

# Demand Flexibility Service

## Market Information Report – Winter 2023/24

August 2023

As in Winter 2022/23, the ESO will be running a series of tests of the procurement and dispatch process for the Winter 2023/24 Demand Flexibility Service (DFS). The tests are designed to make the service a viable commercial proposition for participants, and to create confidence in both using and providing it.

### Key points

- The ESO expect to run 12 test events between November 2023 and March 2024.
- The Guaranteed Acceptance Price (GAP) for the first 6 tests will remain at £3,000/MWh.
- The remaining tests from 1<sup>st</sup> January 2024 onwards will either continue to be underpinned by the GAP or become competitive, subject to the total volumes participating in the service.
- The ESO will communicate the total participating volume threshold, beyond which the remaining tests will become competitive, following publication of the **Winter Outlook Report**.
- Updated **Market Information Reports** will be published throughout the Winter 2023/24 period providing further information where necessary.

### The Guaranteed Acceptance Price

The Guaranteed Acceptance Price (GAP) is designed to offer certainty to providers and end-consumers and is expected to remain at £3,000/MWh for Winter 2023/24. The revenue certainty this price level provided last year facilitated a three-fold increase in participating volumes and helped develop DFS into an effective balancing service that the ESO can activate to safeguard Security of Supply.

Furthermore, in engaging with existing and prospective DFS participants as part of our DFS Winter 2023/24 consultation, a commonly held view emerged that the £3,000/MWh GAP is consistent with continued growth in participating volumes from the domestic and Industrial & Commercial (I&C) consumer base.

### Test Events

We will offer all registered DFS participants the opportunity to participate in test events (“tests”) this winter. Tests are designed to make DFS a viable commercial proposition and encourage investment in the systems and resources necessary to facilitate the service, whilst providing opportunities for registered DFS participants and end-consumers to gain confidence in the end-to-end process and better understand the volumes they can deliver.

The ESO anticipate that there will be 12 tests between November 2023 and March 2024, with the first 6 taking place before the end of 2023 and the latter 6 taking place between January and March 2024. The tests are front-loaded in this way to encourage early participation in the market and allow us to assess the impact of different procurement lead times. This winter, DFS tests, as well as live service activations, can be called at either: Day-Ahead PM (used exclusively last winter), Within-Day AM and Within-Day PM, and we expect the lead time to affect how much demand flexibility volume we can access.

Unlike last winter, all tests will be offered to all registered DFS participants and there will be no concept of onboarding tests. Therefore, if a provider is registered and onboarded after the first test has taken place, the registered DFS participant will be able to participate in only the 11 remaining tests, and so on and so forth.

Depending on the volumes which ultimately participate in DFS test events this winter, we may opt to run additional tests – either in March 2024 or shortly thereafter – in which we will engineer price competition between registered DFS participants. In practice, this means a “Maximum Acceptance Price” will be introduced, the Guaranteed Acceptance Price will be set to £0/MWh, and we will commit to accepting only a proportion of the available volumes. These tests will allow the ESO to begin to understand how a national demand flexibility service may operate as a commercial, in-merit service, which will be an important feature of our net-zero electricity system operation.

## What prices and volumes will ESO accept for the tests of the service?

### Phase 1: Tests 1-6

For DFS tests carried out during November and December, the ESO commit to accepting all bids priced up to and including the Guaranteed Acceptance Price (GAP). For clarity, DFS bids priced higher than the GAP will be rejected.

### Phase 2: (January 2024 – March 2024)

Tests carried out from January 2024 may be underpinned by the same acceptance price structure as Phase 1. However, as we push to grow the capacity of the DFS market, participating volumes may reach a level at which the market is sufficiently large to offset the winter Security of Supply risk, and where accepting all volumes in tests would create system operability challenges and increase costs of the service beyond what is necessary.

Should this situation arise, we would introduce competitive market conditions from January 2024 onwards, whereby a “Maximum Acceptance Price” would be introduced, the Guaranteed Acceptance Price will be set to £0/MWh, and we would commit to accepting only a proportion of the available volumes.

We stress that competitive conditions will not be introduced before January 2024, and only if sufficient demand flexibility volumes can still be accessed in live service activations to meet our system security requirements. Based on our current view of Winter 2023/24, the indicative range for the threshold beyond which competitive market conditions are introduced is 2-3GW. The precise threshold is dependent on the findings of the **Winter Outlook Report** and will be communicated via an updated **Market Information Report** following its publication in the autumn.

Whilst allowing us to manage the overall costs of the service, carrying out DFS tests under competitive conditions also provides us with valuable insights into how registered DFS participants and end-consumers interact with, and value, this world-first, nationally accessible demand-side response service. This is a crucial step in the evolution of DFS into a commercial balancing service, which will be central to our net-zero system operation.

### Phase 3: (March 2024 – TBC)

In the event that the 2-3GW volume threshold is not met in either Phase 1 or Phase 2, and no insights are obtained into how DFS operates as a commercial service, additional test events may be carried out in March 2024, or shortly thereafter. These would be competitive tests, characterised by a “Maximum Acceptance Price”, a Guaranteed Acceptance Price of £0/MWh, and a volume requirement equal to a proportion to the total volume accessible.

## How often will ESO require actual use of the service?

The likelihood of us activating DFS for system security purposes – i.e., we have used, or expect to use, all of our existing services and market mechanisms – will be outlined in our **Winter Outlook Report** which will be published in the autumn.

The uncertainty regarding live service activations is why we are offering multiple test events for registered DFS participants, so that there are sufficient incentives for registered DFS participants and end-consumers to invest time and resources in the service.

The DFS **Procurement Rules** (10.7) commit the ESO to running 6 DFS Tests and the ESO anticipate running a further 6 test events from January 2024, subject to the Phase 2 conditions. The latter 6 tests may be subject to change should opportunities to schedule these test events be significantly impacted by live service activations.

## What prices will ESO accept for actual “live” use of the service?

If we need to use the Demand Flexibility Service for system security purposes, it would be because we have used, or expect to use, all of our existing services and market mechanisms. In these circumstances, the GAP and any maximum price restriction on acceptances prices will not apply. We will assess submissions through a pay as bid tender process, with the bids being accepted from lowest price to highest until we secure the required volume.

Please see our Winter Operations page for more information on our policy regarding taking Balancing Actions above the Value of Lost Load (VoLL): <https://www.nationalgrideso.com/winter-operations>