirement at any time and therefore in future we can learn and amend this approach alongside our ambition and obligations to move procurement as close to real time as possible whilst balancing the necessary notice for the market to deliver bids and volume. Where we received feedback on requesting a longer bid window, we note that our core markets operate a 1 hour bid window and extending this further we view as a negative trade off as it reduces our operational certainty and alignment with existing processes.

As part of this section NESO would also like to flag the relevance and importance of the updated derogation request which has been submitted to Ofgem alongside this consultation process. We encourage readers to review that document as it provides further insights into procurement of the DFS and our considerations around this process.

Where some responses referenced the importance of automation and robust systems NESO would like to flag that we were pleased to introduce enhanced API capabilities in the November 2024 evolution of the DFS. Many parties have utilised this additional functionality and we continue to see new entrants opt for the API option. However, we recognise that service providers have varying degrees of technological functionality and therefore we will continue to retain the SharePoint option for those who do not wish to use the API options. We will ensure that our supplementary guidance documents are clear these options are available for those who want to utilise enhanced automation.

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.

Responses Overview

We received general support for this proposal with 11 of the 16 respondents agreeing and one respondent not indicating whether they agreed or not. 4 respondents did not provide an answer to this question.

Of the 11 in favour of the proposal, respondents highlighted reasons such as NESO responding to changes promptly, to allow the overall level of flexibility to remain aligned with system need, grow market liquidity and potentially provide some diversity in the

demand turn up each consumer may choose to provide. This was balanced with asks to maintain simplicity in the publication process.,

The respondent who did not indicate either way explained that they would like to see further detail on how/if this change would impact the Risk of Conflict (RoC) report. The Risk of Conflict report is something we are proposing to receive from DNO's as part of the recommended Primacy process.

Outcome following feedback

We are encouraged that most of the participants agreed with this proposal. We see value in being able to publish a subsequent Service Requirement should an operational need arise facilitating further competition and operational volume for such periods. Whilst is not something we anticipate doing immediately for launch we see that once we have embedded the new processes and rules this could offer valuable additional MW's to our control room particularly during challenging volatile operational days.

Do you agree with the need to include an Event ID within a Service Requirement? Please provide rationale for your views.

Responses Overview

8 respondents agree with our proposal to include an event ID within a Service Requirement and there were 7 people who did not provider an answer to the question. One respondent was unclear in their position.

The majority of those who agreed provided further rationale such as how this would make the bidding process easier and how it allows multiple events to be distinguished, makes matching a Service Requirement to an event easier and allows them to organise dispatch instructions, bidding data, and settlement records more effectively. 2 of the 8 respondents who agreed did so on the basis that that this does not create additional administrative burdens.

The respondent who was unclear queried how a flexibility provider would engage with many requirements and how do they select and make offers for the events relevant to them as the way they engage with these requirements becomes increasingly important. They acknowledged that the introduction of event ID's make sense but encouraged a broader review.

Outcome following feedback

NESO will include Event IDs in our final submission as we consider this will deliver the enhanced functionality we intended. We are pleased this is recognised by many respondents as a positive step forward. We will ensure that this new addition receives the appropriate references and focus in our updated guidance documents.

Where parties are unsure how to engage with an event relevant to them, each relevant row on a Service Requirement will flag the direction of delivery being requested and target volumes. We acknowledge that consumers can adopt several different routes to market and utilising third party aggregators may be of benefit if additional bidding strategy support is required. NESO will be updating the DFS Participation Guidance Document that outlines the steps required to submit bids and Registered Service Providers can also utilise our team of account managers for additional support.

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.

Responses Overview

Overall, we received 10 answers to this question. Of the 10, 6 respondents agreed and 2 disagreed. 2 others provided an answer however, it was unclear as to whether they agreed or not. 6 respondents did not provide an answer to the question.

The 6 respondents who agreed generally considered that a 30-minute window is manageable with one stating this could allow for more customers to participate. Two respondents who agreed have asked us to ensure the communication tender opening times are clear and predictable. Another respondent that agreed asked for better automation to support this process. This concern was also raised by the 2 respondents who did not provide a clear answer – both feel a more automated platform will support this proposal as a shorter bidding window will provide increased challenges and manual participation/upload is increasingly difficult. One respondent suggested API interactions will enable them to engage automatically.

Concerns raised by the two respondents who disagreed with the proposal were due to their view that 30 minutes is an insufficient amount of time. One respondent explained how a manual I&C process interruption requires planning and consequently an adequate notice period to provide any response. By reducing the bidding window, the

time would no longer be adequate and would prove detrimental to the participation of larger I&C. This is because they often engage with them directly once a DFS event is called to establish what price the customer requires and what potential response volumes would be, and 30 minutes is not adequate for this.

Outcome following feedback

On balance we will be seeking to continue to operate a 1 hour bid window as we embed the new changes to the evolved DFS. With the additional developments around the service and some parties still using the manual Sharepoint solution (reduced automation vs API) we feel on balance this move is something we would want to explore in the future after the changes have been embedded and there is greater confidence in the operation of the service. We will keep this under review and acknowledge that the contractual changes provide NESO with the flexibility to do so without further EBR consultation timeline restrictions.

We appreciate the concerns raised by parties in regard to this element and will continue to engage with all stakeholders and providers on this aspect of the service.

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.

Responses Overview

Overall, 7 respondents agreed with our proposal to introduce a DFS Bid Submission close time for bids in the published Service Requirement. 1 respondent disagreed and 8 did not provide an answer to this question.

Of the 7 respondents who support our proposal, 1 said this is the only workable approach given we want to potentially publish multiple tenders in a given day. A further respondent explained that by including the exact bid close time in the Service Requirement this ensures that all participants are working from the same, unambiguous instruction, providing the communication is timely, easy to access and follows a standard format. Another respondent that agreed with this proposal noted that implementation of these types of changes needs to be tightly governed and support automation. They explained how in order to participate effectively and at scale, providers need stable, machine-readable tender parameters and sufficient notice to

automate bid formation and submission. Without this, reduced and variable windows risk excluding otherwise capable providers.

One respondent that disagreed with this proposal, did not provide a justification for this question as they referred us to their previous answer in which they disagreed with our proposal to reduce the tender bidding window from 60 minutes to 30 minutes.

Outcome following feedback

We believe progressing this change is important to ensure that we have suitable flexibility in the terms to make appropriate adjustments to the bid submission window should we see merit in doing so and agree with respondents that it means all parties are working from the same instruction. As we embed the new service, we will keep this under review, and should we seek to move away from the familiar one hour bid window we will follow a similar market engagement and notice process as we did when moving the positive margin requirements closer to real time.

Do you agree with our plans to remove the Weekly Indicative Forecast and Anticipated DFS Service Requirement? Please provide rationale for your views.

Responses Overview

Overall, we received broad support for our plans to remove both the Weekly Indicative Forecast and Anticipated DFS Service Requirement. 9 of the 16 respondents provided an answer to this question, with 8 of those 9 in agreement. 1 respondent disagreed with the proposal. 7 people did not provide an answer to this question.

One respondent who agreed detailed how they see no benefit in providing the weekly indicative forecast as it is always rapidly changing and another explained that as DFS now operates on a within-day procurement basis, those signals provide limited additional operational value. One respondent said that indicative forecasts can sometimes create unnecessary expectations for providers, especially when system conditions change quickly, and final requirements differ from what was anticipated, however, they feel it would still be important for us to communicate any major system trends or high-risk periods through other channels.

The respondent who disagreed with our proposal to remove these documents, disagreed with the aspect of removing the Anticipated DFS Service Requirement. They stated that with a potential shorter bidding window, the ability to respond to events may

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be impacted as they do not have the same capability as those participating in the BM for example.

Outcome following feedback

We appreciate the feedback received and welcome the broad support for this change.

Moving into Winter 24/25, the Anticipated DFS Service Requirement Notice did not offer the same value in previous iterations of the service, and we have not issued one since 27 November 2024. Based on this and taking the feedback provided into consideration, we propose to continue to remove this altogether. We acknowledge the concerns raised by the respondent who would like to keep the Anticipated DFS Service Requirement as they feel these indicative signals could prove useful and may affect/impact their participation. However, as we are able to move our operational decision-making processes closer to real time giving further in advance potential notices would mean establishing additional resource steps for an indicative position which we do not believe adds adequate value.

Performance Incentives

Do you agree with the proposal to maintain the existing performance incentive structure and extend for negative margin? Please provide rationale for your views.

Responses Overview

Of the 16 responses received, 9 agreed with our proposal to maintain the existing performance incentive structure and extend this for negative margin. The other 7 respondents did not provide an answer to this question

3 of the respondents who agreed with the proposal provided further explanation with one stating that it was good to re-use the existing approach as it minimises changes and another explaining that there is benefit in managing an incentive structure. Another respondent added that it promotes reliable bidding and encourage provides to enhance forecast accuracy and operational control.

There were 3 respondents who provided further considerations. One explained that whilst they agreed with the proposal at the provider level, they feel consumer incentives should evolve based on evidence of what works and providers given scope to do so.

Another respondent did not agree that Auto Opt-in participants should be exposed to out-of-pocket penalties and applying a requirement for providers to pay NESO under these circumstances acts as a deterrent. Should this rule be retained, they anticipate

the majority of participants would elect to be Opt-out to avoid this downside risk, undermining the purpose of Auto Opt-in and reducing the pool of readily available flexibility. This respondent asked if we could provide clarity on the benefits and differences to being Auto Opt-In vs Opt-Out.

Outcome following feedback

We acknowledge the concerns raised and welcome the broad support for our proposal. Based on the overall feedback we have received, our intention is to maintain the existing performance incentive structure, extending it for negative margin. This ensures that NESO has appropriate measures in place to incentivise good delivery whilst striking a balance for learning about the behaviour of new flexibility entering our markets.

We have left unchanged the penalty rules that apply to those who select Auto Opt-in as their preferred methodology. This was introduced originally following industry feedback in prior consultations as a support to those who had enhanced automation. As we have previously shared, uptake has been low for this option, but we see value in continuing to offer the option for those parties who do wish to utilise it.

6. Housekeeping Changes

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

Responses Overview

There were no additional points towards general housekeeping changes flagged. Many respondents used this field to share further thoughts and insights into the topics outlined earlier in this document which we have addressed in the appropriate section of this letter.

Outcome following feedback

No additional commentary to add.

Annex 1 – Do you have any comments on the highlighted Article 18 mapping for the Demand Flexibility Service?

Responses Overview

15 respondents did not offer any comments.

One respondent felt the Article 18 mapping appeared clear and it aligned with the operational structure of the DFS and helps show how DFS complies with the obligations set out under Article 18 of the EBR. The respondent had several suggestions for us to take into consideration. First, they explained that it would be helpful if we could provide a bit more explanatory detail for each mapped item that clarifies how it has been met in practical terms, and this would be particularly important for industrial and commercial battery assets. They would also appreciate additional clarity as to how Article 18 obligations relate to negative margin events and locational procurement as these are new elements to the service. Finally, they explained that ensuring any future updates to the DFS framework continue to reference Article 18 consistently to maintain transparency and are aligned with regulatory expectations.

Outcome following feedback

NESO welcome suggestions on how we can make the Article 18 mapping more helpful and informative for stakeholders. NESO are currently undertaking a review of the mapping, and this feedback will be considered and used to inform this work. We are expecting to soon undertake a public consultation on the new mapping and would welcome further feedback from industry on whether the proposed changes are useful.

Do you agree with the overall proposal for the Demand Flexibility Service?

Responses Overview

15 respondents provided an answer to this question with the majority agreeing with the proposals however, some have provided further feedback and 1 did not comment. All additional comments are assigned to the breakdown of topics covered in this letter.

Outcome following feedback

Many respondents used this field to share further thought and insights into the topics outlined earlier in this document which we have featured in the appropriate section of this letter.

Do you have any other comments on the overall Demand Flexibility Service proposal?

Responses Overview

5 respondents did not comment.

Those that did respond offered an overall positive reaction to the proposals with some repeating comments covered in other sections of their response and answered in our replies in this document.

There were some new points raised in the final questions. One respondent wanted to better understand the benefits, and the value of clearer information on industrial and commercial assets to support the Clean Flexibility Roadmap. One respondent was concerned that allowing generation assets into DFS could disadvantage Consumer Led Flex (CLF) and undermine the Clean Power Roadmap goals. One respondent stressed that DFS and LCM should be treated as equally important to the Balancing Mechanism, with designs tailored to aggregators and supported by early signposting. One additional issue raised was looking at a long-term, unified flexibility market to look at reducing constraint costs and reliance on last-minute BM actions.

Outcome following feedback

Following review of this question we do not believe there were any explicit changes warranted to the proposals. We appreciate parties taking the opportunity to expand on earlier feedback within their submissions and reflections on broader market arrangements/developments which we will ensure are fed into our broader market strategy and reform work.

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	Grid Code	OC9.4
		BSC	G3, P1.6, P5, Q4.3.4, Q5.4, Q5A and T1.7

	once approved in 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 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	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	BSC	K3.3, K8, S6.2, S6.3 and S11, S12, S13 and S14

	storage facilities and power generating facilities in a scheduling area to offer balancing services subject to conditions referred to in paragraph 5 (c);	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
		BSC	K3.2, K3.3, K8
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;	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	<p>DFS Procurement Rules</p> <p>4 – Registration of DFS Units</p> <p>5 – Registration as Registered DFS Participant</p> <p>6 – DFS Operational Baselines</p> <p>8 – Primacy</p> <p>11 – DFS Submissions</p> <p>17 – Confidentiality</p> <p>Schedule 2 – Registration and Pre-Qualification Procedure</p> <p>Schedule 3 – DFS Operational Baselines</p>
		DFS Service Terms	<p>DFS Service Terms</p> <p>5 – Service Delivery</p> <p>6 – Performance Monitoring</p> <p>13 – Communications</p> <p>17 – Records and Audits</p>
		BSC	O
		Grid Code	DRC, BC5, BC1.4
		CUSC	4.1.3.14 and 4.1.3.19
18.5.e		BSC	T4

	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);	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, for any given imbalance settlement period;	DFS Service Terms	DFS Service Terms 8 – Payment Procedure Schedule 2 – Payment Provisions
		BSC	U2.2
		CUSC	4.3.2.6
18.5.k	the consequences in case of non-compliance with the terms and conditions	DFS Procurement Rules	DFS Procurement Rules

	applicable to balancing service providers.	DFS Service Terms	<p>5 – Registration as Registered DFS Participant</p> <p>11 – DFS Submissions</p> <p>Schedule 2 – Registration and Pre-Qualification Procedure</p> <p>DFS Service Terms</p> <p>6 – Performance Monitoring</p> <p>12 – Provision of Other Services</p> <p>Schedule 1 – Utilisation Payments</p>
		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;	-	<i>GB constitutes one imbalance area and imbalance price area and they are equal to the synchronous area.</i>
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	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).

	external commercial trade schedules equals the sum of the physical generation and consumption 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.