

Demand Flexibility Service

Market Information Report – Winter 2023/24

October 2023

This is the second Market Information Report issued in relation to the Demand Flexibility Service 2023/24.

Following the illustrative scenarios set out in the last year's Winter Outlook Report, the 2023/24 report sets out a hypothetical scenario in which there are materially reduced electricity supplies. The report illustrated that adequate margins could be maintained by deploying DFS. Consequently, we can now specify the participating volumes threshold beyond which competition will be introduced to DFS test events from January 2024 onwards.

Key points

- The Guaranteed Acceptance Price (GAP) for Winter 2023/24 will remain £3,000/MWh for the first 6 test events which we target completing in November and December 2023.
- DFS test events will be competitive from January 2024¹ onwards if total de-rated Indicative Forecast Volumes² surpass a 1.25 GW threshold.
- Should the 1.25 GW threshold not be surpassed, tests will continue to be underpinned by a GAP of £3,000/MWh.
- If required, further updates will be communicated via an additional **Market Information Report**.

Winter Outlook 2023/24

Our Base Case margin is 4.4 GW (7.4%), which is slightly higher than last winter (3.7 GW / 6.3%). The Base Case loss of load expectation (LOLE) is 0.1 hours/year, which is within the Reliability Standard of 3 hours/year set by Government. Nevertheless, it is important that we plan for a wide range of eventualities should risks and uncertainties materialise. In the Winter Outlook we illustrated a hypothetical scenario in which there are materially reduced electricity supplies (e.g., unexpected reduction in output from GB generation and/or reduced imports available from Europe). Our assessment showed that adequate margins can be maintained by deploying DFS. Margins would be within the Reliability Standard with a fairly moderate take-up of DFS (up to around 1 GW). Higher take-up of DFS (around 2 GW) would provide even greater resilience.

Participating Volumes Threshold

From January 2024, competitive market conditions will be introduced to DFS test events provided sufficient DFS volume can be dispatched to maintain margins within Reliability Standard. The ESO recognise that the introduction of competition removes a degree of commercial incentive for participating in the service, and a resulting fall in DFS market capacity is possible. In consideration of this, and given that 80-87% of procured volumes were delivered in DFS live events last winter, 1.25 GW of DFS is required to ensure 1 GW can be delivered in live events this winter to return margins to within reliability standard. Therefore, competitive market conditions in DFS test events will not be introduced until total de-rated indicative forecast volumes in DFS surpass 1.25 GW.

To ensure DFS Participants do not deliberately understate the volume they can expect to deliver to ensure the Guaranteed Acceptance Price remains in place beyond December 2023, the Indicative Forecast Volumes submitted by DFS Participants will be routinely subject to review based on the delivery rates observed in DFS test events. The ESO will then deem the volume threshold to have been met when the adjusted Indicative Forecast Volumes surpass the 1.25 GW level.

In our August 2023 Market Information Report, it was stated that the participating volumes threshold, beyond which competition would be introduced to DFS test events, was expected to be between 2-3 GW. Setting the threshold at 1.25 GW reflects the evolution in the ESO's assessment of energy supply risks this winter. For more information on our assessment of the winter Security of Supply landscape, refer to our [Winter Outlook](#) report.

Additional Information

For further information relating to the DFS test process, refer to our August 2023 [Market Information Report](#) and the latest version of the [Demand Flexibility Participation Guidance](#).

For contractual information pertaining to the service, refer to the [Service Terms](#) and [Procurement Rules](#) documents.

¹ The volume threshold may be surpassed at a point between 1st January 2024 and 31st March 2024, in which case all remaining test events scheduled after this point will be competitive.

² The maximum Indicative Forecast Volumes across all three dispatch lead times.