

13th October 2022

C16 Report to Authority for Demand Flexibility Service 2022-23

A report in accordance with standard condition C16 for 2022-23



Contents

1. Executive Summary	3
2. Introduction & Process Overview	5
The Review.....	5
Step 1 Issue Final Consultation	5
Step 2 Report to Authority.....	6
Step 3 Authority Decision and Statement go live.....	6
3. Review of Suggested Changes	7
Proposals for additional Procurement Guidelines Statement review 2022/23.....	7
Proposals for the ABSVD review 2021-22.....	10
Proposals for additional BSAD Statement review 2022/23.....	12
Proposals for additional Balancing Principles Statement review 2022/23.....	14
4. Stakeholder Engagement Summary	15
Step 1 Review and Final Consultation Responses.....	15
The Questions	15
Consultation 1 [Issued August 8th-September 5th]	15
Procurement Guidelines Statement (PGS).....	15
Balancing Principles Statement (BPS)	15
System Management Action Flagging Statement (SMAF)	16
Applicable Balancing Services Volume Data Methodology Statement (ABSVD)	16
Consultation 2 [Issued September 22nd – October 6th 2022]	16
Balancing Services Adjustment Data (BSAD)	16
Balancing Principles Statement (BPS)	16
Responses to the Consultation	17
Consultation 1 [Issued August 8th-September 5th]	17
Consultation 2 [Issued September 22nd – October 6th 2022]	17
EBR Article 18 Consultation [Issued September 1st – October 4th 2022]	17
Step 2 Other Industry Engagement.....	18
Step 3 Report to Authority.....	19
Step 4 Authority Decision and Statement go live.....	19
5 Next Steps	19

1. Executive Summary

In accordance with the requirements of Condition C16 of the Transmission Licence, National Grid Electricity System Operator (NGESO) has produced a further review outside of the annual review of the C16 Statements. This report details NGESO's engagement with industry throughout this additional review process and the proposed changes to the 2022-23 C16 statements for the Demand Flexibility Service.

NGESO has worked collaboratively and transparently with industry and Ofgem during this review. We have offered opportunities for all parties to provide us with feedback on the changes they would like to see represented to the C16 statements for 2022-23.

NGESO ran an additional consultation for winter contingency from 8 August 2022 to 5 September 2022, in line with the requirements of the Transmission Licence. This consultation was focused on the proposed changes required for Demand Flexibility service and the Winter Contingency Services. Following feedback from industry on the proposed changes to several C16 documents required, including the Procurement Guidelines, Balancing Principles, ABSVD and SMAF statements we asked Ofgem on September 12th, 2022, to allow us to reopen a further consultation window for two weeks. NGESO received direction¹ from OFGEM on the 15th of September. This Direction allowed NGESO to comply with a requirement different to that set out in Standard Licence Condition C16 sub-paragraph 9(a)(ii) of its Electricity Transmission Licence – that is, to hold a consultation for no less than 14 days, rather than 28 days. NGESO decided to consult for a further two weeks solely on the Demand Flexibility Service. This would provide industry a chance to provide comment on the changes we have made following the additional consultation feedback, and to resolve their concerns in relation to this. This report details the responses from both consultations in relation to the Winter Demand Flexibility Service.

NGESO's key focus areas for the additional reviews of 2022/23 C16 statements for the Demand Flexibility Service that were consulted were:

- Version control to Procurement Guidelines, ABSVD and BSAD statements.
- Housekeeping for Procurement Guidelines, ABSVD and BSAD statements.
- Changes required to the Procurement Guidelines statement, to include the Demand Flexibility Service
- Changes required to the ABSVD Statement for the addition of the Demand Flexibility Service to the list of balancing services with ABSVD applied
- Changes required to the BSAD statement for the addition of the Demand Flexibility Service to the balancing services included within the BSAD
- We also consulted on the view that NGESO believes the Demand Flexibility Service does not need to be included within the Balancing Principles Statement (BPS)

This report highlights the changes NGESO intend to make to the C16 statements for 2022/23, as well as detailing the steps NGESO took to consult with industry. For transparency we have detailed the industry feedback and NGESO views within this report.

The changes to the relevant statements for the Demand Flexibility Service are detailed in the review of suggested changes section of this report and will be effective by November 11th, unless the Authority issues a Direction for statement changes to become effective earlier or be vetoed. We intend to utilise the Demand Flexibility Service from November the 1st if required and therefore will

¹ <https://www.ofgem.gov.uk/publications/decision-provide-direction-national-grid-electricity-system-operator-limited-pursuant-standard-licence-condition-c169aii>

Key Dates:

Documents sent to Ofgem: 13th October

Ofgem Veto/Direction:
By/before November 10th, 2022

Revised C16 Statements go live:
By/before 11th November 2022

work with Ofgem to allow them to issue a Direction to not use their power to veto before that date if possible.

NGESO would now like to invite Ofgem to review this report and the track change statements and, by/before the 10th of November 2022, offer any direction or feedback before the statements go live on the 11th of November 2022, or, preferably, direct that the ESO utilise these statements as soon as possible.

If you have any questions about this document, please contact:

Ruby Pelling
Markets, National Grid Electricity System Operator

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Please note consequential changes resulting from modifications to GB industry codes, stakeholder suggestions and upcoming regulatory changes which are not captured here will be actioned either in future annual reviews, or individual statement reviews as appropriate.



Jon Wisdom

Code Change Delivery Senior Manager

2. Introduction & Process Overview

The Review

In accordance with Standard Condition C16 (C16) of its Transmission Licence, NGENSO has concluded its annual review of all licence statements, the updated statements have been approved by the Authority (Ofgem) and were effective as of 1st April 2022. The consultations issued were additional consultations to the annual process and is due to further changes after the annual industry consultation had closed.

The purpose of NGENSO's review and consultation is to ensure that each of the applicable documents remains current by seeking industry views on any proposed changes. NGENSO invite the Authority to review proposed changes. If the Authority chooses to exercise their powers of veto for these proposed changes to the C16 statements, the existing versions will remain in place. Alternatively, the proposed changes will become effective by November 11th, 2022, unless issued a direction by the Authority for statements changes to become effective earlier or vetoed.

The following statements are the focus of this review and detailed within the report:

- Procurement Guidelines Statement (PGS)
- Applicable Balancing Services Volume Data Methodology Statement (ABSVD)
- Balancing Services Adjustment Data Methodology Statement (BSAD)
- Balancing Principles Statement (BPS)

Step 1 Issue Final Consultation

NGESO ran an additional consultation outside of the annual C16 review process, on changes to the Procurement Guidelines, Balancing Principles, SMAF and ABSVD C16 Statements, regarding the Winter Contingency Contracts and the Demand Flexibility Service from 8th August 2022 to 5 September 2022, in line with the requirements of Transmission Licence. The proposed changes consulted on can be found on our C16 Webpage. This consultation can be found on our [C16 webpage](#) within the folder named: C16 Additional Review Consultation for Procurement Guidelines, BPS, SMAF and ABSVD for 2022/23.

Following industry feedback on the proposed changes, NGENSO asked Ofgem on September 12th, 2022, to allow us to reopen a further consultation window for two weeks². NGENSO received a direction from OFGEM to this effect on the 15th of September³. This Direction meant that NGENSO could consult for a lesser period than that set out in Standard Licence Condition C16 sub-paragraph 9(a)(ii) of its Transmission Licence – that is, to hold a consultation for no less than 14 days, rather than 28 days. Following this direction, NGENSO issued a consultation for a further two weeks solely on the Demand Flexibility Service from September 22nd – October 6th, for the Balancing Principles and BSAD Statements. This would provide industry a chance to provide comment on the changes we made following the additional consultation feedback, whilst NGENSO looked to resolve the concerns around the Winter Contingency Service dispatch method.

² NGENSO C16 Consultation extension request letter can be found on our C16 Website within folder 'C16 Additional Review Consultation for Procurement Guidelines, BPS, SMAF and ABSVD for 2022/23'

³ <https://www.ofgem.gov.uk/publications/decision-provide-direction-national-grid-electricity-system-operator-limited-pursuant-standard-licence-condition-c169aii>

This consultation can be found on our [C16 webpage](#) within the folder named 'C16 Additional Consultation for Demand Flexibility Service: BSAD & Balancing Principles 2022-23 C16 Statements'.

Having identified a revised dispatch process for the Winter Contingency Service to address the concerns from the 8th of August consultation, NGENSO asked and Ofgem directed on the 4th of October 2022⁴, that NGENSO could consult on the additional changes required in this respect for a lesser period than that set out in Standard Licence Condition C16 sub-paragraph 9(a)(ii) - that is to hold a consultation for no less than 7 days rather than 28 days. This consultation from the 5th of October to 12th of October and can be found on our C16 webpage.

Please note that as changes for BSAD and ABSVD are proposed under both the September 22 Demand Flexibility Service consultation and the Winter Contingency Services 5th October consultation. The updates to the BSAD and ABSVD methodologies will reflect the order of the decisions (and although revision numbers are included on the statements attached, the actual revision numbers of the statements will reflect this order).

Step 2 Report to Authority

The second step in the review process is for NGENSO to document, in the form of a report, the ESO's final position on the additional changes along with the track changed versions of the statements. The report will also include in a clear and transparent way all industry responses and NGENSO's view for each of these.

This report must be issued to the Authority (Ofgem) within 7 days (5 working) from the closure of the official consultation.

This report concerns the proposed changes to the Procurement Guidelines, BSAD, ABSVD & Balancing Principles Statement for the Demand Flexibility Service, including any industry responses under both the September 22nd consultation and the August 8th consultation.

Step 3 Authority Decision and Statement go live

The third step in the review process is for the Authority (Ofgem) to review all the documents submitted to them from step 2.

As part of the Licence Condition, Ofgem have 28 days to offer a direction or challenge the submission, if Ofgem do not veto the changes then the statements go live on the NGENSO website on the 11th October 2022, unless directed otherwise. If Ofgem do veto, then there are 2 different directions for the statements to go live. Ofgem can either direct a change or they can request NGENSO to run a further consultation on the specific issues they have identified, which may push back the go live date or a statement might go live pending further changes.

NGESO intend to utilise the Demand Flexibility Service from November the 1st if required and therefore will work with Ofgem to allow them to issue a Direction to not use their power to veto before that date if possible.

⁴ <https://www.ofgem.gov.uk/publications/direction-national-grid-electricity-system-operator-limited-pursuant-standard-licence-conditions-c169aii-and-iii>

3. Review of Suggested Changes

The proposed changes below were consulted on across two additional consultations issued on the 8th of August and the 22nd of September. The final suggested changes to PGS, ABSVD, BSAD and BPS statements for the Demand Flexibility Service are highlighted below.

Proposals for additional Procurement Guidelines Statement review 2022/23

The Procurement Guidelines set out the kinds of Balancing Services which we may be interested in purchasing, together with the mechanisms by which we envisage purchasing such Balancing Services. It acts as a generic statement of the procurement principles we expect to follow.

The ESO is exploring for winter a Demand Flexibility Service, to ensure greater participation of demand side response from electricity customers. The Demand Flexibility Product is a service which allows the ESO to access demand side flexibility that is not currently accessible in real time and expand our ability to control output from providers we cannot currently access through the Balancing Mechanism and the Platform for Ancillary Services.

The amendments proposed are:

- Version control
- Housekeeping
- Addition of the Demand Flexibility Service into the list of balancing services procured by NGENSO

Background to these changes is summarised in the Table 1 below.

Please see updated tracked change document ‘**Procurement Guidelines Statement v22’ draft** for detail of changes below:

<https://www.nationalgrideso.com/balancing-services/c16-statements-and-consultations>

Please note that the table reflects an updated version of the Procurement Guidelines Statement since issuing the draft with the Final Consultation 08/08/2022.

Reasons for updated Statement to accompany the Report is as follows:

- Update to the service name accordingly
- Minor changing to wording in means of service payment structure

Table 1

ID	Section	Page number(s)	Overview of proposed changes to wording
1.01	Version Control	1-3	Updated version in the version text box
1.02	Housekeeping	1-3	Dates amended
1.03	Housekeeping	4	Updated Team name

1.04	Addition of the Winter Demand Flexibility service into the Balancing Services Required Section	22	Addition to Part C section 2.1, new text added for Winter Demand Flexibility Service
1.05	Minor update to the Existing Commercial Ancillary Services we don't expect to procure this year section	22	Amendment to Part C Section 2.2. Other Reserves – Commercial to remove incorrect date
1.06	Housekeeping	22	Word Capitalised
1.07	Addition of the Winter Demand Flexibility service into Table 2 Active Commercial Ancillary Services	30	Addition to Table 2 Part D section 3, new text added for Winter Demand Flexibility Service to Table 2 Active Commercial Ancillary Services (Ancillary services, means of procurement and timescales) <p>Note that this section has been edited further in the updated version of the Procurement Guidelines provided with the C16 Report to Ofgem for the reasons highlighted above</p>

1.04 Draft text change to 'Addition to Part C Balancing Services Required, Section 2 Description of Commercial Ancillary Services'

Procurement Guidelines Statement **v21 Effective Date: 01 April 2022**

N/A

Procurement Guidelines Statement **v22 Draft**

Demand Flexibility Service: is a service which allows the ESO to access upwards flexibility (when additional flexibility is required to balance demand and generation) that is not currently accessible in real time. This will expand our ability to control output from providers that we cannot currently access through the Balancing Mechanism and the Platform for Ancillary Services.

1.05 Draft text change to 'Part C Balancing Services Required, Section 2 Existing Commercial Ancillary Services we don't expect to procure this year section'

Procurement Guidelines Statement **v21 Effective Date: 01 April 2022**

2.2 Existing Commercial Ancillary Services we don't expect to procure this year

Reserve

Other Reserves - commercial

This includes the other contracted reserve services that help to offset the cost of managing reserve in the BM. Following our procurement principles, we do not plan to procure any additional volumes of the following services above what we already have contracted. We are reviewing our reserve product suite in 2019 with a view to move to a market based approach. Details of the reserve types presented here can be found on our website. Look for Balancing services, [list of all balancing services](#). Services classed as Other Reserves include:

Procurement Guidelines Statement v22 Draft

2.2 Existing Commercial Ancillary Services we don't expect to procure this year

Reserve

Other Reserves - commercial

This includes the other contracted reserve services that help to offset the cost of managing reserve in the BM. Following our procurement principles, we do not plan to procure any additional volumes of the following services above what we already have contracted. We are reviewing our reserve product suite ~~in 2019~~ with a view to move to a market based approach. Details of the reserve types presented here can be found on our website. Look for Balancing services, [list of all balancing services](#). Services classed as Other Reserves include:

1.07 Draft text change to 'Addition to Part D Procurement Process, Table 2'

Wording around Pay as Clear has been removed from the final Procurement Guidelines statement, as it is not required to specify this detail. The service name has also been updated accordingly.

The Demand Flexibility Service was under the consultation process for Article 18 EBR which was open for industry feedback until October 3rd 2022. This provides further detail of the service and finalised payment mechanism.

Procurement Guidelines Statement v21 Effective Date: 01 April 2022

N/A

Procurement Guidelines Statement **v22 Draft** (Initial wording submitted in 8/8/22 consultation)

<ul style="list-style-type: none"> <u>Winter Demand Flexibility Service</u> 	<u>Contracts derived from pay as clear day ahead tender process</u>	<u>As Required, according to system conditions</u>
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Procurement Guidelines Statement **v22 Final Draft**

<ul style="list-style-type: none"> <u>Demand Flexibility Service</u> 	<u>Contracts derived from market tender process</u>	<u>As Required, according to system conditions</u>
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Proposals for the ABSVD review 2021-22

The Applicable Balancing Services Volume Data methodology set out the information on Applicable Balancing Services that will be taken into account for the purposes of determining imbalance volumes.

The ESO is exploring for winter a Demand Flexibility service, to ensure greater participation of demand side response from electricity customers. The Demand Flexibility Product is a service which allows the ESO to access demand side flexibility that is not currently accessible in real time and expand our ability to control output from providers we cannot currently access through the Balancing Mechanism and the Platform for Ancillary Services.

For the Demand Flexibility Service, we plan to apply ABSVD to delivered volumes where it is feasible and reasonable to do so, noting that there may be a difference between volume provided by half-hourly settled and non-half-hourly settled end consumers.

The amendments proposed are:

- Version Control
- Housekeeping
- Addition of the Demand Flexibility Service to the list of balancing services for inclusion within the ABSVD

Please see tracked change document ‘**ABSVD Methodology Statement v13**’ draft for detail of changes.

<https://www.nationalgrideso.com/balancing-services/c16-statements-and-consultations>

The proposed changes being made to ABSVD are detailed in Table 2 below. Please note that the table reflects an updated version of the ABSVD Statement since issuing the draft with the 08/08/2022 consultation.

Reasons for updated Statement to accompany the Report is as follows:

- Update to the service name accordingly

- Suggestion of change “ESO plans to submit the data” not “apply” because Elexon are the actual party that will apply the ABSVD to make the adjustment to the supplier position
- To provide clarification that the submission will be done on a supplier BMU / Aggregated BMU level instead individual metering

Table 2

ID	Section	Page number(s)	Overview of proposed changes to wording
2.01	Version Control	1-2	Updated version in the version text box
2.02	Housekeeping	1-2	Dates amended
2.03	Housekeeping	3	Comma added
2.04	Housekeeping	3	Team Name updated
2.05	Housekeeping	6	Team Name updated
2.06	Addition of wording to Applicable Balancing Services Volume Data for BM participants	11	Addition of Demand Flexibility Service to Part B, section 1.2 Balancing Services for inclusion in the ABSVD Note that this section has been edited further in the updated version of the ABSVD Statement provided with the C16 Report to Ofgem for the reasons highlighted above
2.07	Housekeeping	1-32	Page numbers added

2.06 – Draft text change to Balancing Services for inclusion in the ABSVD

There has been some change to wording to increase clarity and to update the service name accordingly. Suggestion of change “ESO plans to submit the data” not “apply” because Elexon are the actual party that will apply the ABSVD to make the adjustment to the supplier position. Amendment to wording suggested also to provide clarification that the submission will be done on a supplier BMU and Aggregated BMU level instead individual metering.

ABSVD Methodology Statement v12 **Effective Date: 01 April 2022**

N/A

ABSVD Methodology Statement v13 **Draft** (Initial wording submitted in the 8/8/22 consultation)

- Winter Demand Flexibility Service - NGESO plan to apply ABSVD to delivered volumes where it is feasible and reasonable to do so, noting that there may be a difference between volume provided by half-hourly settled and non-half-hourly settled end consumers. The intention is to apply ABSVD to HH-settled volume, but to not apply ABSVD to non-HH volume, due to the complexity of the data proportional impact on load-profiled demand.

ABSVD Methodology Statement v13 Final Draft

- Demand Flexibility Service - NGESO plan to submit applicable Balancing Services Volume Data to Elexon with respects to delivered HH-settled volumes with Supplier and Aggregated BMUs, where it is feasible to do so.

The commercial arrangements between Supplier BMUs/Aggregators and their customers delivering for this service would be outside of NGESOs remit.

Proposals for additional BSAD Statement review 2022/23

The Balancing Services Adjustment Data Methodology Statement sets out the Balancing Services Adjustment Data methodology. It sets out the information on relevant balancing services that will be considered when determining the imbalance price.

DFS will be included in the Balancing Service Adjustment Data (BSAD). For real events, the DFS volume will be energy-flagged so that the price of these actions will feed into the cash out price. This is important, as the times where the service is used are likely to be periods with high prices and where there may not be enough generation to meet demand, meaning the volume of service we use is likely to change the market from being long to short, and may itself set the cash out price.

For tests, the DFS volume will be system-flagged, as there is a risk that the GAP will be above the marginal BM price and therefore set the cash out price at an artificially high level, polluting the signal.

The amendments proposed are:

- Versioning control
- Housekeeping
- Addition of wording into the BSAD for the Demand Flexibility Service

Please see tracked change document ‘**BSAD Statement v21**’ draft for detail of changes. The proposed changes being made to SMAF are detailed in Table 3 below:

<https://www.nationalgrideso.com/balancing-services/c16-statements-and-consultations>

The proposed changes being made to BSAD are detailed in Table 3 below. Please note that the table reflects an updated version of the BSAD Statement since issuing the draft with the 22/09/2022 consultation.

Reasons for updated Statement to accompany the Report is as follows:

- Provide clarification and additional information on wording around DFS being flagged through the BSAD, upon reflecting on industry feedback
- We also received a question within our EBR Article 18 consultation (Section 4 of proforma) which ran from 1/9/23 – 4/10/23 around whether the prices of accepted offers feed into the imbalance price calculations in any way. We therefore felt it was the right thing to do for transparency purposes to add where the DFS test run volumes will be system flagged. This would provide clarity within the BSAD statement, as DFS test runs would differ from DFS real events whereby accepted bid volume and prices for the real events will be energy flagged and fed into cash out through BSAD. As this service is an energy related product as shown in System Management Action Flagging Methodology (SMAF) section 2. The service will then follow forward-trading actions which will be assessed in accordance with the existing SMAF methodology.

Table 3

ID	Section	Page number(s)	Overview of proposed changes to wording
3.01	Version Control	1-4	Updated version in the version text box
3.02	Housekeeping	1-4	Dates amended
3.03	Housekeeping	5	Minor amendment to wording
3.04	Housekeeping	5	Team name updated
3.05	Addition of wording to section 2.1 Balancing services included within Balancing Service Adjustment Actions	13	Addition of wording for the Demand Flexibility Service. Note that this section has been edited further in the updated version of the BSAD Statement provided with the C16 Report to Ofgem for the reasons highlighted above

6.05 Draft Text change to Section 2.1 Balancing services included within Balancing Service Adjustment Actions

BSAD Statement v20 **Effective Date: 01 April 2022**

N/A

BSAD Statement **v21 Initial Draft** (Initial wording submitted in the 22/8/22 consultation)

Demand Flexibility Service

Volumes delivered under the Demand Flexibility Service will be submitted through the BSAD.

BSAD Statement v21 Draft

Demand Flexibility Service

Demand Flexibility Services (DFS) will be included in the Balancing Service Adjustment Data (BSAD).

Accepted bid volume and prices for the real DFS events will be energy flagged and fed into cash out through BSAD.

The volume that is anticipated to be delivered under DFS test runs will be system flagged.

Proposals for additional Balancing Principles Statement review 2022/23

The Balancing Principles Statement defines the broad principles of when and how we will use balancing services and other balancing actions to manage the system.

We received one response from industry within the feedback from our first consultation issued August 8th, 2022, on whether the Demand Flexibility Service should be included within the BPS.

Upon review NGENSO believes it does not need to be added to the statement.

The ESO believes part C 3 and 4iii) of the BPS covers this service (p.17).

4. Stakeholder Engagement Summary

This report marks the fourth step of the review process relating to the C16 statements and methodologies.

Step 1 Review and Final Consultation Responses

NGESO has issued two C16 additional consultations which included proposed changes to the BSAD, ABSVD, Procurement Guidelines and Balancing Principles Statements for the Demand Flexibility Service.

- Consultation 1 [Issued August 8th-September 5th]
- Consultation 2 [Issued September 22nd- October 6th]

The Questions

We invited industry to provide feedback on the changes proposed to the Procurement Guidelines, Balancing Principles, BSAD, SMAF and ABSVD 2022/23 C16 Statements.

The consultation questions summarised below were also within the response proforma for both consultations.

Consultation 1 [Issued August 8th-September 5th]

The first consultation included proposed changes for both Demand Flexibility Service and the Winter Contingency Services.

This consultation can be found on our [C16 webpage](#) within the folder named 'C16 Additional Review Consultation for Procurement Guidelines, BPS, SMAF and ABSVD for 2022/23'.

Procurement Guidelines Statement (PGS)

- 1) Do you agree with the proposed suggestions to the Procurement Guidelines in relation to housekeeping updates? Please provide rationale.
- 2) Do you agree with the proposed suggestions to the PGS in relation to addition of the Winter Demand Flexibility Service to the list of Commercial Ancillary Services we expect to procure? Please provide rationale. (Referenced p. 22)
- 3) Do you agree with the proposed suggestions to the PGS in relation to addition of the Winter Demand Flexibility Service to Table 2 Active Commercial Ancillary Services? Please provide rationale. (Referenced p. 29)
- 4) Do you have any other comments in relation to the changes proposed to the PGS?

Balancing Principles Statement (BPS)

- 1) Do you agree with the proposed suggestions to the BPS in relation to housekeeping updates required to update references of NGET to NGESO?
- 2) Do you agree with the proposed suggestions to the BPS in relation to housekeeping updates required to remove Trans European Replacement Reserve Exchange due to NGESO no longer being a TERRE member? (Referenced p.28)

- 3) Do you agree with the proposed suggestions to the BPS in relation to the addition of an exception for winter contingency service contracts? Please provide rationale. (Referenced p.38)
- 4) Do you have any other comments in relation to the changes proposed to the BPS?

System Management Action Flagging Statement (SMAF)

- 1) Do you agree with the proposed suggestions to the SMAF in relation to the addition of a system management type within the system management definitions for winter contingency service contracts? Please provide rationale. (Referenced p.7)
- 2) Do you agree with the proposed suggestions to the SMAF in relation to an additional balancing service to the list of services that will be SO Flagged for winter contingency service contracts? Please provide rationale. (Referenced p.11)
- 3) Do you believe any further changes are required as a result of the changes proposed to the SMAF Statement? Please provide rationale.
- 4) Do you have any other comments in relation to the changes proposed to the SMAF?

Applicable Balancing Services Volume Data Methodology Statement (ABSVD)

- 1) Do you agree with the proposed suggestions to the ABSVD in relation to the addition of the winter demand flexibility service to the list of balancing services for inclusion within the ABSVD? Please provide rationale. (Referenced p.11)
- 2) Do you agree with the proposed suggestions to the ABSVD in relation to applying ABSVD to HH-settled volume, but to not apply ABSVD to non-HH volume, due to the complexity of the data proportional impact on load-profiled demand? Please provide rationale. (Referenced p.11)
- 3) Do you have any other comments in relation to the changes proposed to the ABSVD? Or any additional changes you would like to see?

Consultation 2 [Issued September 22nd – October 6th 2022]

The second consultation included proposed changes for the Demand Flexibility Service only, to include further proposed changes based off the first consultation responses.

This consultation can be found on our [C16 webpage](#) within the folder named 'C16 Additional Consultation for Demand Flexibility Service: BSAD & Balancing Principles 2022-23 C16 Statements'.

Balancing Services Adjustment Data (BSAD)

- 1) Do you agree with the updates for housekeeping? Please provide rationale.
- 2) Do you agree with the addition of the demand flexibility service to the balancing services included within the BSAD? Please provide rationale. (p.13)
- 3) Do you have any other comments in relation to the changes proposed to the BSAD?

Balancing Principles Statement (BPS)

- 1) The ESO does not believe the Demand Flexibility Service is required to be listed within the BPS. We are comfortable part C 3 and 4iii) of the BPS covers this service (p.17). If you do not agree, please provide rationale.

Responses to the Consultation

Consultation 1 [Issued August 8th-September 5th]

We received 8 responses from various industry stakeholders for this additional C16 consultation. Responses were provided and submitted to the Authority in the [C16 Additional review for Winter Contingency Report](#) issued 12th of September 2022. NGENSO responses to the first consultation can be found on our [C16 Webpage](#), within the folder named 'C16 Additional Review Consultation for Procurement Guidelines, BPS, SMAF and ABSVD for 2022/23'.

Within this consultation, we received feedback from Flexitricity and Uniper UK Ltd. regarding the Demand Flexibility Service (DFS) not being included within the BSAD and proposing that it should be considered being flagged.

We took this feedback on board and consulted further in our consultation issued on September 22nd on the BSAD methodology statement to include DFS within this. NGENSO communicated this approach to industry within the EBR Article 18 post consultation launch webinar on the 5th of September 2022. Since the DFS service terms have been finalised since the launch of the 22/9 consultation, we have added further detail around the flagging of this service within the BSAD for the final report.

We also received a question within our EBR Article 18 consultation (Section 4 of proforma) which ran from 1/9/23 – 4/10/23 around whether the prices of accepted offers feed into the imbalance price calculations in any way. We therefore felt it was the right thing to do for transparency purposes to add where the DFS test run volumes will be system flagged. This would provide clarity within the BSAD statement, as DFS test runs would differ from DFS real events whereby accepted bid volume and prices for the real events will be energy flagged and fed into cash out through BSAD. As this service is an energy related product as shown in System Management Action Flagging Methodology (SMAF) section 2. The service will then follow forward-trading actions which will be assessed in accordance with the existing SMAF methodology.

Thank you to those stakeholders who have responded and provided us with your invaluable feedback.

Consultation 2 [Issued September 22nd – October 6th 2022]

We did not receive any more responses from industry to our further two-week consultation on the proposed additional changes for BSAD and the NGENSO view that the Demand Flexibility Service did not need to be included within the Balancing Principles Statement.

EBR Article 18 Consultation [Issued September 1st – October 4th 2022]

We also received a question within our [EBR Article 18 consultation](#) (Section 4 of proforma) whether the prices of accepted offers feed into the imbalance price calculations in any way. This will be published shortly but we believe this is important to include as rationale for including DFS test run wording within the final report.

Response Provided by: EON UK

Question	Industry Response	ESO view
Section 4: Do you have any other comments on the Demand Flexibility service proposal?	Will the prices of accepted offers feed into the imbalance price calculations in any way?	DFS will be included in the Balancing Service Adjustment Data (BSAD). For real events, the DFS volume will be energy-flagged so that the price of these

		<p>actions will feed into the cash out price. This is important, as the times where the service is used are likely to be periods with high prices and where there may not be enough generation to meet demand, meaning the volume of service we use is likely to change the market from being long to short, and may itself set the cash out price.</p> <p>For tests, the DFS volume will be system-flagged, as there is a risk that the GAP will be above the marginal BM price and therefore set the cash out price at an artificially high level, polluting the signal.</p>
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We recognise the concern this industry participant has raised and as such have decided to ensure that when test runs for DFS are carried out the associated volumes will be system flagged. Conversely if DFS is used as a requirement of system operation (i.e., not a test) the volume will not be system flagged and action prices will be passed into the cash out calculation.

Step 2 Other Industry Engagement

NGESO has been engaging with industry before and after the launch of the Demand Flexibility service (DFS), detail of which is listed below.

In our pre consultation webinar on 18/8/22 NGESO highlighted there had been changes made since the release of the C16 consultation. Changes were highlighted to industry attendees and any related questions were answered within this forum.

- 13/7 1-1 calls with suppliers who provided indication of volume via EOI regarding challenges
- 22/7 in person workshop (working group)
- 10/8– Changes to the C16 Documents were presented to the Operational Transparency Forum (OTF) and provided direction on how to respond
- 16/8 – Engagement with DNOs
- 15/8 - Consumer groups week also briefed on the DFS with the ESO corporate Affairs team including CSE, Citizens Advice, Smart Energy GB DCC, NEA
- 17/8 – More detail on the Demand Flexibility service presented at the OTF
- 18/8 - Pre EBR-Article 18 consultation webinar to wider industry (118 attendees, 59 questions)
- 19/8 - EUK working group data flows
- 5/9 - Post EBR-Article 18 Consultation Webinar open to industry (204 attendees, 78 questions)
- Bilateral were planned and delivered across September to discuss the Demand Flexibility Service with industry
- 13/9 – DFS Open Day: Engagement with interested DFS participants. Change to ask questions to DFS team, book in a 1-1 or drop in (in person drop in event and 1-1 meeting)
- 16/9 - Virtual 1:1 meeting
- 20/9 – EON Business market forum (700 EON & I&C customers)
- 28/09 - Presentation given on Demand Flexibility Service at the Markets Forum

Step 3 Report to Authority

Issued 13th October 2022

Step 4 Authority Decision and Statement go live

According to C16 Section 9 timelines, Ofgem veto/direction would be expected by/before 10th November 2022. Changes to statements are effective 11th November 2022, unless directed earlier by the Authority.

NGESO intend to utilise the Demand Flexibility Service from November the 1st if required and therefore will work with Ofgem to allow them to issue a Direction to not use their power to veto before that date if possible.

5 Next Steps

- Following the official industry consultation, NGESO now presents to Authority for consideration revised versions of the C16 Statements supporting the changes outlined in this report
- The final revised versions of the C16 statements are formatted to show the revisions originally proposed by NGESO in the C16 consultation
- The Authority is invited to review the proposed changes and offer any direction or feedback by 10th November 2022, as per the timelines set out in C16 section 9 of the Transmission License. If the Authority does not approve these proposed changes, the existing versions will remain in place
- Subject to Ofgem veto/direction, the proposed changes will become effective from 11th of November 2022, unless directed earlier by the Authority.
- NGESO intend to utilise the Demand Flexibility Service from November the 1st if required and therefore will work with Ofgem to allow them to issue a Direction to not use their power to veto before that date if possible.