

# Demand Flexibility Service

## Market Information Report – Winter 2023/24

January 2024

An updated assessment of system margin for the remainder of the Winter 2023/24 period, in addition to the learnings obtained from the DFS events to date, have allowed us to review our volume threshold and introduce competitive tests.

### Key points

Under base case conditions, system margins are forecast to increase week to week as we approach the end of winter. Consequently, the volume of DFS required to maintain a similar risk level to that which characterised the Winter Outlook will continue to fall. The testing schedule for the remainder of Winter 2023/24 will, therefore:

- Further develop an understanding of delivery capabilities for within-day procurement.
- Gain insights from competitive bidding conditions to help shape any potential evolution of the service.

### Updated Outlook

Under the assumptions outlined in the 2023/24 Winter Outlook, 1.25 GW of participating DFS volumes was targeted to support system security across the winter period. Our outlook set out that the tightest period would occur from December 2023 to January 2024. As we move into February, we expect margins to improve and can adjust our volume for competitive testing to a level which aligns to the volumes of DFS that we can currently access, circa 400 MW.

This, however, does not mean further live service activations could not occur before the end of Winter 2023/24. Unforeseen system or market factors could still precipitate a live DFS Service Requirement at any point in time this winter.

### Strategy for Remainder of Winter 2023/24

The reduction in the volume threshold for competitive testing means the event which took place on 17<sup>th</sup> January was the final test this winter to be underpinned by the £3,000/MWh Guaranteed Acceptance Price. From 1<sup>st</sup> February onwards, the ESO will use the remaining tests to gain insights from competitive bidding conditions, i.e., the Guaranteed Acceptance Price will be set to £0/MWh and a volume requirement will be set to engineer price competition between Registered DFS Participants.

Competitive tests are essential in developing our understanding of how a nationwide, demand-side response market can operate in a merit-based environment and will offer an invaluable contribution to the evolution of any potential Demand Flexibility Service, including any expansion outside of an enhanced action arena. The ESO will be seeking to test a range of competition levels and understand the economics of flexibility against the Balancing Mechanism, existing ancillary services, and other actions.

As we move through the remainder of the winter period, these additional learnings will be fundamental to inform the long-term evolution and positioning of any potential future demand flexibility service. The ESO will continue to monitor operational data and will communicate any further changes through subsequent Market Information Reports as outlined in the contract terms.

It remains a strategic objective of the ESO to continue growing the level of participation in the service and we will continue to support providers in their ability to grow their portfolios across the remaining period.

## Competitive Testing

We will apply the following conditions to any test events which are characterised as competitive:

- The Guaranteed Acceptance Price will be set at £0/MWh.
- The Service Requirement will be set such that we target a proportion of the derated forecast volumes for the relevant settlement periods and despatch lead time and will seek to test a variety of competitive scenarios.
- As per Clause 12.2.2 of our Procurement Rules, we reserve the right to reject an uneconomic bid, even where, in accepting the bid, the total accepted volume remains below the Service Requirement.

## Additional Information

For further information relating to the DFS test process, refer to our October 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.