

Demand-Side Flexibility Routes to NESO markets Review

Q3 2026

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Summary

Update on recent key progress

Scope of the Routes to Market Review at NESO

The Demand-Side Flexibility Routes to Market (RtM) Review is NESO's project for **removing barriers** to NESO services for Demand-Side Flexibility, which were identified in collaboration with industry. It is a part of the [Enabling Demand-Side Flexibility in NESO Markets programme](#) that is seeking to deliver increased **competition**, **coordination** and **coherent** market arrangements for GB, in collaboration with DESNZ, Ofgem, Elexon, DNOs and industry.

By removing barriers, this work is:

- Unlocking participation from smaller and aggregated assets
- Increasing competition across NESO services
- Improving operational efficiency and predictability
- Enabling coordinated flexibility across GB markets

This supports delivery of [Clean Flexibility Roadmap](#) and the transition to a more flexible, low-carbon electricity system.

Realising the benefits of these changes will require market participants to evolve their participation and provide feedback to support ongoing improvements.

Published on 29 September, this is the fourth quarterly RtM update. It outlines the barriers identified through the RtM review, NESO's proposed actions to address them, and progress made to date.

Previous updates:

- [Q2 2026 update](#) (June 2026)
- [Q1 2026 update](#) (March 2026)
- [Q4 2025 update](#) (December 2025)

Recent progress in removing barriers

Local Constraints Market (LCM) transition into Demand Flexibility Service (DFS)

- As part of NESO's commitment to creating a simpler and more scalable flexibility framework, constraint management capability is being integrated into DFS. This supports a wider transition towards a single route to market for Demand-Side Flexibility, reducing the need for separate market arrangements and enabling providers to access multiple flexibility opportunities through one service.
- This was set out on **27 July**, when NESO published the [webinar](#) 'Unlocking consumer-led flexibility for constraints' and which explains the transition of constraint management activities from the LCM into the DFS.
- From **7 October 2026**, NESO will begin procuring selected Scottish constraint management actions through DFS, marking the first phase of the transition from the Local Constraint Market (LCM). In line with this change, NESO will no longer procure constraint management actions through the LCM.
- Throughout **October 2026 and beyond**, additional constraints will be incorporated into DFS as part of a phased rollout, progressively expanding the capability across wider areas of Great Britain and supporting the development of a more unified national flexibility market.
- Stakeholder engagement activities, industry webinars and supporting communications have been delivered **throughout 2026** to help providers prepare for the transition and understand future participation opportunities.



Recent progress in removing barriers

Static Firm Frequency Response (Static FFR)

- Proposed [amendments to the sFFR service](#) became effective from **31 July**. The key changes included:
 - Reducing the frequency trigger level from 49.7Hz to 49.65Hz, with a future ambition of dropping this further to 49.6Hz.
 - Reducing the unit and bid order threshold to 0.1MW.
 - Tighter performance measures in performance monitoring process.
- These changes improve accessibility and reliability for Demand-Side Flexibility providers. Lowering the trigger level reduces activation frequency, giving industrial users greater confidence that participation will not significantly disrupt operations. Reducing unit and bid thresholds allows smaller domestic and aggregated assets to participate, removing a key barrier to entry. Tighter performance measures support more consistent and predictable delivery, strengthening confidence in Demand-Side Flexibility as a dependable system resource.
- We are continuing to review how we can improve this service, although we do not expect to consult on significant changes in the near future, we will be looking to engage with industry to better understand provider impacts.



Recent progress in removing barriers

General updates

- The implementation of the methodology for reporting skip rates behind constraints is ongoing, with data published on the [NESO data portal](#) this **September**. This data will increase transparency of control room decisions taken to manage thermal constraints.
- We have recently completed the Reserve Reform RFI (Request for Information) and received valuable feedback on how our [Reserve Services](#) can be simplified and opened to a wider range of participants. We would like to thank market participants for their contributions. We are currently working through this feedback internally to help us develop further opportunities to improve the services and make it easier for participants to access these markets.
- We continue to support the UKRI & DESNZ Demand Turn Up (DTU) trial, which will focus on DTU in DFS and the Balancing Mechanism for the first 6-month project phase. A webinar and FAQ can be found on the UKRI [competition page](#). The trial is now expected to commence in **December 2026**. Having engaged with various market participants over recent months through DFS changes, Demand for Constraints service design, Power Responsive and trial design discussions, we are now aware that Final Consumption Levies (FCL) costs & charging arrangements have a greater impact on DTU viability than we previously considered. We have therefore reflected this impact in the updates to the Service barriers KPI Summary Table (slide 27).
- Good progress has been made on operational metering. Following the Request for Proposal (RFP) for synthetic metering approaches, which was issued to suppliers on **19 June 2026**, the appropriate delivery partner was selected this **September**. Synthetic metering involves generating data that mimics realistic smart meter data patterns.
- NESO is continuing to progress the detailed design of 'Demand for Constraints' (DfC) as part of the [Constraints Collaboration Project](#), which is expected to go live from 2028. This is a long-term contract to incentivise new, flexible demand capacity in certain areas to alleviate thermal constraints.



Requests for input/information

- Regarding the procurement in EFA blocks barrier, a decision to progress to detailed design of potential reforms was taken this **July**. Our latest webinars on the proposal to move towards 30 minutes can be found [here](#). We encourage industry to provide feedback on these options.
- The Retail Energy Code Company (RECCo) launched its [consultation](#) on the proposed Retail Energy Code drafting required to deliver the Consumer Consent Solution Minimum Marketable Product (MMP) on **7 September 2026**, of which the MMP is expected to go live in **March 2027**. The consultation is open until 9am on **Monday 19 October 2026**.
- The cross service baselining barrier has now been marked as completed/closed following the removal of this barrier for NESO services. We welcome feedback on this work. The remaining work on cross service baselining for DNO services has moved over to the Market Facilitator with whom we are engaging.



Clean Flexibility Roadmap

Update on recent key progress

Recent progress in delivering CFR actions

The [Clean Flexibility Roadmap \(CFR\)](#) sets out the government's vision for a clean, flexible, consumer-focused electricity system. It was published in July 2025 and updated this July with additional milestones.

The Routes to Market Review is recognised as fundamental to the roadmap and has been included as an action (33a) in its own right. There are also a number of other NESO commitments in the roadmap which are relevant to the Routes to Market Review.

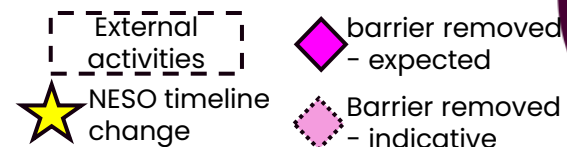
CFR actions for NESO, relating to consumer-led flexibility and markets*	Progress
Increasing non-domestic flexibility capacity (7F)	NESO has committed to enabling 750MW of industrial and commercial (I&C) flexibility in NESO markets by 2030, and strong progress has already been made towards this ambition. To date, more than 170MW of new dispatchable, consumer-led flexibility has been enabled across NESO markets, including the Balancing Mechanism and Demand Flexibility Service, exceeding our Year 1 target of 150MW by September 2026. This progress has been underpinned by extensive market engagement, with over 700 stakeholder engagements delivered through a programme of 20 targeted events and workshops. These activities have generated over 150 identified industrial and commercial business leads in 2026 alone, helping to build a strong pipeline for future flexibility growth.
Routes to Market (RtM) Review (33A)	Published on 29 September, this is the fourth quarterly RtM update.
Wider Access improvements (33E)	There are system-based improvements underway for NESO to remove key barriers to enable Wider Access (WA) participants (Virtual Lead Parties and suppliers) to join and operate more easily in the BM by Q3 2027.
LCM and DFS future direction (33F)	Recording issued on using the DFS for constraint management actions and integrating the LCM into the DFS.
Skip Rate transparency and load response (33G)	The implementation of the methodology for reporting skip rates behind constraints is ongoing, with data published on the NESO data portal this September. Post September 2026, understanding the root causes for skips behind thermal constraints will be used to identify opportunities to reduce these skips.
Market Navigator Tool (33J)	NESO will develop a Market Navigator Tool in 2027 to address market opportunities, stacking barriers and provide potential revenue clarity regarding participation in NESO's markets, including the BM. Relevant discovery work is being undertaken to enable a solution to be progressed.

* The RAG ratings illustrate NESO's progress: Red – no work has been delivered, Yellow – work is slightly behind schedule, Green – work is on track, Blue – work has been completed (7A-E and 33B-D completed CFR actions have been removed from this table for display purposes).

Plan on a page

This section sets out the planned timeline for removing identified barriers. The plan reflects both NESO-led activities and broader industry dependencies, helping stakeholders understand when changes will take effect and how they align with wider industry initiative timelines. A deeper dive into each project will be provided in the following section.

Barrier removal programme plan (Q3 '26)



Quarters are calendar years throughout this report		2026				2027				2028			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Onboarding	B16 Registration & onboarding of assets	Continuous improvement of onboarding & registration systems, processes & information											
	B15 Visibility of service information	Onboarding team supporting non-domestic consumers & aggregators/suppliers & improved digital experience											
Procurement & Dispatch	★ B10.1 & B10.2 Sub-MW & Non-Integer	Options assessment	Explore consumer value	Detailed design & implementation subject to outcome									
		DFS	sFFR										
	B13 Aggregated BMU location	Downstream systems to use granular aggregator data											
	B12 Skip rates	Phase 2 Skip Rate programme activities											
	★ B11.1, B11.2 & B19 Barrier to participate in NESO services due to mechanisms designed to protect DNO capacity	NESO-DNO risk of conflict data exchange	Application of Primacy in DFS	Benefits case for wider primacy rollout	Market Facilitator proposal: Primacy in other services								
Settlement	B9 Imbalance & compensation	BSC modification for NESO ancillary services											
Metering & Baselines	B1.1, 1.2 Operational metering	Phase 1	Phase 2										
	B2 Smart meter data access	Consumer consent solution MMP						Consumer consent solution iterative releases					
	B5 Measuring Instrument Regs	DSIT											
	★ B14 Procurement in EFA blocks	Needs case assessment	Options Assessment	Detailed Service Design									
	★ B7.2 Cross Service Baselineing	Evolved DFS baselining											

★ Sub-MW & Non-Integer: Timeline amended to include exploration of consumer value and the indicative timelines for detailed design & implementation subject to outcome (see slide 15).

★ Barrier to participate in NESO services due to mechanisms designed to protect DNO capacity: Timeline amended as 'benefits case for wider primacy rollout' continues into Q4 and Market Facilitator proposal to Q1 2027 (see slide 17).

★ Procurement in EFA blocks: Timeline updated with additional detail (see slide 19).

★ Cross Service Baselineing: Timeline updated (see slide 23).

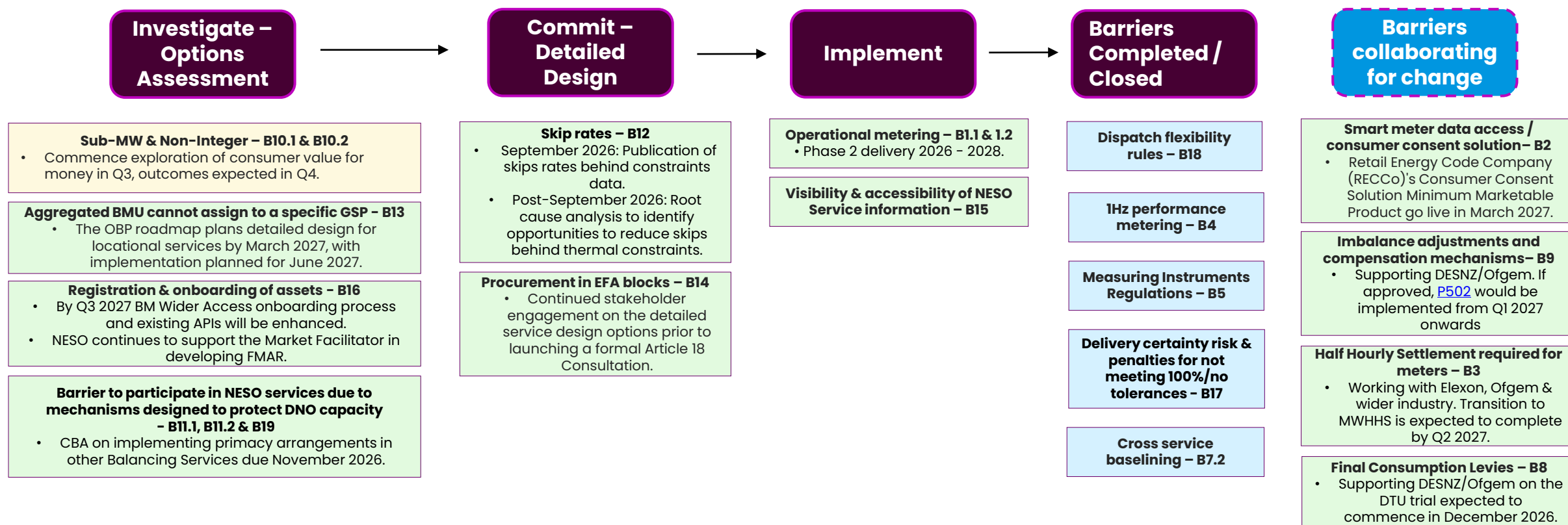
Zooming in: detailed project updates

Removing barriers requires sustained action across multiple fronts. Barriers are grouped according to the stages they are currently in.

In this section, we provide a description of each barrier, the proposed work, including the latest update on it and a RAG rating illustrating NESO's progress.

Where each barrier stands today

- This diagram highlights where each barrier sits in the removal process. B numbers refer to the barrier number & description from our [stage 2 report](#).
- The RAG ratings illustrate NESO's progress:
 - Clear – No workplan has been defined.
 - Red – No work has been delivered.
 - Yellow – Work is slightly behind schedule.
 - Green – Work is on track.
 - Blue – Work has been completed.



Barriers in Options Assessment

Barrier	Description	Affected Services	Proposed work	Latest update	Ref	RAG
Sub-MW & Non-Integer	Most NESO markets require minimum 1MW, Integer-sized bids, which prevents Sub-MW and Non-Integer bids from participating. This limits access for smaller assets and aggregated portfolios, reducing efficient utilisation of distributed flexibility and weakening competition in NESO markets. <u>Pre-reform:</u> • Balancing Mechanism, Frequency Response & Reserve: does NOT allow Sub-MW & Non-Integer bids. • sFFR: does NOT allow Sub-MW & Non-Integer bids. • DFS: does NOT allow Sub-MW, allows Non-Integer bids. • Local Constraint Market (LCM): DOES allow Sub-MW & Non-Integer bids.	Sub-MW: all except LCM Non-Integer: all except DFS & LCM	NESO are reviewing reforms to allow Sub-MW & Non-Integer bids in all NESO markets. Balancing Mechanism, Frequency Response & Reserve • Industry workshop in April and internal technical report in June. Commenced exploration of consumer value for money in Q3. sFFR • 0.1MW reform approved by Ofgem (May 2026), effective from 31 July. This change is now live. DFS • 0.1MW reform approved by Ofgem (March 2026), effective from 9 April. This change is now live.	BM and Frequency Response & Reserve exploration of consumer value for money commenced in Q3. This is currently behind schedule with outcomes expected in Q4. Both sFFR and DFS 0.1MW reforms are now live.	Sub-MW: B10.1 Non-Integer: B10.2	
Aggregated BMUs cannot assign to a specific GSP	Aggregated BMUs cannot be assigned to a specific Grid Supply Point (GSP), which means they cannot contribute to locational requirements, and will sometimes be ruled out because of locational constraints that may not be impacted by their location. Aggregators submit an Aggregator Impact Matrix (AIM) which maps a GSP Group level aggregation down into individual GSPs. This information is not currently used in dispatch decision making.	BM	AIM integration: • NESO is integrating the AIM into the Single Markets Platform (SMP) so that both GSP Group and individual-GSP granularity can be captured for Aggregated BMUs. This removes the need to complete a separate AIM spreadsheet with duplicate data that is already in the SMP. Downstream systems: • Downstream systems need to consume and use this granular aggregator data for forecasting, constraint management and future locational optimisation. • In the Open Balancing Platform (OBP) roadmap, the support for locational services is expected to focus on detailed design in March 2027 with implementation planned for June 2027.	In the OBP roadmap, the support for locational services is expected to focus on detailed design in March 2027 with implementation planned for June 2027.	B13	

Barriers in Options Assessment

Barrier	Description	Affected Services	Proposed work	Latest update	Ref	RAG
Registration & onboarding of assets	This barrier refers to the complexity & inefficiency in how Demand-Side Flexibility assets are registered and onboarded into different markets, as NESO systems and processes haven't been designed for very high volumes of small-scale assets. Asset registration systems are not standardised, which results in: • Multiple registrations. Assets must repeatedly register with the same data. • Complex and time-consuming onboarding processes. Processes differ across services and regions. • Reduced market participation. Providers may be deterred from participating because onboarding is slow, opaque, manual and resource-intensive.	All	SMP improvements • NESO defined "Domestic" and "Industrial and Commercial" Demand-Side Flexibility, which has been added to the SMP for unit and asset registration directly via the SMP portal or APIs. • SMP actively working with business and users to identify enhancements to business process and user experience. • Integrating the Aggregator Impact Matrix into the SMP. WA improvements • NESO will remove key barriers to enable Wider Access (WA) participants (Virtual Lead Parties and suppliers) to join and operate more easily in the BM by Q3 2027 FMAR development • NESO is supporting the Market Facilitator (Elexon) in developing Flexibility Market Asset Registration (FMAR) – a single, common, cross-market registration system. Onboarding team support • NESO set up an onboarding support team in November 2025, developed for non-domestic customers, suppliers and aggregators for an improved digital experience.	By Q3 2027, NESO will remove key barriers to enable Wider Access (WA) BM participants to join and operate more easily, by: Establishing clear ownership and governance • Setting a single, defined onboarding process and standard materials • Providing one clear entry point for participants. • Reporting progress through Enabling Demand-Side Flexibility (EDSF) programme governance. Delivering a digital-first onboarding journey and improved APIs • Introducing an improved WA API interface to support real-time operational communications and end user journey. • Reducing manual processes to improve ease of use. The proposed FMAR design and implementation approach was published this September for consultation. This represents a step forward in the information available to industry on what the solution could look like, subject to industry feedback. Next step is FMAR build and integration expected by Q1 2028.	B16	



Barriers in Options Assessment

Barrier	Description	Affected Services	Proposed work	Latest update	Ref	RAG
Barrier to participate in NESO services due to mechanisms designed to protect DNO capacity*	NESO currently has limited mechanisms to coordinate flexibility procurement from Distributed Energy Resources (DER) with distribution network capacity constraints. As a result, flexibility instructions may conflict with DNO protections (such as Active Network Management), leading to flexibility being unwound after procurement, or creating a risk of stress or damage to distribution networks. Existing pre-qualification and operational arrangements do not fully account for these interactions. DNO primacy refers to arrangements where constraints in distribution network capacity are accounted for in NESO's procurement process. Why this is important: Without effective coordination between NESO and DNO capacity management, NESO may pay for flexibility that cannot be delivered as intended or that creates downstream network impacts. This reduces confidence in flexibility outcomes, undermines whole-system efficiency, and can unnecessarily limit DER participation. Addressing this barrier is essential to ensure flexibility delivers system value without compromising distribution network security.	All	DFS - DNO primacy arrangements were introduced into the Demand Flexibility Service in April 2026. Participants are now marked as ineligible for events where DNOs flag material network security impacts based on near term forecasts. This built-in capability removes a provision in the pre-qualification process that NESO will not normally pre-qualify ANM connected assets. Other Balancing Services - We are exploring the case for the application of DNO primacy arrangements in our other Balancing Services (including Response & Reserve Services). We have initiated a cost benefit analysis, in collaboration with the Market Facilitator and DNOs, due for conclusion in November 2026. - NESO is supplementing cost benefit analysis with real data from DNOs on potential conflicts. - In the meantime (i.e. ahead of implementation of primacy in Response and Reserve Services), NESO is reviewing guidance around how assets with an ANM agreement are treated as part of the pre-qualification process.	Primacy arrangements were introduced into the Demand Flexibility Service in April 2026. We are carrying out a CBA of implementing primacy arrangements in other Balancing Services, due in November 2026. Elexon, as Market Facilitator, has initiated a work group to review the feasibility of implementing NESO primacy arrangements. By December 2026, a clear direction of travel for implementing NESO primacy following a feasibility assessment will be set.	B11.1, B11.2 & B19	

* Barrier to participate in NESO services due to mechanisms designed to protect DNO capacity, is a combination of these barriers:

- Localised DNO limits on capacity limiting participation – B11.1
- Flexible connections & Active Network Management (ANM) prequalification assessment – B.11.2
- (new) ANM impacts on Demand Turn Up & Demand Turn Down – B19

Barriers in Detailed Design

Barrier	Description	Affected Services	Proposed work	Latest update	Ref	RAG
Skip rates	The 'Skip rate' refers to the frequency at which certain actions or assets are bypassed or 'skipped' during operational decisions. When instructions via BOA (Bid Offer Acceptance) are sent at a higher price than an alternative action that could have been taken, then NESO will have created a skip and the alternative action is bypassed. Why this is a barrier: • Uncertainty for Demand-Side Flexibility Providers: High skip rates make revenues unpredictable, particularly for aggregators managing small, distributed assets. • Operational inefficiency: Skips distort price signals and reduce effective optimisation across the BM. • Barrier to participation: Demand-Side Flexibility portfolios operate on tight margins and rely on delivery certainty; frequent skips deter investment and ongoing engagement.	BM	NESO is improving transparency and understanding of skip rates so Demand-Side Flexibility Providers can better assess performance and revenue risks: Phase 1 • Skip rate data by asset type was published, including the launch of a public Skip Rates Dashboard on the NESO website (August 2025). Phase 2 • Root Cause Analysis was undertaken to understand the underlying causes of skips, including system constraints, forecast errors and operational decisions. The outcomes have been published (June 2026). • The methodology for reporting skip rates behind constraints was published in March 2026. These actions give Demand-Side Flexibility Providers clearer visibility of when and why skips occur, helping them make more informed participation and investment decisions.	Phase 2 • Skips behind constraints: implementation of methodology ongoing, with new metric and data published on the NESO data portal this September. This data will increase transparency of control room decisions taken to manage thermal constraints. • Post September 2026, understanding the root causes for skips behind thermal constraints will be used to identify opportunities to reduce these skips.	B12	

Barriers in Detailed Design

Barrier	Description	Affected Services	Proposed work	Latest update	Ref	RAG
Procurement in EFA blocks	EFA (Electricity Forward Agreement) blocks are rigid 4-hour procurement windows used in UK electricity markets. The fluid nature of Demand-Side Flexibility assets means that 4-hour commitment blocks represent a significant barrier to participate due to the changing nature of the flexibility profile and potential duration and shape of flexibility availability.	SFFR, DC, DM & DR	NESO is reviewing reforms to shift response services procurement to 30-min procurement windows, instead of current 4-hour EFA blocks. This would allow units to contract for shorter periods that better align with their capacity, while enabling uncontracted periods for energy management of less than four hours. This increased flexibility could ultimately help reduce system costs. This approach would also align response services procurement more closely with other Reserve Services (BR, QR and SR) and the Wholesale Market.	A decision to progress to detailed design of potential reforms was taken in July. Next steps are continuing stakeholder engagement on the detailed service design options prior to launching a formal Article 18 Consultation. Our latest webinars on the proposal to move towards 30 minutes can be found here. We encourage industry to provide feedback on these options.	B14	

Barriers in Implementation

Barrier	Description	Affected Services	Proposed work	Latest update	Ref	RAG
Operational metering	Operational metering provides the near-real-time data NESO requires to dispatch, monitor, and manage flexible assets, both when delivering contracted services and in the BM. It is distinct from performance metering, which is used post-event for settlement. Why this is a barrier: The default BM operational metering standards (1-second meter readings, $\pm 1\%$ accuracy, and up to 5-second data latency) were designed for large generation assets. Although Demand-Side Flexibility assets can technically meet many of NESO's operational standards, the cost and complexity of meeting them create a significant barrier to participation.	BM, BR	NESO reforms to Operational Metering Requirements: Phase 1 • Delivery: March 2026. • Scope: Reduce meter-read frequency from 1 second to 30 seconds and remove asset-level accuracy requirements, making participation easier for smaller and less technically complex assets. • Status: The new BM Operational Metering requirements went live this March. Phase 2 • Delivery: 2026 - 2028. • Scope: Focuses on longer-term metering solutions, including synthetic metering (method of generating data that mimics realistic smart meter data patterns) and further operational metering reforms. • Status: In April 2026 an innovation project was launched to explore synthetic metering. An RFP (Request for Proposal) went out to suppliers for consulting on 19 June 2026.	Phase 2 Following the RFP (Request for Proposal) on synthetic metering approaches that went out to suppliers for consulting on 19 June 2026, the appropriate partner was finalised this September.	B1.1 & B1.2	
Visibility and accessibility of NESO service info, standards and policies	Access to information on NESO services, technical standards, and policies can be difficult for service providers to find and navigate, particularly for newer market entrants. Information is often spread across multiple sources, making it harder for participants to understand requirements and engage confidently in real-time markets, which can slow onboarding and create uncertainty for Demand-Side Flexibility Providers.	All	NESO • As per 7C commitment in the CFR, NESO set up an onboarding support team in November 2025. We have and continue updating our website for easy access to information for Demand-Side Flexibility Providers. • As per 33J commitment in the CFR update, NESO will develop a Market Navigator Tool in 2027 to address market opportunities, stacking barriers and provide potential revenue clarity regarding participation in NESO's markets, including the BM. Market Facilitator • Elexon published the Flexibility Market Catalogue in February 2026, providing a single view of active NESO and DNO flexibility markets to improve transparency and accessibility for flexibility providers.	NESO • Tailored sectoral guidance is being developed based on learnings from non-domestic engagement as well as exploring how NESO could provide a better "self service" functionality via the website. • As per the new 33J CFR commitment to develop a Market Navigator Tool, relevant discovery work is being undertaken to enable a solution to be progressed.	B15	

Barriers Completed / Closed

Barrier	Description	Affected Services	Proposed work	Latest update	Ref	RAG
Dispatch Flexibility Rules (1MW/1 min)	The Dispatch Flexibility Rules barrier stems from strict technical requirements for activating flexibility assets in real-time markets. Historically for the Balancing Reserve, assets had to respond in 1 MW increments with 1-minute response capability, alongside constraints like minimum zero and non-zero times.	BR	NESO relaxed the Dispatch Flexibility Rules to make real-time markets more accessible for Demand-Side Flexibility: - Indivisible volumes of up to 25MW allowed for assets participating from 0MW, meaning providers can choose to be dispatched only at their full offered volume rather than in partial MW increments. - Minimum non-zero time extended to 5 minutes, giving assets participating from 0MW a more practical minimum run time once dispatched.	Ofgem approved and NESO implemented the updated Dispatch Flexibility Rules. Guidance was clarified (March 2026) and this barrier marked as completed/closed in Q1 2026 Routes to Market report.	B18	
1Hz Performance Metering	Performance metering is used by NESO to assess the delivery of a service by a provider. Historically, the 1Hz metering requirement meant recording data every one second from all assets providing the sFFR service. High resolution metering is expensive and technically challenging, especially for smaller aggregated assets, creating a barrier for Demand-Side Flexibility participation.	sFFR	The requirement for 1Hz metering was assessed across the specific requirements of sFFR. NESO published Metering Guidance in Q4 2025 to clarify how aggregated units can implement 1-second metering effectively.	Published Metering Guidance (Q4 2025). This barrier marked as completed/closed in Q1 2026 Routes to Market report.	B4	
Measuring Instruments Regulations (MIR)	The Measuring Instruments Regulations 2016 (MIR) impose strict and outdated compliance requirements on metering equipment. For instance, the requirement for physical displays means that around 99% of meters used by flexibility assets are non-compliant. This prevents Demand-Side Flexibility from participating in markets.	All	MIR rules are set by the Department for Science, Innovation & Technology (DSIT). NESO contributed to the DSIT review of MIR, pushing for rules that better reflect digital, automated and smart metering technologies.	This barrier was resolved following DSIT's Consultation Response publication this February, which included removing the requirement for a physical display. No further action required from NESO. This barrier marked as completed/closed in Q1 2026 Routes to Market report.	B5	

Barriers Completed / Closed

Barrier	Description	Affected Services	Proposed work	Latest update	Ref	RAG
Delivery certainty risk & penalties for not meeting 100%/no tolerances	Some Demand-Side Flexibility Providers are concerned about penalties and the lack of tolerance for not delivering 100% of committed capacity across NESO services. While penalty and delivery-accuracy requirements do exist, they are often highly technical, service-specific, and not clearly or consistently communicated, creating uncertainty for providers. Comparisons with international approaches (such as Energinet's P90 model in Denmark, a risk-based method for sizing balancing reserves that allows limited under-delivery) have raised questions about whether NESO's near-perfect delivery requirements may unnecessarily restrict participation from more variable or aggregated flexible resources. There is a lack of clarity, consistency, and visible guidance, alongside a question over whether NESO should explore tolerance-based or probabilistic models used internationally.	All	NESO should review and clearly articulate the delivery-accuracy and penalty frameworks that already exist across its services, ensuring they are transparent, consistent, and proportionate.	For each NESO service, there is a guidance document which sets out the performance monitoring approach, including applicable tolerances. These tolerances are defined in the service terms and supporting guidance published on the NESO website. The onboarding flexibility webpage (October 2025) directs users to each service page, where the relevant guidance documents can be accessed. In addition, the increasing use of day-ahead procurement across NESO services has improved forecasting, which supports more effective performance monitoring. NESO is not considering a probabilistic approach similar to Energinet's P90 model. NESO's performance monitoring approach, including tolerances, has been subject to industry consultation and approved by Ofgem as part of the service design process. Further rationale is therefore available through those consultation materials and approvals. This barrier marked as completed/closed in Q3 2026 Routes to Market report.	B17	

Barriers Completed / Closed

Barrier	Description	Affected Services	Proposed work	Latest update	Ref	RAG
Cross service baselining	Different methodologies are used to calculate the baseline (expected consumption/generation). A general hierarchy of baseline methodologies is: Historic < Fixed < Physical Nomination (PN). NESO compares the baseline against actual delivery to determine performance and payment. Baseline methodologies vary across services, with some being more dynamic than others. Physical Nomination (PN) based approaches generally provide a more accurate reflection of expected behaviour and reduce the risk of gaming. NESO Services: - All NESO Services, except DFS, use Physical Nomination (PN) as their baseline methodology - DFS currently uses a Historic 30-day average baseline. DNO Services: - DNOs services typically use Fixed Profile baseline methodologies.	All	NESO Services - NESO explored moving DFS towards a more dynamic baselining approach by allowing I&C assets to choose between the Historic baseline or a PN-type baseline. - Cross-service baselining options were consulted on through the DFS Consultation, and the evolved DFS baselining approach was subsequently approved by Ofgem on 25 March 2026, with implementation taking effect from 9 April 2026. DNO Services - A change proposal has been raised through the Market Facilitator to simplify baseline submissions across DNO Markets using nomination baselines.	This barrier has now been marked as completed/closed following the removal of this barrier for NESO services. We welcome feedback on this work. The remaining work on cross service baselining for DNO services has moved over to the Market Facilitator with whom we are engaging.	B7.2	

Barriers outside of NESO control – Collaborating for change

Barrier	Description	Affected Services	Proposed work	Latest update	Ref	RAG
Access to smart meter data for 3rd Parties / Consumer Consent Solution	Smart meter (MPAN-level) data is essential for providers to baseline consumption, verify delivery, and settle services accurately. However, third-party Demand-Side Flexibility Providers often struggle to access this data due to GDPR consent requirements, DCC technical limitations, and fragmented supplier-led consent processes. Without timely access, Demand-Side Flexibility providers cannot confidently participate in NESO markets.	DFS	The Consumer Consent Solution is being delivered by RECCo (The Retail Energy Code Company) for the development of a digital solution enabling consumers to share their energy data with trusted third-parties. RECCo's Consumer Consent Solution is expected to solve this challenge from 2026 onwards with the delivery Deliver Minimum Marketable Product (MMP) for data sharing.	RECCO launched its consultation on the proposed Retail Energy Code drafting required to deliver the Consumer Consent Solution Minimum Marketable Product (MMP) on 7 September 2026 , of which the MMP is expected to go live in March 2027 . The consultation is open until 9am on Monday 19 October 2026 .	B2	
Imbalance adjustments and compensation mechanisms	Imbalance adjustments to supplier positions were introduced to support the provision of Balancing Services when flexibility is delivered via aggregators. While mechanisms such as ABSVD (Applicable Balancing Services Volume Data) adjust supplier imbalance positions when aggregators provide services on behalf of NESO, coordination of supplier, VLP and non-VLP aggregator balancing responsibilities remains complex. Currently there is no mechanism for compensation between suppliers and aggregators. This has led to ongoing concerns about incentives, a level playing field, and consistency across markets.	All	DESNZ/Ofgem: - As part of the Clean Flexibility Roadmap, DESNZ and Ofgem are reviewing how suppliers, aggregators and other non-licenced entities participate and interact in the market. NESO actions: - BM: Approved & implemented (Nov 2025) via BSC code mod P444, Direct Compensation between suppliers and aggregators (VLPs). - Ancillary Services (AS): Resulting from Issue 1 in Issue Group 114 in Nov 2025, NESO raised new BSC code mod, P502, to introduce compensation arrangements for BM and non-BM ancillary services via Direct Compensation. - LCM: NESO developed its own compensation mechanism, ABSDV opt-out and price adjustment mechanism (Ofgem approved Oct 2024), and is using insights to inform wider AS reforms.	P502 workgroup discussions are ongoing. As part of the assessment procedure, dependencies with P412 and related issues under Issue Group 114 have been identified as potential blockers for P502. NESO is working alongside industry and Elexon to address these. If approved and the current timetable is maintained, P502 is expected to be implemented from Q1 2027 onwards.	B9	

Barriers outside of NESO control – Collaborating for change

Barrier	Description	Affected Services	Proposed work	Latest update	Ref	RAG
Half Hourly Settlement (HHS) required for meters	Current market rules require assets to have Half-Hourly metering for Settlement, which excludes many smaller or domestic Demand-Side Flexibility assets that do not have HHS-compliant meters. Installing these meters increases cost and operational complexity for aggregators and consumers, limiting how quickly Demand-Side Flexibility can scale in real-time markets. Smart meters can provide half-hourly data but having a smart meter does not automatically mean the customer is settled on a half-hourly basis – the settlement system itself must change. Until that change is complete, many assets cannot fully participate.	BM, BR, Phase 1 QR & SR	Supporting the Market-wide Half-Hourly Settlement (MHHS) Programme - NESO is actively supporting Ofgem’s MHHS reforms, which began rolling out in October 2025 and is expected to complete in Q2 2027. This programme enables all consumers to be settled using actual half-hourly data instead of static profiles, supporting greater participation in flexibility services. Collaboration and Alignment - NESO is working with Elexon, Ofgem and wider industry stakeholders to address settlement-related barriers to flexibility participation. - Externally, Elexon implemented Modification P483 in November 2025, removing the Half-Hourly Settlement requirement that had previously limited participation from many domestic consumers. - Internally, NESO removed Half-Hourly Settlement requirements from some services such as DFS and LCM following P483.	As of 18 September, there have been 23.1 million successful migrations. In July 2026 we responded to the Programme Readiness Assessment 8 consultation to confirm NESO is ready for MHHS and has plans and has assessed risks. Also, NESO responded to the MHHS M16 Settlement Timetable Consultation in May 2026, supporting industry preparations for a reduction in the settlement timetable from 14 months to 7 months and is working with settlement teams to ensure readiness for the new arrangements.	B3	

Barriers outside of NESO control – Collaborating for change

Barrier	Description	Affected Services	Proposed work	Latest update	Ref	RAG
Final Consumption Levies (FCLs)	Final Consumption Levies (FCLs) are fixed charges applied to every unit of electricity consumed. Because these levies still apply when Demand-Side Flexibility provides Demand Turn Up (DTU), they can reduce the relative competitiveness of DTU actions compared to other flexibility solutions. This creates asymmetries across technologies and customer groups, which can influence participation incentives.	All with DTU	NESO is engaging with DESNZ and Ofgem to support policy discussions on the role of FCLs and their interaction with flexibility markets. NESO has provided analysis and whole-system insight to inform these discussions and help ensure a level playing field for flexibility participation. This contributed to DESNZ's April 2026 announcement of a £20 million UK Research and Innovation (UKRI) trial to remove FCLs from DTU, as well as its intention to bring forward legislation, as set out in the RNP Delivery Plan.	We continue to support the UKRI & DESNZ Demand Turn Up trial, which will focus on Demand Turn Up in DFS and the Balancing Mechanism for the first 6-month project phase. A webinar and FAQ can be found on the UKRI competition page. The trial is now expected to commence in December 2026.	B8	

KPIs



Q3 2026 Service barriers summary

- Changes in Demand-Side Flexibility participation in NESO markets, shown in the [Data Dashboard](#), **cannot be directly correlated** with the removal of NESO Routes to Market barriers. NESO is yet to see any explicit data showing the impact of completed/closed barriers and would welcome stakeholder feedback on the impacts.
- At present, we **roughly envisage** the impact of completed/closed barriers **inside and outside of NESO's control** through the improvements to the Service barriers KPI Summary Table.
- Since the [Q2 2026 update](#), we have been made aware that FCL costs and charging arrangements have a greater impact on DTU viability than we previously considered. We have therefore reflected this impact in the updates to the Service barriers KPI Summary Table (change log in slide 30).
- While FCLs and charging arrangements remain recognised barriers, DFS procurement activity shows there is still significant value to unlock and scope to increase DSF participation. Since go-live on 9 April 2026, DFS has called 130 events with potential value of around £40m across all Service Requirements, but only 6.28% of requirements have been filled to date.

Services		DFS	LCM*	Slow Reserve	Balancing Reserve	Quick Reserve	Static FFR	Dynamic Regulation	Dynamic Moderation	Dynamic Containment	Balancing Mechanism
Demand-Side Flexibility ¹											
Domestic consumer	Supplier	☆		☆							
	Virtual Lead Party (VLP)	☆									
	Non VLP aggregator	☆									
Non-Domestic consumer	Supplier	☆		☆							
	Virtual Lead Party (VLP)	☆									
	Non VLP aggregator	☆									

Not aware of any insurmountable barriers
 Barriers or design requirements are likely stopping some of the market
 Barriers or design requirements are stopping all of the market
 Not capable of participating in service
 Main Barriers are outside of NESOs direct control
 Barriers are linked to Demand turn up (DTU)

28 ¹ We have simplified how we present the "archetypes" in the summary by removing technologies.

* LCM will be removed from reporting in the Q4 2026 RtM update, as constraint management capability is being integrated into DFS from 7 October.

Q3 2026 Service barriers

Services	DFS	LCM	Slow Reserve	Balancing Reserve	Quick Reserve	Static FFR	DC/DM/DR	Balancing Mechanism	Cross cutting
Barriers	Access to smart meter data for 3 rd parties (B2) ☆	Final Consumption Levies (B8) ☆ ↗	Final Consumption Levies (B8) ☆ ↗	Final Consumption Levies (B8) ☆ ↗	Operational metering (B1.1 & B1.2)	Procurement in EFA blocks (B14)	Lack of aggregated metering approaches (B6)	Skip rates (B12)	Half Hourly Settlement required for meters (B3) ☆
	Final Consumption Levies (B8) ☆ ↗		Imbalance adjustments and compensation mechanisms (B9) ☆ ↗		Imbalance adjustments and compensation mechanisms (B9) ☆ ↗		Operational baseline 1 hour in advance (B7.1)	Aggregated BMUs cannot assign to a specific GSP (B13)	Barrier to participate in NESO services due to mechanisms designed to protect DNO capacity (B11.1, B11.2 & B19) ☆ ↗
	Imbalance adjustments and compensation mechanisms (B9) ☆ ↗		Sub-MW & Non-Integer (B10.1 & B10.2)	Sub-MW & Non-Integer (B10.1 & B10.2)	Sub-MW & Non-Integer (B10.1 & B10.2)		Sub-MW & Non-Integer (B10.1 & B10.2)	Sub-MW & Non-Integer (B10.1 & B10.2)	Visibility and accessibility of NESO service info, standards and policies (B15)
								Final Consumption Levies (B8) ☆ ↗	Registration & onboarding of assets (B16)

☆ Barriers outside of NESOs direct control

↗ Demand turn up (DTU) specific barriers

Q3 2026 Service barriers change log

Changes since Q2 2026 update

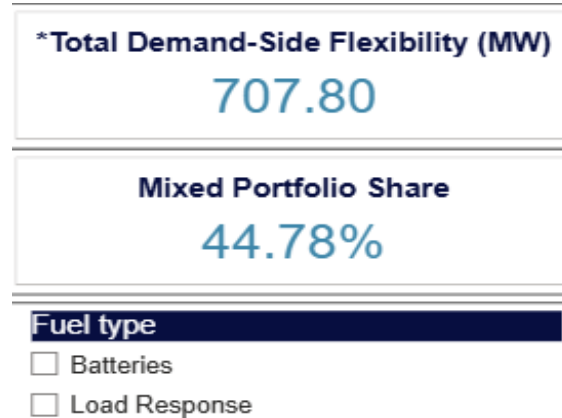
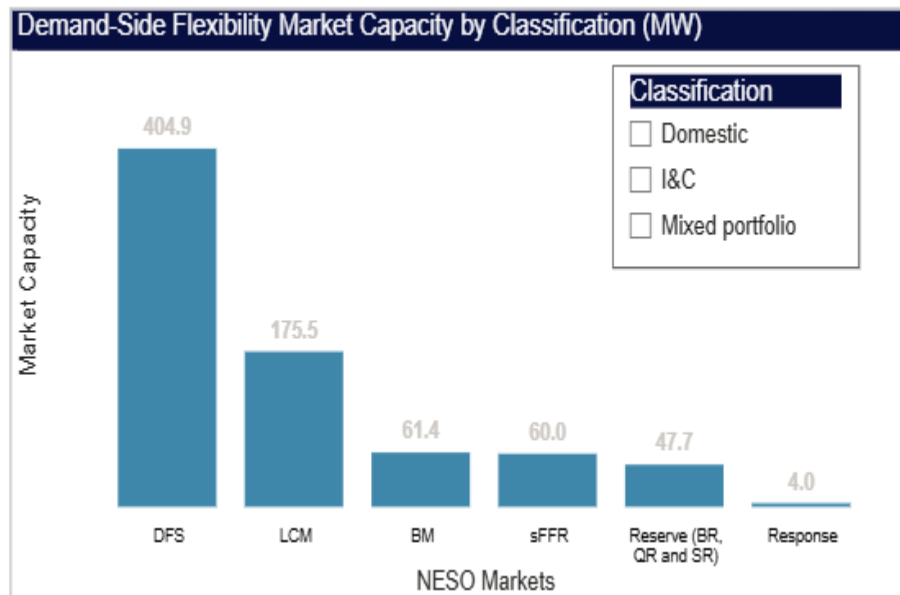
Service	Change
Demand Flexibility Service	Non-domestic and domestic Supplier: changed from green to green-amber, and non-domestic VLP and Aggregator: changed from green to amber due to DTU challenges outside of NESO's control having a greater impact than previously considered. This is largely related to the changes to DFS to incorporate negative margin (DTU) and planning to incorporate LCM and wider constraints actions, and the cumulative impact of FCL charging arrangements and P502 progress impacting DTU.
Slow Reserve	Non-domestic and domestic Supplier: changed from green to green-amber due to DTU challenges outside of NESO's control having a greater impact than previously considered.
Balancing Reserve	Non-domestic and domestic Supplier and VLP: changed from green to green-amber due to DTU challenges outside of NESO's control having a greater impact than previously considered.

Market metrics dashboard

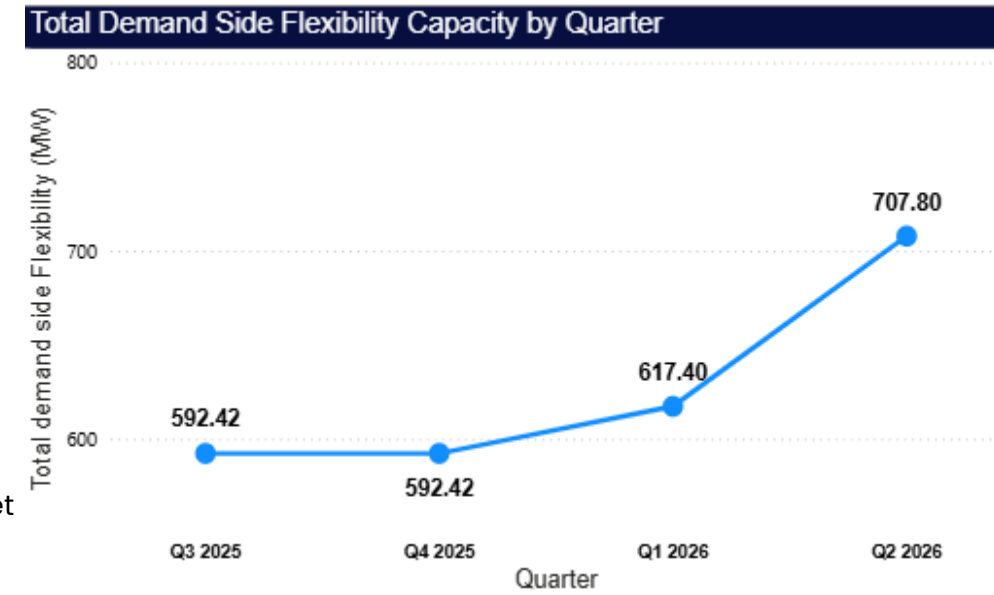
We publish a **Demand-Side Flexibility in NESO markets data dashboard** on a quarterly basis alongside these updates. Below is a summary of the total volume of Demand-Side Flexibility¹ that was active² in NESO markets from **January 2025 to June 2026**. The full dashboard can be found on this [webpage](#).

In this update, we have removed STOR as this service ceased in March 2026. In the last quarterly update, we added a new chart to track trends by quarter and fuel type data where this information is available, to give further insight to industry.

Note: changes in Demand-Side Flexibility cannot be directly correlated with the removal of NESO Routes to Market barriers.



*Capacity participating in multiple NESO markets is included in each relevant market total but counted only once in the Total Demand-Side Flexibility figure. As a result, market level totals may not add up to the overall total.



- 1 Our full definitions of Demand-Side Flexibility can be found [here](#). This includes demand, storage and generation assets located “behind the meter” at a consumers site.
- 2 Active means units that have been active in bidding in markets within the reporting period.

We appreciate your feedback



This is the fourth quarterly update as part of the Demand-Side Flexibility Routes to Market Review implementation.

We would like to hear your feedback on this update, including content and structure, as well as on specific updates. Please reach out to the team at flexibilitystrategy@neso.energy.

Appendix

Barrier removal programme plan change log (Q3 2026)

This change log represents changes to the plan from the [third quarterly update published in June 2026](#).

Barrier	Change
Delivery certainty risk & penalties for not meeting 100%/no tolerances	Moved from 'Options Assessment' stage to 'Barriers Completed / Closed'. NESO's progress RAG changed from green to blue.
Cross service baselining	Moved from 'Options Assessment' stage to 'Barriers Completed / Closed'. NESO progress RAG changed from green to blue and timeline updated.
Procurement in EFA blocks	NESO's progress RAG changed from amber to green and has moved from the 'Options Assessment' stage to 'Detailed Design' and timeline updated.
Sub-MW & Non-Integer	NESO's progress RAG changed from green to amber and indicative timeline updated.
Barrier to participate in NESO services due to mechanisms designed to protect DNO capacity	Timeline updated.