

# C16 Review for 2024-25 Consultation Responses

22 February 2024

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## Procurement Guidelines

Question	Stakeholder	Industry Response	ESO Response
<b>1. Do you agree with the proposed suggestions to the Procurement Guidelines in relation to housekeeping updates, i.e., version control, link updates? Please provide rationale.</b>	Flexitricity	Yes	Thank you for your response, we appreciate the feedback you have provided.
	E.ON HEAT CO LTD	No	
	Equiwatt Limited	Yes	
	Association for Decentralised Energy (ADE)	Yes	
	Octopus Energy	Yes - however any new services coming out of the Thermal Constraint Collaboration Project will need to be included. We hope mid-year changes to the C16 documents can be made if necessary.	Thank you for your response, we welcome the feedback you have provided.  ESO will conduct ad hoc reviews whenever any of the five statements require changes. We welcome your input into these reviews.
<b>2. Do you agree with the addition of Point C Restoration Services into the list of Balancing Services as defined by the Transmission Licence on P9? Please provide rationale.</b>	Flexitricity	Yes	Thank you for your response, we appreciate the feedback you have provided.  ESO welcomes your support for the change proposed.
	Octopus Energy	Yes, it is helpful to have more clarity about services to be procured to support system restoration.	
<b>3. Do you agree with the proposed suggestions to the wording on system management contracts on P14? Please provide rationale.</b>	Flexitricity	<b>Informal:</b> Yes <b>Formal:</b> No Comment	Thank you for your response, we appreciate the feedback you have provided.
	E.ON HEAT CO LTD	No	
	Equiwatt Limited	Yes	
	Association for Decentralised Energy (ADE)	Yes	
	Octopus Energy	It is not clear to us why thermal constraints aren't listed under system management. It would be more helpful to have a full list of system	Thank you for your response, we appreciate the feedback you have provided.

		management reasons, rather than just examples.	Thermal Constraints are covered in more detail in the Constraint Management Services text within the Procurement Guidelines.  We have moved the position of the paragraph on System Management to improve clarity following this feedback. This can now be found on P13 of the Procurement Guidelines Statement.
<b>4. Do you agree with the updates to the wording for Future Requirements for Part 2 System Ancillary Services on P16? Please provide rationale.</b>	Flexitricity	<b>Informal:</b> Yes. We particularly welcome ESO's intention to create new categories so that DER could apply to provide Electricity System Restoration at distribution level.  <b>Formal:</b> No Comment	Thank you for your response, we appreciate the feedback you have provided.
	E.ON HEAT CO LTD	Yes	
	Equiwatt Limited	Yes, particularly the intention to create new categories for DERs to apply for at distributed level along with primary service requirements.	
	Association for Decentralised Energy (ADE)	Yes, particularly the intention to create new categories so DER could apply to provide Restoration at Dx level.	
	Octopus Energy	Yes we are supportive of changes to encourage procurement of assets from the distribution level.	
<b>5. Do you agree with the removal of the wording for EPEXSPOT and addition of EAC to reflect the auction platform in use on P17? Please provide rationale.</b>	Flexitricity	Yes	Thank you for your response, we appreciate the feedback you have provided.
	Octopus Energy	Yes, the platform could be provided by a different party in future.	
<b>6. Do you object to the removal of the text</b>	Flexitricity	No	Thank you for your response, we appreciate the feedback you have provided.

<p>relating to how EAC will be used for DC, DM and DR following EAC launch. This is replaced by the reference above as these services are now using EAC? Please provide rationale.</p>			
<p>7. Do you agree with the addition of Stability to the list of Commercial Ancillary Services on P18? Please provide rationale.</p>	<p>Flexitricity E.ON HEAT CO LTD Equiwatt Limited Association for Decentralised Energy (ADE) Octopus Energy</p>	<p>Yes Yes Yes Yes Yes, if National Grid ESO are procuring stability as a separate service, this should be included in the Procurement Guidelines.</p>	<p>Thank you for your response, we appreciate the feedback you have provided.</p>
<p>8. Do you object to the removal of the wording related to Network Development Roadmap found on P18-P20? Please provide rationale.</p>	<p>Flexitricity E.ON HEAT CO LTD Equiwatt Limited Association for Decentralised Energy (ADE)</p>	<p>No No No No</p>	<p>Thank you for your response, we appreciate the feedback you have provided.</p>
<p>9. Do you agree with the proposed suggestions to the Procurement Guidelines Statement for Balancing Reserve on P20? Please provide rationale.</p>	<p>Flexitricity E.ON HEAT CO LTD Equiwatt Limited Association for Decentralised Energy (ADE) Octopus Energy</p>	<p>Informal: Yes Formal No Comment Yes Yes Yes Yes Yes, it will give NG ESO access to more sources of flexibility, and we are</p>	<p>Thank you for your response, we appreciate the feedback you have provided.</p>

		supportive that is it open to all BM participants, not just those above a certain size	
10. Do you agree with the addition of Balancing Reserve to the list of Commercial Ancillary Services on P21-22? Please provide rationale.	Flexitricity	Yes	Thank you for your response, we appreciate the feedback you have provided.
	Octopus Energy	Yes	
11. Do you agree with the addition of Quick Reserve to the list of Commercial Ancillary Services on P22? Please provide rationale.	Flexitricity	Yes	Thank you for your response, we appreciate the feedback you have provided.
	Octopus Energy	Yes	
12. Do you agree with the updates to the wording on Reactive Power on P25? Please provide rationale.	Flexitricity	Yes	Thank you for your response, we appreciate the feedback you have provided.
	Octopus Energy	Yes, we are supportive of initiatives to support greater procurement of reactive power from distribution level assets.	
13. Do you agree with the proposed suggestions to the Procurement Guidelines Statement for Voltage Network Services Procurement on P25? Please provide rationale.	Flexitricity	<b>Informal:</b> Yes. We request early engagement with industry on contract structure to ensure that the broadest field of potential providers can meet the ESO's determined needs. <b>Formal:</b> No Comment	Thank you for your response, we appreciate the feedback you have provided.  We have shared this with the team to ensure opportunities for engagement are offered as early as possible.
	E.ON HEAT CO LTD	I feel the wording within this paragraph is not required. There is no reason to define auctions as being required separately for New Build and Current assets. I'd suggest a consolidated rewording	Thank you for your response, we appreciate the feedback you have provided.  We have considered this response and consolidated the wording accordingly.

	Equiwatt Limited	Yes, however involving the industry at the earliest stages, especially regarding aspects like contract structure, will enhance the participation of a broader range of providers in the service	Thank you for your response, we appreciate the feedback you have provided.  We have shared this with the team to ensure opportunities for engagement are offered as early as possible.
	Association for Decentralised Energy (ADE)	Yes. However, engagement with industry at the earliest possible stage on issues such as contract structure will enable more providers to get involved with the service.	
	Octopus Energy	Yes	
<b>14. Do you agree with the proposed suggestions to the Procurement Guidelines Statement for Constraint Management Intertrip Service (CMIS) on P29? Please provide rationale.</b>	E.ON HEAT CO LTD	Yes	Thank you for your response, we appreciate the feedback you have provided.
	Association for Decentralised Energy (ADE)	Association for Decentralised Energy (ADE) does not have a position.	
	Octopus Energy	Yes	
<b>15. Do you object to the removal of the wording for Operational Downward Flexibility Management (ODFM) from the Procurement Guidelines Statement on P29? Please provide rationale.</b>	Flexitricity	No	Thank you for your response, we appreciate the feedback you have provided.
	E.ON HEAT CO LTD	No	
	Equiwatt Limited	No	
	Association for Decentralised Energy (ADE)	No	
	Octopus Energy	No, the service is no longer procured.	
<b>16. Do you agree with the proposed suggestions to the Procurement Guidelines for</b>	Flexitricity	<b>Informal:</b> Yes. We agree with ESO that DFS is appropriate for assets which cannot currently provide flexibility in real time, acknowledging the ongoing	Thank you for your response, we appreciate the feedback you have provided.  ESO will be reviewing the future development of the Demand Flexibility Service throughout the early stages of 2024. Whilst the current service terms and procurement rules have no explicit end

<p><b>Demand Flexibility Service on P30? Please provide rationale.</b></p>		<p>consideration of changes to operational metering which could enable these assets to participate closer to real time and/or through the BM and the Platform for Ancillary Services. The potential extension to DFS beyond 31 March 2024 should be considered in light of both the approaching MHHS programme and ESO's improving ability to manage current DFS assets through OBP.</p> <p><b>Formal:</b> No Comment</p>	<p>date in place we recognise as outlined in Ofgem's approval letter that the derogation expires in April 2024 which would also need reviewing for any future service.</p>
	Axle Energy	<p>Yes. But MHHS is not the only blocker to the incorporation of DFS assets in in-market services. Equally important is monitoring the success of the OBP in addressing skip rates, the reform of operational metering standards, and the timely rollout of new reserve services.</p>	<p>Thank you for your response, we appreciate the feedback you have provided.</p> <p>This has been shared with the OBP team who will consider the points raised.</p>
	E.ON HEAT CO LTD	<p>This should be aligned with the DFS Procurement Rules. This states "indefinite" without an end date. Here you are setting an end date of 31/03/2024 with an option to extend.</p>	<p>Thank you for your response, we appreciate the feedback you have provided.</p> <p>ESO will be reviewing the future development of the Demand Flexibility Service throughout the early stages of 2024. Whilst the current service terms and procurement rules have no explicit end date in place we recognise as outlined in Ofgem's approval letter that the derogation expires in April 2024 which would also need reviewing for any future service.</p>
	Equiwatt Limited	<p>Yes</p>	<p>Thank you for your response, we appreciate the feedback you have provided.</p>
	Association for Decentralised Energy (ADE)	<p>Yes. However, as per previous consultation responses, we maintain that MHHS is not the only blocker to the incorporation of DFS assets in in-market services. Equally important is monitoring the success of the OBP in addressing skip rates, the reform of operational metering</p>	<p>Thank you for your response, we appreciate the feedback you have provided.</p> <p>This has been shared with the OBP team who will consider the points raised.</p>

		standards, and the timely rollout of new reserve services.	
<p><b>17. Do you agree with the proposed suggestions to the Procurement Guidelines Statement for Stability on P30? Please provide rationale.</b></p>	<p>Octopus Energy</p>	<p>Yes, on the assumption that the C16 statement would be updated if/when a new Demand Flexibility Service is introduced.</p>	<p>Thank you for your response, we welcome the feedback you have provided.</p> <p>ESO will conduct ad hoc reviews whenever any of the five statements require changes. We welcome your input into these reviews.</p>
	<p>Flexitricity</p>	<p><b>Informal:</b> We commend ESO for moving away from longstanding approaches to procuring stability, and support the introduction of new markets to competitively procure stability across different contract lengths. We would like to see split procurement introduced to encourage more potential vendors, some of whom would offer a package and some of whom single services. This would create greater liquidity and should lower the cost to ESO of procuring stability services. We continue to question the exclusion of assets connected below 132kV from the new stability markets. We do not believe that ESO has sufficiently demonstrated the evidence which led to that conclusion. If sites below 132kV cannot provide all of the stability services which ESO may want to procure then split procurement could</p>	<p>Thank you for your response, we appreciate the feedback you have provided.</p> <p>This has been shared with the Stability Y-1 team who will consider the points raised.</p>



		<p>allow them to provide some elements, increasing market competition.</p> <p><b>Formal:</b> No Comment</p>	
	E.ON HEAT CO LTD	Yes, seems logical however this needs to be weighed against the costs of hosting additional auctions.	Thank you for your response, we appreciate the feedback you have provided.
	Equiwatt Limited	<p>We endorse the proposal for competitive markets in stability procurement and urge the ESO to proceed with split auctions for maximal participation. However, we question the rationale behind excluding assets connected below 132kV from the new stability markets. We believe that the evidence supporting this decision has not been adequately demonstrated by the ESO. If sites below 132kV are limited in providing all required stability services, a split procurement approach could still enable them to contribute certain elements, thereby fostering increased competition in the market.</p>	<p>Thank you for your response, we appreciate the feedback you have provided.</p> <p>This has been shared with the Stability Y-1 team who will consider the points raised.</p>
	Association for Decentralised Energy (ADE)	<p>We support the introduction of competitive markets for stability procurement and encourage ESO to proceed with split auctions to ensure the greatest possible participation.</p> <p>We continue to question the exclusion of assets connected below 132kV from the new stability markets. We do not believe that ESO has sufficiently demonstrated the evidence which led to that conclusion. If sites below 132kV cannot provide all of the stability services which ESO may want to procure then split procurement could allow them</p>	<p>Thank you for your response, we appreciate the feedback you have provided.</p> <p>This has been shared with the Stability Y-1 team who will consider the points raised.</p>

		to provide some elements, increasing market competition.	
	Octopus Energy	Yes	Thank you for your response, we appreciate the feedback you have provided.
<b>18. Do you agree with the addition of SuperSEL to the list of Constraint Management Services on P30? Please provide rationale.</b>	Flexitricity	Yes	Thank you for your response, we appreciate the feedback you have provided.  ESO welcomes your support for the changes proposed.
	Octopus Energy	Yes	
<b>19. Do you agree with the removal of the wording relating to Demand Turn Up from P30? Please provide rationale.</b>	Flexitricity	Yes	Thank you for your response, we appreciate the feedback you have provided.  ESO welcomes your support for the changes proposed.
	Octopus Energy	Yes, because NG ESO are no longer procuring this service. However, we support the exploration of other Turn Up services, such as the local constraint market.	
<b>20. Do you agree with the movement of the DM/DR/DC Services from Commercial Ancillary Services to</b>	Flexitricity	Yes	Thank you for your response, we appreciate the feedback you have provided.  ESO welcomes your support for the changes proposed.

<p><b>Frequency Response Services in Table 2 on P40?</b> Please provide rationale.</p>	<p>Octopus Energy</p>	<p>Yes</p>	
<p><b>21. Do you have any other comments in relation to the changes proposed to the Procurement Guidelines? Or any additional changes you would like to see? Please provide rationale.</b></p>	<p>Flexitricity</p>	<p><b>Informal:</b> The Demand turn-up service is mentioned on page 29 as an expected element of ODFM. As ODFM has been deleted from pp 27-28 as a service ESO expects to procure, perhaps ESO can update the description of DTU within 2.2 or move elsewhere if they expect to procure DTU this year. <b>Formal:</b> No Comment</p>	<p>Thank you for your response, we appreciate the feedback you have provided.</p> <p>The wording relating to Demand Turn Up has now been removed.</p>
	<p>E.ON HEAT CO LTD</p>	<p>Pg 37 has the removal of DC/DM/DR, It is not clear why this has been removed.</p>	<p>Thank you for your response, we appreciate the feedback you have provided.</p> <p>DC/DM/DR Services have been moved to sit under the Frequency Response heading in the same table. We have reviewed the question we ask on this section to make it clearer this is not a deletion of the services.</p>
	<p>Equiwatt Limited</p>	<p>We suggest that the description of DTU in 2.2 be updated to better reflect changes and in more details especially in regard to changes made to ODFM.</p>	<p>Thank you for your response, we appreciate the feedback you have provided.</p> <p>The wording relating to Demand Turn Up has now been removed.</p>
	<p>Association for Decentralised Energy (ADE)</p>	<p>We suggest that the description of DTU in 2.2 be updated so as to better reflect changes made elsewhere with regard to ODFM</p>	<p>Thank you for your response, we appreciate the feedback you have provided.</p> <p>The wording relating to Demand Turn Up has now been removed</p>
	<p>Elaxon</p>	<p>Wording related to ODFM has been removed but there is still a reference to it in Table 2 (Ancillary Services column page 41)</p>	<p>Thank you for your response, we appreciate the feedback you have provided.</p> <p>The wording relating to ODFM in Table 2 has now been removed.</p>
	<p>ElecLink</p>	<p>On 18 October 2023, during its weekly Operational Transparency Forum, NGESO shared its latest 'Order of</p>	<p>Thank you for your response, we appreciate the feedback you have provided.</p>

		<p>Action' list, clarifying the order in which actions will be taken by NGENSO during Winter 2023/24 to address system issues. We welcome initiatives of this nature by NGENSO as they provide an easy to read, and accessible view of actions NGENSO undertakes. To provide market participants with a similar single view of the full range of tools that NGENSO has as its disposal, and the order and circumstances in which these tools are procured, we would welcome the inclusion of an annex within the PGS document which builds upon Tables 12 and 23 setting out this information.</p> <p>In August 2021, Ofgem granted NGENSO a temporary derogation<sup>4</sup> from Standard Licence Condition (SLC) C28.4(h)(i) to enable NGENSO to procure day ahead and intraday NTC limits without following market-based procedures. This derogation was subsequently extended by Ofgem in September 2023.<sup>5</sup> In accordance with Ofgem's decisions, it is expected that NGENSO will work proactively to develop a market-based alternative tool to the provision of NTC limits. In accordance with this requirement, it is our view that Part E.5 of the PGS – 'Future Developments' – should be updated to provide further information on the steps being currently taken by NGENSO to develop alternative tools along with the steps NGENSO intend to take over the coming year.</p>	<p>The ESO will be taking steps to explore the feasibility of alternative solutions which reduce reliance on non-market-based balancing options in line with Ofgem's C28 derogation letter.</p> <p>As we are still in the process of evaluating the optimal path forward for the next steps, we are not yet in a position to provide updates on future developments.</p> <p>However, we are committed to transparency and will communicate openly once future developments are more certain.</p>
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## Applicable Balancing Services Volume Data Adjustment

Question	Stakeholder	Industry Response	ESO Response
<b>1. Do you agree with the proposed suggestions to the ABSVD Statement in relation to housekeeping updates, i.e., version control, link updates? Please provide rationale.</b>	Flexitricity	Yes	Thank you for your response, we appreciate the feedback you have provided.
	Axle Energy	Yes	
	CUB (UK) LTD	Yes all clear and required	
	E.ON HEAT CO LTD	Yes	
	Equiwatt Limited	Yes	
	Association for Decentralised Energy (ADE)	Yes	
	Octopus Energy	Yes, we agree with the housekeeping changes	
<b>2. Do you object to the reformatting of the list of Applicable Balancing Services Contracts into a table form on P10-12? Please provide rationale.</b>	Flexitricity	No	Thank you for your response, we appreciate the feedback you have provided.
	Octopus Energy	No, it provides additional clarity.	
	CUB (UK) LTD	Yes, I think that it is clearer.	
<b>3. Do you object to the removal of the wording for Negative Slow Reserve on P10? Please provide rationale.</b>	Flexitricity	No	Thank you for your response, we appreciate the feedback you have provided.
	Octopus Energy	No, this is being replaced	
<b>4. Do you agree with the addition of Quick Reserve into the table on P12? Please provide rationale.</b>	Flexitricity	Yes	Thank you for your response, we appreciate the feedback you have provided.
	Octopus Energy	Yes, this is being introduced.	

<b>5. Do you object to the removal of wording for Operational Downward Flexibility Management (ODFM) from the list on P14? Please provide rationale.</b>	Flexitricity	No	Thank you for your response, we appreciate the feedback you have provided.
	Axle Energy	No	
	E.ON HEAT CO LTD	No	
	Equiwatt Limited	No	
	Association for Decentralised Energy (ADE)	No	
	Octopus Energy	No, this is being removed.	
<b>6. Do you object to the reformatting of the list of Applicable Balancing Services Contracts with Non-BM Providers into a table form on P14-16? Please provide rationale.</b>	Flexitricity	No	Thank you for your response, we appreciate the feedback you have provided.
	Octopus Energy	No, this reformatting is helpful.	
	CUB (UK) LTD	Yes I think that is clearer	
<b>7. Do you object to the inclusion of wording relating to Section Q of BSC 6.4 on P17? Please provide rationale.</b>	Elaxon	We have no objection to the ABSVD Methodology referring to the obligations in BSC Section Q6.4, although repeating the obligations here does create a risk of inconsistency if these BSC obligations change. The particular clause quoted is BSC Section Q 6.4.7 (b), should the inclusion be more specific and be an exact match?	Thank you for your response, we appreciate the feedback you have provided.  We have reviewed your feedback. The C16 statements are reviewed every year for accuracy and on an ad hoc basis whenever ESO deems revisions may be needed. Any changes to BSC would be reviewed during this process and the statements updated accordingly.  We do not believe the wording needs updating as the MPAN would be opting out rather than following a different methodology.

	Octopus Energy	No it is helpful to cross reference to the BSC. However there is a risk that the BSC changes which would require consequential changes here.	<p>Thank you for your response, we appreciate the feedback you have provided.</p> <p>We have reviewed your feedback. The C16 statements are reviewed every year for accuracy and also on an ad hoc basis whenever ESO deems revisions may be needed. Any changes to BSC would be reviewed during this process and the statements updated accordingly.</p>
<p><b>8. Do you agree with the proposed suggestions to the ABSVD Statement for the Local Constraint Market (LCM) P15-16?</b></p>	Association for Decentralised Energy (ADE)	Yes	<p>Thank you for your feedback. We have taken this into consideration as part of the consultation process.</p> <p>ESO believes there is a strong case to address the concerns raised by industry around the LCM market unfairness and a solution is required to ensure all participants can effectively access the LCM.</p> <p>ESO believes that LCM has significant value to facilitate future flexibility markets, by enabling increased participation from distributed energy resources, encouraging more competition to unlock new sources of demand side flexibility and increasing collaboration with DNOs and DSOs to enable distributed demand turn up. Whilst the ESO supports the principle of which the proposed compensation mechanism is trying to achieve, further time is required which the regulatory timescales associated with the C16 process do not allow, to fully understand the concerns raised in the consultation and, given the nature of the ABSVD process, allow us to implement the proposal effectively.</p>



				<p>Consequently, ESO will be withdrawing its proposal to make the required revisions to the ABSVD Methodology to accommodate the ABSVD opt out facility but reserves the right to bring this forward in a future proposal. We intend to re-engage further with industry on this proposed mechanism when the process, technical requirements and timescales have been finalised.</p> <p>Alongside progressing the ABSVD Opt Out proposal above, ESO also believes that broader market changes are required to fully resolve the challenge of ABSVD and compensation for Aggregators/Virtual Lead Parties, across all ancillary services.</p> <p>ESO agrees with Energy UK and Association for Decentralised Energy (ADE) that coordinated solutions are needed across all markets and that discussions are required with policy makers as to how best to move this forwards. We are supportive of accelerated action in this area and are in agreement with our stakeholders that a holistic review of the current settlement arrangements is required to alleviate the concerns across all services.</p> <p>We will commit to working with industry stakeholders and policy makers at pace to develop an enduring cross market solution via the most appropriate forum. To further support this, we are establishing an additional internal workstream which will look to review the current limitations of settlement arrangements and associated compensation mechanisms across all services.</p>
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		Elexon	<p>We are supportive of allowing a conditional and limited-scope facility to opt out of ABSVD, in order to remove perverse disincentives to participation in the LCM by independent aggregators. But going forward we believe an enduring solution (delivered via a BSC Modification) is more appropriate.</p>	<p>Thank you for your response, we appreciate the feedback you have provided. We have taken this into consideration as part of the consultation process.</p> <p>ESO believes there is a strong case to address the concerns raised by industry around the LCM market unfairness and a solution is required to ensure all participants can effectively access the LCM.</p> <p>ESO believes that LCM has significant value to facilitate future flexibility markets, by enabling increased participation from distributed energy resources, encouraging more competition to unlock new sources of demand side flexibility and increasing collaboration with DNOs and DSOs to enable distributed demand turn up. Whilst the ESO supports the principle of which the proposed compensation mechanism is trying to achieve, further time is required which the regulatory timescales associated with the C16 process do not allow, to fully understand the concerns raised in the consultation and, given the nature of the ABSVD process, allow us to implement the proposal effectively.</p> <p>Consequently, ESO will be withdrawing its proposal to make the required revisions to the ABSVD Methodology to accommodate the ABSVD opt out facility but reserves the right to bring this forward in a future proposal. We intend to re-engage further with industry on this proposed mechanism when the process, technical requirements and timescales have been finalised.</p>
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				<p>Alongside progressing the ABSVD Opt Out proposal above, ESO also believes that broader market changes are required to fully resolve the challenge of ABSVD and compensation for Aggregators/Virtual Lead Parties, across all ancillary services.</p> <p>ESO agrees with Energy UK and Association for Decentralised Energy (ADE) that coordinated solutions are needed across all markets and that discussions are required with policy makers as to how best to move this forwards. We are supportive of accelerated action in this area and are in agreement with our stakeholders that a holistic review of the current settlement arrangements is required to alleviate the concerns across all services.</p> <p>We will commit to working with industry stakeholders and policy makers at pace to develop an enduring cross market solution via the most appropriate forum. To further support this, we are establishing an additional internal workstream which will look to review the current limitations of settlement arrangements and associated compensation mechanisms across all services.</p>
		Flexitricity	Yes	<p>Thank you for your feedback. We have taken this into consideration as part of the consultation process.</p> <p>ESO believes there is a strong case to address the concerns raised by industry around the LCM market unfairness and a solution is required to ensure all participants can effectively access the LCM.</p>

				<p>ESO believes that LCM has significant value to facilitate future flexibility markets, by enabling increased participation from distributed energy resources, encouraging more competition to unlock new sources of demand side flexibility and increasing collaboration with DNOs and DSOs to enable distributed demand turn up. Whilst the ESO supports the principle of which the proposed compensation mechanism is trying to achieve, further time is required which the regulatory timescales associated with the C16 process do not allow, to fully understand the concerns raised in the consultation and, given the nature of the ABSVD process, allow us to implement the proposal effectively.</p> <p>Consequently, ESO will be withdrawing its proposal to make the required revisions to the ABSVD Methodology to accommodate the ABSVD opt out facility but reserves the right to bring this forward in a future proposal. We intend to re-engage further with industry on this proposed mechanism when the process, technical requirements and timescales have been finalised.</p> <p>Alongside progressing the ABSVD Opt Out proposal above, ESO also believes that broader market changes are required to fully resolve the challenge of ABSVD and compensation for Aggregators/Virtual Lead Parties, across all ancillary services.</p> <p>ESO agrees with Energy UK and Association for Decentralised Energy (ADE) that coordinated solutions are needed across all markets and that discussions are required with policy makers as to how best</p>
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				<p>to move this forwards. We are supportive of accelerated action in this area and are in agreement with our stakeholders that a holistic review of the current settlement arrangements is required to alleviate the concerns across all services.</p> <p>We will commit to working with industry stakeholders and policy makers at pace to develop an enduring cross market solution via the most appropriate forum. To further support this, we are establishing an additional internal workstream which will look to review the current limitations of settlement arrangements and associated compensation mechanisms across all services.</p>
		Octopus Energy	<p>No - we are strongly against the position to allow LCM providers to opt out of ABSVD.</p> <p>We recognise the challenges for aggregators who participate in demand turn up services - however allowing an opt out of ABSVD is not the solution to this.</p> <p>Not applying ABSVD creates risks for suppliers. It means that a supplier with customers offering LCM to a third party could be faced with a short imbalance in the market that the supplier is not responsible for.</p> <p>This entirely goes against the principle of Balance Responsibility in energy markets and is not in line with how we treat other balancing services. In fact, changes were recently made to ensure that all balancing services were treated the same from the perspective of ABSVD (BSC P354).</p> <p>It is important to note that ABSVD does not confer an advantage to the supplier - as the consultation states - it brings the supplier back to a net neutral position.</p>	<p>Thank you for your response, we appreciate the feedback you have provided.</p> <p>We fully acknowledge the concerns raised within your response, and we have taken this into consideration as part of the consultation process.</p> <p>ESO believes there is a strong case to address the concerns raised by industry around the LCM market unfairness and a solution is required to ensure all participants can effectively access the LCM.</p> <p>ESO believes that LCM has significant value to facilitate future flexibility markets, by enabling increased participation from distributed energy resources, encouraging more competition to unlock new sources of demand side flexibility and increasing collaboration with DNOs and DSOs to enable distributed demand turn up. Whilst</p>

			<p>The argument seems to be that the supplier will recover revenue through the retail price. However this is spurious - practically no customers are on imbalance price pass through contracts so the supplier will be faced with a mismatch between these two prices. It is highly possible the customer is on an EV tariff with a low overnight rate which is far lower than the imbalance price.</p> <p>There is also a (very) bad assumption here that flexibility is delivered by demand creation; and so there is an overall increase in the volume of energy sold by the supplier. Most demand flexibility (eg EVs and heat pumps) comes from demand shifting meaning the total volume of energy remains constant. Demand flexibility will often be a mixture of the two, so assuming one or the other is a poor assumption.</p> <p>We recognise the importance of a level playing field, and are supportive of initiatives to ensure that different parties can compete fairly. However, allowing one party to create imbalance risk for another is not an appropriate solution. Therefore, a wider discussion needs to be had, e.g. through a BSC Issue Group. As part of this, we would be open to exploring solutions that offer additional compensation to independent aggregators without adversely impacting suppliers.</p>	<p>the ESO supports the principle of which the proposed compensation mechanism is trying to achieve, further time is required which the regulatory timescales associated with the C16 process do not allow, to fully understand the concerns raised in the consultation and, given the nature of the ABSVD process, allow us to implement the proposal effectively.</p> <p>Consequently, ESO will be withdrawing its proposal to make the required revisions to the ABSVD Methodology to accommodate the ABSVD opt out facility but reserves the right to bring this forward in a future proposal. We intend to re-engage further with industry on this proposed mechanism when the process, technical requirements and timescales have been finalised.</p> <p>Alongside progressing the ABSVD Opt Out proposal above, ESO also believes that broader market changes are required to fully resolve the challenge of ABSVD and compensation for Aggregators/Virtual Lead Parties, across all ancillary services.</p> <p>ESO agrees with Energy UK and Association for Decentralised Energy (ADE) that coordinated solutions are needed across all markets and that discussions are required with policy makers as to how best to move this forwards. We are supportive of accelerated action in this area and are in agreement with our stakeholders that a holistic review of the current settlement arrangements is required to alleviate the concerns across all services.</p>
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		CUB (UK) Ltd	Yes, this is clear	<p>Thank you for your response, we appreciate the feedback you have provided.</p> <p>We have taken this into consideration as part of the consultation process.</p> <p>ESO believes there is a strong case to address the concerns raised by industry around the LCM market unfairness and a solution is required to ensure all participants can effectively access the LCM.</p> <p>ESO believes that LCM has significant value to facilitate future flexibility markets, by enabling increased participation from distributed energy resources, encouraging more competition to unlock new sources of demand side flexibility and increasing collaboration with DNOs and DSOs to enable distributed demand turn up. Whilst the ESO supports the principle of which the proposed compensation mechanism is trying to achieve, further time is required which the regulatory timescales associated with the C16 process do not allow, to fully understand the concerns raised in the consultation and, given the nature of the</p>

				<p>ABSVD process, allow us to implement the proposal effectively.</p> <p>Consequently, ESO will be withdrawing its proposal to make the required revisions to the ABSVD Methodology to accommodate the ABSVD opt out facility but reserves the right to bring this forward in a future proposal. We intend to re-engage further with industry on this proposed mechanism when the process, technical requirements and timescales have been finalised.</p> <p>Alongside progressing the ABSVD Opt Out proposal above, ESO also believes that broader market changes are required to fully resolve the challenge of ABSVD and compensation for Aggregators/Virtual Lead Parties, across all ancillary services.</p> <p>ESO agrees with Energy UK and Association for Decentralised Energy (ADE) that coordinated solutions are needed across all markets and that discussions are required with policy makers as to how best to move this forwards. We are supportive of accelerated action in this area and are in agreement with our stakeholders that a holistic review of the current settlement arrangements is required to alleviate the concerns across all services.</p> <p>We will commit to working with industry stakeholders and policy makers at pace to develop an enduring cross market solution via the most appropriate forum. To further support this, we are establishing an additional internal workstream which will look to review the current limitations of settlement arrangements and associated</p>
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				compensation mechanisms across all services.
		Energy Technology Group	Yes	<p>Thank you for your response, we appreciate the feedback you have provided.</p> <p>We have taken this into consideration as part of the consultation process.</p> <p>ESO believes there is a strong case to address the concerns raised by industry around the LCM market unfairness and a solution is required to ensure all participants can effectively access the LCM.</p> <p>ESO believes that LCM has significant value to facilitate future flexibility markets, by enabling increased participation from distributed energy resources, encouraging more competition to unlock new sources of demand side flexibility and increasing collaboration with DNOs and DSOs to enable distributed demand turn up. Whilst the ESO supports the principle of which the proposed compensation mechanism is trying to achieve, further time is required which the regulatory timescales associated with the C16 process do not allow, to fully understand the concerns raised in the consultation and, given the nature of the ABSVD process, allow us to implement the proposal effectively.</p> <p>Consequently, ESO will be withdrawing its proposal to make the required revisions to the ABSVD Methodology to accommodate the ABSVD opt out facility but reserves the right to bring this forward in a future proposal. We intend to re-engage further with industry on this proposed mechanism</p>

				<p>when the process, technical requirements and timescales have been finalised.</p> <p>Alongside progressing the ABSVD Opt Out proposal above, ESO also believes that broader market changes are required to fully resolve the challenge of ABSVD and compensation for Aggregators/Virtual Lead Parties, across all ancillary services.</p> <p>ESO agrees with Energy UK and Association for Decentralised Energy (ADE) that coordinated solutions are needed across all markets and that discussions are required with policy makers as to how best to move this forwards. We are supportive of accelerated action in this area and are in agreement with our stakeholders that a holistic review of the current settlement arrangements is required to alleviate the concerns across all services.</p> <p>We will commit to working with industry stakeholders and policy makers at pace to develop an enduring cross market solution via the most appropriate forum. To further support this, we are establishing an additional internal workstream which will look to review the current limitations of settlement arrangements and associated compensation mechanisms across all services.</p>
<p><b>9. Do you believe consumer LCM imbalances should be corrected via ABSVD for demand turn-up providers as per</b></p>	<p>Axle Energy</p>	<p>Axle Energy is responding under category (B), in our capacity as an independent technology provider and aggregator of flex assets.</p> <p>Current ABSVD arrangements are strongly unsatisfactory. They create an implicit barrier to entry for independent aggregators and direct participants into the LCM.</p>	<p>Thank you for your response, we appreciate the feedback you have provided.</p> <p>ESO believes there is a strong case to address the concerns raised by industry around the LCM market unfairness and a</p>	

<p><b>existing C16 arrangements? Please provide rationale.</b></p> <p><b>NOTE: please state if you are answering as A) a BSC-Registered Supplier (and contracted partner) or (B) an independent aggregator flex provider or (C) other (please specify)</b></p>		<p>Applying ABSVD volumes to the supplier account, whether or not they are the LCM provider, is a distortion of the market. Not only is the customer billed for the extra energy they consume, but the supplier receives ABSVD volumes that the customer (and the enabling aggregator) does not benefit from.</p> <p>Furthermore, ABSVD only applies to half-hourly settled volumes. LCM was designed to encourage and enable a more diverse supply of turn-up volume, including from domestic consumers. Today, the vast majority of domestic consumers aren't half-hourly settled, and independent flex providers have no recourse to change this.</p> <p>The current rules disincentivize large volumes of flex that aren't half-hourly settled or cannot participate through their supplier and create an uneven playing field between suppliers and other parties. This must be rectified swiftly.</p>	<p>solution is required to ensure all participants can effectively access the LCM.</p> <p>ESO believes that LCM has significant value to facilitate future flexibility markets, by enabling increased participation from distributed energy resources, encouraging more competition to unlock new sources of demand side flexibility and increasing collaboration with DNOs and DSOs to enable distributed demand turn up. Whilst the ESO supports the principle of which the proposed compensation mechanism is trying to achieve, further time is required which the regulatory timescales associated with the C16 process do not allow, to fully understand the concerns raised in the consultation and, given the nature of the ABSVD process, allow us to implement the proposal effectively.</p> <p>Consequently, ESO will be withdrawing its proposal to make the required revisions to the ABSVD Methodology to accommodate the ABSVD opt out facility but reserves the right to bring this forward in a future proposal. We intend to re-engage further with industry on this proposed mechanism when the process, technical requirements and timescales have been finalised.</p> <p>Alongside progressing the ABSVD Opt Out proposal above, ESO also believes that broader market changes are required to fully resolve the challenge of ABSVD and compensation for Aggregators/Virtual Lead Parties, across all ancillary services.</p> <p>ESO agrees with Energy UK and Association for Decentralised Energy (ADE)</p>
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	<p>Association for Decentralised Energy (ADE)</p>	<p>Association for Decentralised Energy (ADE) is a trade association representing independent aggregators, suppliers, energy intensive industrial companies and market platform providers.</p> <p>The current ABSVD arrangements create an implicit barrier to entry for independent aggregators and direct participants into the LCM. By applying ABSVD volumes to the supplier account, whether or not they are the LCM provider, represents a substantive disincentive for non- suppliers to participate in the service.</p> <p>Therefore, if the LCM provider is the supplier, the current application of ABSVD is appropriate. However, where the customer directly participates or participates through an aggregator, they are both billed for the extra energy they use by their supplier and their supplier receives ABSVD volumes</p>	<p>Thank you for your response, we appreciate the feedback you have provided.</p> <p>We recognise the wider challenges and issues that you mentioned in your response, and we have taken this into consideration as part of the consultation process.</p> <p>ESO believes there is a strong case to address the concerns raised by industry around the LCM market unfairness and a solution is required to ensure all participants can effectively access the LCM.</p> <p>ESO believes that LCM has significant value to facilitate future flexibility markets, by enabling increased participation from distributed energy resources, encouraging more competition to unlock new sources of</p>

		<p>which the customer does not benefit from. This needs to be rectified expeditiously</p>	<p>demand side flexibility and increasing collaboration with DNOs and DSOs to enable distributed demand turn up. Whilst the ESO supports the principle of which the proposed compensation mechanism is trying to achieve, further time is required which the regulatory timescales associated with the C16 process do not allow, to fully understand the concerns raised in the consultation and, given the nature of the ABSVD process, allow us to implement the proposal effectively.</p> <p>Consequently, ESO will be withdrawing its proposal to make the required revisions to the ABSVD Methodology to accommodate the ABSVD opt out facility but reserves the right to bring this forward in a future proposal. We intend to re-engage further with industry on this proposed mechanism when the process, technical requirements and timescales have been finalised.</p> <p>Alongside progressing the ABSVD Opt Out proposal above, ESO also believes that broader market changes are required to fully resolve the challenge of ABSVD and compensation for Aggregators/Virtual Lead Parties, across all ancillary services.</p> <p>ESO agrees with Energy UK and Association for Decentralised Energy (ADE) that coordinated solutions are needed across all markets and that discussions are required with policy makers as to how best to move this forwards. We are supportive of accelerated action in this area and are in agreement with our stakeholders that a holistic review of the current settlement</p>
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			<p>arrangements is required to alleviate the concerns across all services.</p> <p>We will commit to working with industry stakeholders and policy makers at pace to develop an enduring cross market solution via the most appropriate forum. To further support this, we are establishing an additional internal workstream which will look to review the current limitations of settlement arrangements and associated compensation mechanisms across all services.</p>
	CUB (UK) Ltd	<p><b>Informal:</b></p> <p>I am answering as (B) – CUB are an aggregator and independent energy consultant/broker. We were involved in the LCM service in the trial stage and where we were able to participate it was due to the price point for LCM being above the price paid by the energy user for the power they were consuming additionally for taking part when a dispatch was required. The price point for this customer (the total price paid for electricity including all costs) is £180/MWH. Therefore, to allow for any profit to be returned to the end user and CUB as an aggregator we realistically need to see a price point of £200/MWH at least.</p> <p>In reality however the unit rate paid by I&amp;C users is actually higher than this. As of October 23 the average price for a HH metered I&amp;C user was 260/MWH for a Day rate and £203/MWH for a night rate (excluding CCL and VAT). Therefore, the current price point of around £80/MWH – based on my estimates from the BM price is nowhere near sufficient to provide any incentive whatsoever to the end user to take part in LCM.</p> <p>Therefore, I believe a change is needed to the existing process to correct the imbalance position as it is preventing I&amp;C customers from participating in demand turn up schemes.</p>	<p>Thank you for your response, we appreciate the feedback you have provided.</p> <p>We recognise the wider challenges and issues that you mentioned in your response, and we have taken this into consideration as part of the consultation process.</p> <p>ESO believes there is a strong case to address the concerns raised by industry around the LCM market unfairness and a solution is required to ensure all participants can effectively access the LCM.</p> <p>ESO believes that LCM has significant value to facilitate future flexibility markets, by enabling increased participation from distributed energy resources, encouraging more competition to unlock new sources of demand side flexibility and increasing collaboration with DNOs and DSOs to enable distributed demand turn up. Whilst the ESO supports the principle of which the proposed compensation mechanism is trying to achieve, further time is required which the regulatory timescales associated</p>

		<p><b>Formal:</b></p> <p>No I do not. I don't believe the existing ABSVD process is fit for purpose and doesn't provide any commercial incentive for consumers to take part in LCM due to the delivered cost of electricity being much higher than the current LCM bid prices (competing with the BM price). It will create a situation where there is little to no liquidity in the LCM market.</p> <p>I am answering this as option (B)</p>	<p>with the C16 process do not allow, to fully understand the concerns raised in the consultation and, given the nature of the ABSVD process, allow us to implement the proposal effectively.</p> <p>Consequently, ESO will be withdrawing its proposal to make the required revisions to the ABSVD Methodology to accommodate the ABSVD opt out facility but reserves the right to bring this forward in a future proposal. We intend to re-engage further with industry on this proposed mechanism when the process, technical requirements and timescales have been finalised.</p> <p>Alongside progressing the ABSVD Opt Out proposal above, ESO also believes that broader market changes are required to fully resolve the challenge of ABSVD and compensation for Aggregators/Virtual Lead Parties, across all ancillary services.</p> <p>ESO agrees with Energy UK and Association for Decentralised Energy (ADE) that coordinated solutions are needed across all markets and that discussions are required with policy makers as to how best to move this forwards. We are supportive of accelerated action in this area and are in agreement with our stakeholders that a holistic review of the current settlement arrangements is required to alleviate the concerns across all services.</p> <p>We will commit to working with industry stakeholders and policy makers at pace to develop an enduring cross market solution via the most appropriate forum. To further support this, we are establishing an</p>
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			<p>additional internal workstream which will look to review the current limitations of settlement arrangements and associated compensation mechanisms across all services.</p>
	<p>E.ON Heat Co Ltd</p>	<p>(A) a BSC-registered Supplier (and contracted-partner).</p> <p>This issue has been ongoing and seems to keep being raised and then temporary fixes put in place per product that is being offered.</p> <p>We would recommend that as the overall problem with the flow of Settlement needs to be addressed that an Issue is raised with Elexon to convene a working group to address the flow of settlements between Suppliers and Aggregators.</p>	<p>Thank you for your response, we appreciate the feedback you have provided.</p> <p>We fully acknowledge the concerns raised within your response, and we have taken this into consideration as part of the consultation process.</p> <p>ESO believes there is a strong case to address the concerns raised by industry around the LCM market unfairness and a solution is required to ensure all participants can effectively access the LCM.</p> <p>ESO believes that LCM has significant value to facilitate future flexibility markets, by enabling increased participation from distributed energy resources, encouraging more competition to unlock new sources of demand side flexibility and increasing collaboration with DNOs and DSOs to enable distributed demand turn up. Whilst the ESO supports the principle of which the proposed compensation mechanism is trying to achieve, further time is required which the regulatory timescales associated with the C16 process do not allow, to fully understand the concerns raised in the consultation and, given the nature of the ABSVD process, allow us to implement the proposal effectively.</p> <p>Consequently, ESO will be withdrawing its proposal to make the required revisions to</p>



			<p>the ABSVD Methodology to accommodate the ABSVD opt out facility but reserves the right to bring this forward in a future proposal. We intend to re-engage further with industry on this proposed mechanism when the process, technical requirements and timescales have been finalised.</p> <p>Alongside progressing the ABSVD Opt Out proposal above, ESO also believes that broader market changes are required to fully resolve the challenge of ABSVD and compensation for Aggregators/Virtual Lead Parties, across all ancillary services.</p> <p>ESO agrees with Energy UK and Association for Decentralised Energy (ADE) that coordinated solutions are needed across all markets and that discussions are required with policy makers as to how best to move this forwards. We are supportive of accelerated action in this area and are in agreement with our stakeholders that a holistic review of the current settlement arrangements is required to alleviate the concerns across all services.</p> <p>We will commit to working with industry stakeholders and policy makers at pace to develop an enduring cross market solution via the most appropriate forum. To further support this, we are establishing an additional internal workstream which will look to review the current limitations of settlement arrangements and associated compensation mechanisms across all services.</p>
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	Flexitricity	<p><b>Informal:</b></p> <p>Flexitricity is both (A) a BSC-registered Supplier and (B) an independent aggregator flex provider. If a Supplier participates directly in LCM (that is, acting as the contracted LCM provider for specific customer sites) they should have the ability to choose to be corrected via ABSVD as per existing C16 arrangements for those sites. In the case of a Supplier-directed LCM action, it would be appropriate for the Supplier to receive ABSVD benefit. Our understanding of the proposed price adjustment mechanism is that Suppliers would simply not exercise the option to opt out applicable MPANs. Suppliers should not continue to be compensated for LCM actions where the contracted LCM Provider is another party, such as the customer or an aggregator. Presently the ABSVD compensation is allocated to the Supplier regardless of who is contracted to provide the LCM service. Presently, when an LCM customer turns up their demand as directed by an aggregator, or by direct participation in the service on their own behalf, that additional consumption is charged by Suppliers via the meter. In addition, the Supplier receives the ABSVD benefit sent by ESO. This is a double benefit which accrues to the Supplier, to the disadvantage of the aggregator and their ability to share revenue with the LCM customer. ESO's proposal for an optional compensation alternative to ABSVD maintains Suppliers' ability to be compensated via ABSVD when participating in LCM but removes their receipt of a double benefit. It is essential that this alternative compensation mechanism is implemented for any case where the registered Supplier is not the contracted LCM provider.</p> <p><b>Formal:</b></p> <p>A) and B) Flexitricity is a BSC-registered non-domestic supplier and an independent aggregator flex provider. We hold Virtual Lead Party (VLP) and Asset Meter Virtual Lead Party (AMVLP) qualifications. Our Virtual Power Point (VPP) exceeds 1GW.</p>	<p>Thank you for your response, we appreciate the feedback you have provided.</p> <p>We recognise the wider challenges and issues that you mentioned in your response, and we have taken this into consideration as part of the consultation process.</p> <p>ESO believes there is a strong case to address the concerns raised by industry around the LCM market unfairness and a solution is required to ensure all participants can effectively access the LCM.</p> <p>ESO believes that LCM has significant value to facilitate future flexibility markets, by enabling increased participation from distributed energy resources, encouraging more competition to unlock new sources of demand side flexibility and increasing collaboration with DNOs and DSOs to enable distributed demand turn up. Whilst the ESO supports the principle of which the proposed compensation mechanism is trying to achieve, further time is required which the regulatory timescales associated with the C16 process do not allow, to fully understand the concerns raised in the consultation and, given the nature of the ABSVD process, allow us to implement the proposal effectively.</p> <p>Consequently, ESO will be withdrawing its proposal to make the required revisions to the ABSVD Methodology to accommodate the ABSVD opt out facility but reserves the right to bring this forward in a future proposal. We intend to re-engage further</p>
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	Equiwatt Limited	<p>Equiwatt Limited, is an independent aggregator flex provider specializing in residential demand-side flexibility.</p> <p>We believe that addressing consumer LCM imbalances is pivotal for an inclusive and competitive market. We recognize</p>	<p>Thank you for your response, we appreciate the feedback you have provided.</p>

		<p>that the current application of ABSVD poses a significant barrier for non-suppliers, such as independent aggregators like Equiwatt.</p> <p>The disincentive arises from ABSVD volumes being assigned to the supplier account, regardless of their role as the LCM provider. This structure discourages non-suppliers and creates a discrepancy where customers engaging through aggregators may be billed for extra energy but do not benefit from the ABSVD volumes received by their supplier. We advocate for a prompt rectification of this imbalance to encourage wider participation, foster a fair market, and optimize the advantages of demand-side flexibility.</p>	<p>We recognise the wider challenges and issues that you mentioned in your response, and we have taken this into consideration as part of the consultation process.</p> <p>ESO believes there is a strong case to address the concerns raised by industry around the LCM market unfairness and a solution is required to ensure all participants can effectively access the LCM.</p> <p>ESO believes that LCM has significant value to facilitate future flexibility markets, by enabling increased participation from distributed energy resources, encouraging more competition to unlock new sources of demand side flexibility and increasing collaboration with DNOs and DSOs to enable distributed demand turn up. Whilst the ESO supports the principle of which the proposed compensation mechanism is trying to achieve, further time is required which the regulatory timescales associated with the C16 process do not allow, to fully understand the concerns raised in the consultation and, given the nature of the ABSVD process, allow us to implement the proposal effectively.</p> <p>Consequently, ESO will be withdrawing its proposal to make the required revisions to the ABSVD Methodology to accommodate the ABSVD opt out facility but reserves the right to bring this forward in a future proposal. We intend to re-engage further with industry on this proposed mechanism when the process, technical requirements and timescales have been finalised.</p>
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	<p>The Electricity Storage Network (ESN)</p>	<p>C: the Electricity Storage Network (ESN) is the industry group and voice for grid-scale electricity storage in GB. The ESN has 90 members who have a shared mission to promote the use of energy storage and flexibility to support the net zero transition. The ESN membership includes clean energy developers, owners, investors, optimisers, and academic institutions.</p> <p>The ESN has been supportive of the Local Constraints Market (LCM) Scotland set up by the ESO to manage high balancing costs at the England/Scotland boundary and would like to be</p>	<p>Thank you for your response, we appreciate the feedback you have provided.</p> <p>We recognise the wider challenges and issues that you mentioned in your response, and we have taken this into consideration as part of the consultation process.</p>

		<p>involved in conversations around how best to formalise such a service.</p> <p>However, our members have suggested that the use of ABSVD, otherwise known as energy imbalance correction, as the payment mechanism for the current LCM trial should be modified if the trial is extended, or the use of LCMs is rolled out at scale.</p> <p>If a Supplier participates directly in LCM – acting as the contracted LCM provider for specific customer sites – then it is appropriate that they should have the ability to choose to be corrected via ABSVD as per existing C16 arrangements for those sites. However, it is not appropriate for Suppliers to be compensated for LCM actions where the contracted LCM Provider is another party, such as the customer or an aggregator, as is currently the case.</p> <p>In the current trial, ABSVD compensation is allocated to the Supplier regardless of who is contracted to provide the LCM service. This makes it challenging for aggregators who are operating independently of the Supplier to build a business case around LCM participation, as the Supplier currently receives the ABSVD benefit sent by ESO instead of the aggregator even if they have not been responsible for the action.</p> <p>The ESO has suggested that so far volumes offered in the LCM trial have not been operationally significant. ESO’s proposal for an optional compensation alternative to ABSVD may address this, by maintaining Suppliers’ ability to be compensated via ABSVD when they are participating in LCM, but allowing other participants to benefit as appropriate.</p> <p>Therefore, we are supportive of an alternative compensation mechanism being implemented that can be applied in the case where the registered Supplier is not the contracted LCM provider.</p>	<p>ESO believes there is a strong case to address the concerns raised by industry around the LCM market unfairness and a solution is required to ensure all participants can effectively access the LCM.</p> <p>ESO believes that LCM has significant value to facilitate future flexibility markets, by enabling increased participation from distributed energy resources, encouraging more competition to unlock new sources of demand side flexibility and increasing collaboration with DNOs and DSOs to enable distributed demand turn up. Whilst the ESO supports the principle of which the proposed compensation mechanism is trying to achieve, further time is required which the regulatory timescales associated with the C16 process do not allow, to fully understand the concerns raised in the consultation and, given the nature of the ABSVD process, allow us to implement the proposal effectively.</p> <p>Consequently, ESO will be withdrawing its proposal to make the required revisions to the ABSVD Methodology to accommodate the ABSVD opt out facility but reserves the right to bring this forward in a future proposal. We intend to re-engage further with industry on this proposed mechanism when the process, technical requirements and timescales have been finalised.</p> <p>Alongside progressing the ABSVD Opt Out proposal above, ESO also believes that broader market changes are required to fully resolve the challenge of ABSVD and</p>
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			<p>compensation for Aggregators/Virtual Lead Parties, across all ancillary services.</p> <p>ESO agrees with Energy UK and Association for Decentralised Energy (ADE) that coordinated solutions are needed across all markets and that discussions are required with policy makers as to how best to move this forwards. We are supportive of accelerated action in this area and are in agreement with our stakeholders that a holistic review of the current settlement arrangements is required to alleviate the concerns across all services.</p> <p>We will commit to working with industry stakeholders and policy makers at pace to develop an enduring cross market solution via the most appropriate forum. To further support this, we are establishing an additional internal workstream which will look to review the current limitations of settlement arrangements and associated compensation mechanisms across all services.</p>
	Energy UK	<p>On the ESO proposal for an alternative price adjustment mechanism instead of ABSVD for the Local Constraint Market (LCM).</p> <p>Energy UK supports the LCM – as both an innovative approach to tackling current issues and an example of how industry can evolve the changing system (without a more radical reshaping which could jeopardise future investment).</p>	<p>Thank you for your response, we appreciate the feedback you have provided.</p> <p>We fully acknowledge the concerns raised within your response, and we have taken this into consideration as part of the consultation process.</p> <p>ESO believes there is a strong case to address the concerns raised by industry around the LCM market unfairness and a</p>

	<p>The option currently being explored by the ESO is a price adjustment mechanism that could act as an alternative to ABSVD for demand turn up providers in the following way:</p> <p>Eligible LCM Providers would have the option to opt-out explicitly consenting MPAN</p> <p>LCM volumes from ABSVD.</p> <p>This would mean that Suppliers who receive increased LCM energy payments would</p> <p>no longer also benefit from energy imbalance position correction via ABSVD.</p> <p>As a result, a credit would flow back to Residual Cashflow Reallocation Cashflow</p> <p>(RCRC) at a level determined by the system price in effect at the time of imbalance.</p> <p>This could allow energy compensation to be made by NGESO directly to those</p> <p>providers who have opted-out eligible MPANs.</p> <p>To offset this cost, the resulting imbalance credits would be offset by NGESO BSUoS</p> <p>charges to eliminate any net RCRC effects on the bill payer.</p> <p>As this change could affect suppliers not involved in the LCM (where their customers provide LCM turn up via an aggregator), any change needs to be done in a way that is fair for all participants. We understand that the ESO is still looking at the technicalities. We will provide further views when the proposed solution has been worked through.</p> <p>The main point that we wished to make, however, is a broader one - that members do not support an approach to change</p>	<p>solution is required to ensure all participants can effectively access the LCM.</p> <p>ESO believes that LCM has significant value to facilitate future flexibility markets, by enabling increased participation from distributed energy resources, encouraging more competition to unlock new sources of demand side flexibility and increasing collaboration with DNOs and DSOs to enable distributed demand turn up. Whilst the ESO supports the principle of which the proposed compensation mechanism is trying to achieve, further time is required which the regulatory timescales associated with the C16 process do not allow, to fully understand the concerns raised in the consultation and, given the nature of the ABSVD process, allow us to implement the proposal effectively.</p> <p>Consequently, ESO will be withdrawing its proposal to make the required revisions to the ABSVD Methodology to accommodate the ABSVD opt out facility but reserves the right to bring this forward in a future proposal. We intend to re-engage further with industry on this proposed mechanism when the process, technical requirements and timescales have been finalised.</p> <p>Alongside progressing the ABSVD Opt Out proposal above, ESO also believes that broader market changes are required to fully resolve the challenge of ABSVD and compensation for Aggregators/Virtual Lead Parties, across all ancillary services.</p> <p>ESO agrees with Energy UK and Association for Decentralised Energy (ADE)</p>
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whereby larger issues are resolved by adjustments on a service-by-service basis. Such an approach risks unintended consequences elsewhere and creates further complexity for market participants. Complexity increases the costs of operating in the market and creates a barrier to entry for new entrants.

The LCM issue is one instance of a wider issue of how new kinds of imbalance can be resolved between different participants in the market and how/ whether the current settlement process can change to take account of these new flows.

A strategic review here is ultimately a policy question and therefore should be led by DESNZ or Ofgem. However, given the urgency of resolving this issue (for the LCM and other future markets and services), members would like to make an alternative recommendation – that the ESO raise an Issue (rather than a Code Modification) with Elexon. Members are confident that Elexon has the expertise to facilitate the industry discussion that is required and, with the support of Ofgem, we are confident that a wider solution could be agreed in around six months (though noting that any agreed solution may take longer to implement).

Energy UK would be happy to support engagement in this process so that the wider issue is resolved in a way that is fair to all participants and so that this issue does not create barriers to future services.

Visibility of constraints: A further broad point that members would like to note here is the growing issue of the lack of visibility of constraints data, both volumes and costs by location other than the high-level aggregated ones highlighted in MBSS. The multiple initiatives (which industry supports) to reduce the impacts of constraints (LCM, non-firm connections, TCLC) are further reducing the visibility of where constraints are happening and the impact. We understand that private ownership of the transmission assets prevents the ESO requiring data here and would like the ESO to consider if it

that coordinated solutions are needed across all markets and that discussions are required with policy makers as to how best to move this forwards. We are supportive of accelerated action in this area and are in agreement with our stakeholders that a holistic review of the current settlement arrangements is required to alleviate the concerns across all services.

We will commit to working with industry stakeholders and policy makers at pace to develop an enduring cross market solution via the most appropriate forum. To further support this, we are establishing an additional internal workstream which will look to review the current limitations of settlement arrangements and associated compensation mechanisms across all services.

Thank you for your input on the broader points raised around visibility of constraints data.

As noted within your response, currently the ESO cannot provide explicit details on which circuits or transmission assets are on outage or fault as these assets are owned by the Transmission Operators, which limits post-event reporting. Day ahead constraint forecasts are however available and are published on the ESO data portal. Day Ahead Constraint Flows and Limits | ESO ([nationalgrideso.com](http://nationalgrideso.com))

To the points raised around the transparency of constraints data,

		<p>could raise a code modification which would require constraints to be flagged and so address this issue.</p> <p>Member feedback on the specific ESO questions</p> <p>1. Do you believe consumer LCM imbalances should be corrected via ABSVD for demand turn up providers, as per existing C16 arrangements?</p> <p>It was suggested that, in addition to being an incremental approach to a wider issue, the proposed solution is a partial solution and the reallocations process will make it difficult for participants to understand the relevant energy flows involved.</p>	<p>constraints can be highly localised, sometimes to a specific generating asset. Therefore, this data has risk of leading to uneconomic market outcomes if published without sufficient controls in place to prevent its abuse. Presently the Transmission Constraint Licence Condition (TCLC) prohibits a generating asset from using the knowledge of an export constraint to seek excessive benefits through their bid price only for the purposes of reducing output from a physical notification position. No equivalent condition exists for import constraints presently which may lead to poor economic outcomes from publishing when these periods of relative market power exist.</p> <p>Where a constraint is liquid with high competition, publication of this data is likely in the overall market and consumer interest to publish. However, with most constraints there is a lack of competition and therefore it is a significant policy decision to do this. Were TCLC itself to be updated in line with suggestions from OFGEMs most recent consultation, to include the offer side, this policy decision would need to be revisited and tested.</p> <p>We welcome further conversations with Energy UK to gain a further understanding of this request.</p>
	Pod Point	<p>Pod Point is (C), the largest provider of domestic EV charging points in the UK, and since 2023 has been flexing its customers' charging and provides a reward either directly to them, or via their utility company, with pilots in DNO, BM &amp; Wholesale flex.</p>	<p>Thank you for your response, we appreciate the feedback you have provided.</p> <p>Your customer centric feedback is welcomed and valued. This feedback has been shared internally and ESO will</p>

	<p>We have been participating in the LCM with our Scottish customers since September 2023, via our aggregation partner Axle with a theme of “Use spare Scottish wind to charge your cars”.</p> <p>We are not experts in ABSVD mechanisms, so please forgive us for providing just a customer-centric view below, which hopefully you can translate into improvements in LCM.</p> <p>Overall LCM has not delivered value to us or our customers to date, and this is mainly for these reasons:</p> <p>1)Because of the requirement to get permission to access Smart Meter data, the onboarding process requires proof of address, either via IHD MAC address, or via zero-cost credit card transaction. Consequently, the 30% sign-up rates which we see for DNO programs (where a simple opt-in is sufficient) fall to only about 7% for LCM.</p> <p>2)LCM requires HH settlement, which eliminates about 95% of potential consumers. With MHHS having been pushed out again, and no mechanism for us to (or our customers) to force suppliers to move them to HH settled now, this makes the scheme sub-scale.</p> <p>3)The main pattern for LCM use is consuming during the day, since 1pm is peak wind production. However, most EV drivers are on a time-of-use tariff, and normally pay e.g. 4-15p/kWh off peak rates to charge their cars at night. Since on-peak rates are typically 35p+/kWh, if we want to shift these customers’ consumption into the day, we have to compensate them for the difference, typically around 20p/kWh Since (from memory) LCM is typically paying something like 7p/kWh, this is simply not economic for customers to do. Consequently the only flex we are actually driving is within-night-time, and day-to-day behavioural shift (“plug in today to catch Storm Agnes”) since drivers typically don’t charge every day.</p> <p>Somehow LCM needs to be changed so that customers see a more realistic price for their flexible use. We’d like customers to be charged off-peak or reduced rates by their suppliers</p>	<p>respond to the non C16 related items separately, via the LCM team who will investigate how we can further assist.</p> <p>We recognise the wider challenges and issues that you mentioned in your response, and we have taken this into consideration as part of the consultation process.</p> <p>ESO believes there is a strong case to address the concerns raised by industry around the LCM market unfairness and a solution is required to ensure all participants can effectively access the LCM.</p> <p>ESO believes that LCM has significant value to facilitate future flexibility markets, by enabling increased participation from distributed energy resources, encouraging more competition to unlock new sources of demand side flexibility and increasing collaboration with DNOs and DSOs to enable distributed demand turn up. Whilst the ESO supports the principle of which the proposed compensation mechanism is trying to achieve, further time is required which the regulatory timescales associated with the C16 process do not allow, to fully understand the concerns raised in the consultation and, given the nature of the ABSVD process, allow us to implement the proposal effectively.</p> <p>Consequently, ESO will be withdrawing its proposal to make the required revisions to the ABSVD Methodology to accommodate the ABSVD opt out facility but reserves the right to bring this forward in a future proposal. We intend to re-engage further with industry on this proposed mechanism</p>
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		<p>when we want them to charge during the day, or else we'd like a way to trade the energy ourselves to set the price for any half-hours when we flex (via an aggregator, as with P415).</p> <p>Our understanding is that the ABSVD as it stands provides the supplier with all the benefits of LCM flex, and not the flex provider or the customer, and therefore provides no incentive.</p> <p>For these reasons we are planning to abandon LCM participation unless it can be adjusted to provide an economic incentive for us and our customers.</p>	<p>when the process, technical requirements and timescales have been finalised.</p> <p>Alongside progressing the ABSVD Opt Out proposal above, ESO also believes that broader market changes are required to fully resolve the challenge of ABSVD and compensation for Aggregators/Virtual Lead Parties, across all ancillary services.</p> <p>ESO agrees with Energy UK and Association for Decentralised Energy (ADE) that coordinated solutions are needed across all markets and that discussions are required with policy makers as to how best to move this forwards. We are supportive of accelerated action in this area and are in agreement with our stakeholders that a holistic review of the current settlement arrangements is required to alleviate the concerns across all services.</p> <p>We will commit to working with industry stakeholders and policy makers at pace to develop an enduring cross market solution via the most appropriate forum. To further support this, we are establishing an additional internal workstream which will look to review the current limitations of settlement arrangements and associated compensation mechanisms across all services.</p>
	Elexon	<p>In our role as independent and impartial administrator of the BSC, we believe correcting Suppliers' imbalance positions (without any mechanisms for passing on such adjustments to customers or independent aggregators) may create an un-level playing field (between Suppliers, customers and</p>	<p>Thank you for your response, we appreciate the feedback you have provided.</p> <p>We fully acknowledge the points raised within your response, and we have taken</p>

		<p>independent aggregators selling flexibility to ESO). In the context of the BM this issue is currently being assessed through Modification P444, but we believe it would also be helpful to consider these issues in the context of ancillary services and ABSVD (see our answer to Q8).</p>	<p>this into consideration as part of the consultation process.</p> <p>ESO believes there is a strong case to address the concerns raised by industry around the LCM market unfairness and a solution is required to ensure all participants can effectively access the LCM.</p> <p>ESO believes that LCM has significant value to facilitate future flexibility markets, by enabling increased participation from distributed energy resources, encouraging more competition to unlock new sources of demand side flexibility and increasing collaboration with DNOs and DSOs to enable distributed demand turn up. Whilst the ESO supports the principle of which the proposed compensation mechanism is trying to achieve, further time is required which the regulatory timescales associated with the C16 process do not allow, to fully understand the concerns raised in the consultation and, given the nature of the ABSVD process, allow us to implement the proposal effectively.</p> <p>Consequently, ESO will be withdrawing its proposal to make the required revisions to the ABSVD Methodology to accommodate the ABSVD opt out facility but reserves the right to bring this forward in a future proposal. We intend to re-engage further with industry on this proposed mechanism when the process, technical requirements and timescales have been finalised.</p> <p>Alongside progressing the ABSVD Opt Out proposal above, ESO also believes that broader market changes are required to</p>
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	<p>Octopus Energy</p>	<p>Yes - customer positions should be accounted for via ABSVD for the reasons outlined above. Not doing so creates an unmanageable risk for suppliers of those customers.</p> <p>We are answering as a BSC-Registered Supplier.</p>	<p>Thank you for your response, we appreciate the feedback you have provided.</p> <p>We full acknowledge the concerns raised within your response, and we have taken this into consideration as part of the consultation process.</p> <p>ESO believes there is a strong case to address the concerns raised by industry around the LCM market unfairness and a solution is required to ensure all participants can effectively access the LCM.</p>

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	<p>Energy Technology Group</p>	<p>C) The Energy Technology Group (ETG) represent small and medium market participants in the low carbon technology space including low carbon heating, EV charging, smart grid ecosystems, market platform providers and flexibility optimisers. We represent customer-facing innovators.</p> <p>The current ABSVD arrangements create a barrier to entry for customers who want to access the LCM through an independent aggregator or as a direct participant. ETG members' customers are currently disincentivised from participation as they would be billed for the extra energy they use by their supplier and their supplier receives ABSVD volumes which the customer does not benefit from. Customers should have the ability to choose whether to participate through their supplier or their asset provider's appointed aggregator, and receive an equal value regardless of route to market.</p> <p>Therefore, if the LCM provider is the supplier, the current application of ABSVD is appropriate. Where the customer</p>	<p>Thank you for your response, we appreciate the feedback you have provided.</p> <p>We recognise the wider challenges and issues that you mentioned in your response, and we have taken this into consideration as part of the consultation process.</p> <p>ESO believes there is a strong case to address the concerns raised by industry around the LCM market unfairness and a solution is required to ensure all participants can effectively access the LCM.</p> <p>ESO believes that LCM has significant value to facilitate future flexibility markets, by enabling increased participation from distributed energy resources, encouraging more competition to unlock new sources of demand side flexibility and increasing collaboration with DNOs and DSOs to enable distributed demand turn up. Whilst</p>



		<p>directly participates or participates through an aggregator the existing C16 arrangement is not appropriate.</p>	<p>the ESO supports the principle of which the proposed compensation mechanism is trying to achieve, further time is required which the regulatory timescales associated with the C16 process do not allow, to fully understand the concerns raised in the consultation and, given the nature of the ABSVD process, allow us to implement the proposal effectively.</p> <p>Consequently, ESO will be withdrawing its proposal to make the required revisions to the ABSVD Methodology to accommodate the ABSVD opt out facility but reserves the right to bring this forward in a future proposal. We intend to re-engage further with industry on this proposed mechanism when the process, technical requirements and timescales have been finalised.</p> <p>Alongside progressing the ABSVD Opt Out proposal above, ESO also believes that broader market changes are required to fully resolve the challenge of ABSVD and compensation for Aggregators/Virtual Lead Parties, across all ancillary services.</p> <p>ESO agrees with Energy UK and Association for Decentralised Energy (ADE) that coordinated solutions are needed across all markets and that discussions are required with policy makers as to how best to move this forwards. We are supportive of accelerated action in this area and are in agreement with our stakeholders that a holistic review of the current settlement arrangements is required to alleviate the concerns across all services.</p>
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<p><b>10. Do you have any feedback on the potential proposed (LCM Provider-optional) compensation alternative to ABSVD? Please provide rationale.</b></p> <p><b>11. Do you have any feedback on the potential proposed (LCM Provider-optional) compensation alternative to ABSVD? Please provide rationale.</b></p>	<p>Axle Energy</p>	<p>The proposal represents a sensible solution to the current problem. It should be implemented expeditiously.</p> <p>Ensuring that all participants and assets are treated equally will be key to the success of the LCM (and any future constraint markets). Until the LCM is truly competitive, it is not a fair market, and any learnings on its efficacy are distorted.</p> <p>The proposal also better aligns with Ofgem's vision for RIIO-2 BP 2 to ensure that “all types of technology and solution are able to fully compete to provide the electricity system’s short, medium and longer-term needs”.</p>	<p>Thank you for your response, we appreciate the feedback you have provided.</p> <p>We recognise the wider challenges and issues that you mentioned in your response, and we have taken this into consideration as part of the consultation process.</p> <p>ESO believes there is a strong case to address the concerns raised by industry around the LCM market unfairness and a solution is required to ensure all participants can effectively access the LCM.</p> <p>ESO believes that LCM has significant value to facilitate future flexibility markets, by enabling increased participation from distributed energy resources, encouraging more competition to unlock new sources of demand side flexibility and increasing collaboration with DNOs and DSOs to enable distributed demand turn up. Whilst the ESO supports the principle of which the proposed compensation mechanism is trying to achieve, further time is required which the regulatory timescales associated with the C16 process do not allow, to fully understand the concerns raised in the consultation and, given the nature of the</p>

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			<p>compensation mechanisms across all services.</p>
	<p>Association for Decentralised Energy (ADE)</p>	<p>We welcome the proposal by the ESO and believe it should be implemented at pace. As per our recent paper on operational reform under REMA, we believe LCMs will have a significant role to play in future constraint management and therefore continue to support ESO in their development. However, ensuring assets are treated in a substantively, not just formally, equal manner will be a determining factor in their success.</p> <p>Until this the LCM is made a level marketplace, we cannot gain learnings on its efficacy regarding competition, longevity, avoided curtailment, or deferred reinforcement. On the latter point, we recall the recent recommendations of Network Commissioner Nick Winser on the importance of such markets.</p> <p>This proposal represents a sensible solution to the current problem. Association for Decentralised Energy (ADE) is also keen to work proactively with ESO on enduring solutions across DTU scenarios and markets and will shortly be producing a briefing to ignite discussion with the relevant stakeholders in ESO, Ofgem, and DESNZ.</p>	<p>Thank you for your response, we appreciate the feedback you have provided.</p> <p>We recognise the wider challenges and issues that you mentioned in your response, and we have taken this into consideration as part of the consultation process.</p> <p>ESO believes there is a strong case to address the concerns raised by industry around the LCM market unfairness and a solution is required to ensure all participants can effectively access the LCM.</p> <p>ESO believes that LCM has significant value to facilitate future flexibility markets, by enabling increased participation from distributed energy resources, encouraging more competition to unlock new sources of demand side flexibility and increasing collaboration with DNOs and DSOs to enable distributed demand turn up. Whilst the ESO supports the principle of which the proposed compensation mechanism is trying to achieve, further time is required which the regulatory timescales associated with the C16 process do not allow, to fully understand the concerns raised in the consultation and, given the nature of the ABSVD process, allow us to implement the proposal effectively.</p> <p>Consequently, ESO will be withdrawing its proposal to make the required revisions to the ABSVD Methodology to accommodate the ABSVD opt out facility but reserves the right to bring this forward in a future</p>

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	CUB (UK) Ltd	<p><b>Informal:</b></p> <p>I support the proposal largely however I am keen to understand how the RCRC credit would be passed back to customers and from where. For example, customers that don't</p>	<p>Thank you for your response, we appreciate the feedback you have provided.</p> <p>We recognise the wider challenges and issues that you mentioned in your response,</p>

		<p>have this charge itemised on their bill. My concern is that suppliers will object to this where customers have an “all inclusive” rate. I also believe there needs to be a specific frequency of payments in agreement prior to putting this in place.</p> <p>If this credit would be returned directly by NGENSO to us as the LCM provider this would be optimal as suggested on the consultation document.</p> <p><b>Formal:</b></p> <p>I think this is a better alternative than the current arrangement however more consideration or clarity needs to be given on how this will work in practice. The benefit being passed back to the consumer through the RCRC (or other balancing charging structure) charge is fine in theory however I don’t believe many suppliers will be easily be able to accommodate this. I believe it would be better for this payment to be made to the System Operator and to be passed onto the aggregator as part of the settlement process.</p>	<p>and we have taken this into consideration as part of the consultation process.</p> <p>ESO believes there is a strong case to address the concerns raised by industry around the LCM market unfairness and a solution is required to ensure all participants can effectively access the LCM.</p> <p>ESO believes that LCM has significant value to facilitate future flexibility markets, by enabling increased participation from distributed energy resources, encouraging more competition to unlock new sources of demand side flexibility and increasing collaboration with DNOs and DSOs to enable distributed demand turn up. Whilst the ESO supports the principle of which the proposed compensation mechanism is trying to achieve, further time is required which the regulatory timescales associated with the C16 process do not allow, to fully understand the concerns raised in the consultation and, given the nature of the ABSVD process, allow us to implement the proposal effectively.</p> <p>Consequently, ESO will be withdrawing its proposal to make the required revisions to the ABSVD Methodology to accommodate the ABSVD opt out facility but reserves the right to bring this forward in a future proposal. We intend to re-engage further with industry on this proposed mechanism when the process, technical requirements and timescales have been finalised.</p> <p>Alongside progressing the ABSVD Opt Out proposal above, ESO also believes that broader market changes are required to</p>
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E.ON Heat Co Ltd	We would prefer this to be discussed in a formal setting and not via a consultation.	Thank you for your response, we appreciate the feedback you have provided.
Flextricity	We welcome the proposal and would enter the LCM service as a flexibility provider with both I&C and domestic assets if it were introduced. The LCM service cannot be considered a level marketplace under current arrangements. ESO's proposal addresses this issue, and should therefore result in growth in participation, increasing competition, improving price-discovery and reducing the cost to consumers of constraints. The proposal will encourage diverse flexibility providers, including aggregators and customers themselves, to contract and offer volumes that are operationally significant to ESO. Expediting this proposal is in everyone's best interest.	<p>Thank you for your response, we appreciate the feedback you have provided.</p> <p>We recognise the wider challenges and issues that you mentioned in your response, and we have taken this into consideration as part of the consultation process.</p> <p>ESO believes there is a strong case to address the concerns raised by industry around the LCM market unfairness and a</p>

		<p>Providing an optional opt-out for MPAN LCM volumes provided by flex providers is a sensible measure to correct the compensation imbalance without burdening Suppliers with an additional administrative task. It could create an even playing field for LCM compensation for flex providers and Suppliers without adjusting the ABSVD methodology. We welcome further exploration of the administrative and settlement systems which could be utilised for NGESO to make payments to providers of opt-out MPANs.</p>	<p>solution is required to ensure all participants can effectively access the LCM. ESO believes that LCM has significant value to facilitate future flexibility markets, by enabling increased participation from distributed energy resources, encouraging more competition to unlock new sources of demand side flexibility and increasing collaboration with DNOs and DSOs to enable distributed demand turn up. Whilst the ESO supports the principle of which the proposed compensation mechanism is trying to achieve, further time is required which the regulatory timescales associated with the C16 process do not allow, to fully understand the concerns raised in the consultation and, given the nature of the ABSVD process, allow us to implement the proposal effectively.</p> <p>Consequently, ESO will be withdrawing its proposal to make the required revisions to the ABSVD Methodology to accommodate the ABSVD opt out facility but reserves the right to bring this forward in a future proposal. We intend to re-engage further with industry on this proposed mechanism when the process, technical requirements and timescales have been finalised.</p> <p>Alongside progressing the ABSVD Opt Out proposal above, ESO also believes that broader market changes are required to fully resolve the challenge of ABSVD and compensation for Aggregators/Virtual Lead Parties, across all ancillary services. ESO agrees with Energy UK and Association for Decentralised Energy (ADE) that coordinated solutions are needed across all markets and that discussions are required with policy makers as to how best to move this forwards. We are supportive of</p>
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			<p>accelerated action in this area and are in agreement with our stakeholders that a holistic review of the current settlement arrangements is required to alleviate the concerns across all services.</p> <p>We will commit to working with industry stakeholders and policy makers at pace to develop an enduring cross market solution via the most appropriate forum. To further support this, we are establishing an additional internal workstream which will look to review the current limitations of settlement arrangements and associated compensation mechanisms across all services.</p>
Equiwatt Limited		<p>We support the proposed (LCM Provider-optional) compensation alternative to ABSVD, considering it a positive step towards operational reform in the energy sector. This alternative is seen as a sensible solution to current challenges, fostering a more competitive and equitable market for Load Control Mechanisms (LCMs). We recognize the importance of treating assets equally for the success of future constraint management. The implementation of this alternative is expected to facilitate learning on efficacy, competition, longevity, avoided curtailment, and deferred reinforcement, contributing to the advancement of LCMs in the energy landscape. We are eager to participate in discussions and collaborate proactively with relevant stakeholders for the continued development and improvement of Demand Turn-Up (DTU) scenarios and markets.</p> <p>The proposal also better aligns with Ofgem’s vision for RIIO-2 BP 2 to ensure that “all types of technology and solution are able to fully compete to provide the electricity system’s short, medium and longer-term needs”.</p>	<p>Thank you for your response, we appreciate the feedback you have provided.</p> <p>We recognise the wider challenges and issues that you mentioned in your response, and we have taken this into consideration as part of the consultation process.</p> <p>ESO believes there is a strong case to address the concerns raised by industry around the LCM market unfairness and a solution is required to ensure all participants can effectively access the LCM. ESO believes that LCM has significant value to facilitate future flexibility markets, by enabling increased participation from distributed energy resources, encouraging more competition to unlock new sources of demand side flexibility and increasing collaboration with DNOs and DSOs to enable distributed demand turn up. Whilst the ESO supports the principle of which the proposed compensation mechanism is trying to achieve, further time is required which the regulatory timescales associated with the C16 process do not allow, to fully</p>

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	<p>The Electricity Storage Network (ESN)</p>	<p>We are supportive of the proposal, and our members have indicated that this would encourage more flexibility providers to enter the LCM service, which should improve price discovery and reduce the cost to consumers of constraints. Providing an optional opt-out for MPAN LCM volumes provided by flex providers is a sensible measure to correct the compensation imbalance without burdening Suppliers with an additional administrative task. It could create an even playing field for LCM compensation for flex providers and Suppliers without adjusting the ABSVD methodology. We welcome further exploration of the administrative and settlement systems which could be utilised for NGENSO to make payments to providers of opt-out MPANs. More broadly, we would welcome a more holistic review of the ABSVD process to allow for the potential benefits of distributed flexibility to be more effectively realised within the settlement process.</p>	

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Energy UK	<p><b><u>Member feedback on the specific ESO questions</u></b>  2. Do you have any feedback on the potential proposed (LCM Provider-optional) compensation alternative to ABSVD? Please provide rationale. Members support the principle that providers should not pay imbalance for participating in an ESO service to support the grid.</p>		<p>Thank you for your response, we appreciate the feedback you have provided.</p>
Pod Point	<p>As far as we understand it, the proposal looks like a good solution, for the reasons above.</p>		<p>Thank you for your response, we appreciate the feedback you have provided. We have taken this into consideration as part of the consultation process.</p>

			<p>ESO believes there is a strong case to address the concerns raised by industry around the LCM market unfairness and a solution is required to ensure all participants can effectively access the LCM.</p> <p>ESO believes that LCM has significant value to facilitate future flexibility markets, by enabling increased participation from distributed energy resources, encouraging more competition to unlock new sources of demand side flexibility and increasing collaboration with DNOs and DSOs to enable distributed demand turn up. Whilst the ESO supports the principle of which the proposed compensation mechanism is trying to achieve, further time is required which the regulatory timescales associated with the C16 process do not allow, to fully understand the concerns raised in the consultation and, given the nature of the ABSVD process, allow us to implement the proposal effectively.</p> <p>Consequently, ESO will be withdrawing its proposal to make the required revisions to the ABSVD Methodology to accommodate the ABSVD opt out facility but reserves the right to bring this forward in a future proposal. We intend to re-engage further with industry on this proposed mechanism when the process, technical requirements and timescales have been finalised.</p> <p>Alongside progressing the ABSVD Opt Out proposal above, ESO also believes that broader market changes are required to fully resolve the challenge of ABSVD and compensation for Aggregators/Virtual Lead Parties, across all ancillary services. ESO agrees with Energy UK and Association for Decentralised Energy (ADE) that coordinated solutions are needed</p>
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	Elxon	No comment	Thank you for your response, we appreciate the feedback you have provided.
	Octopus Energy	We are not clear on the details of what is being proposed, and believe a wider review is needed.	<p>Thank you for your response, we appreciate the feedback you have provided. We have taken this into consideration as part of the consultation process.</p> <p>ESO believes there is a strong case to address the concerns raised by industry around the LCM market unfairness and a solution is required to ensure all participants can effectively access the LCM.</p> <p>ESO believes that LCM has significant value to facilitate future flexibility markets, by enabling increased participation from distributed energy resources, encouraging more competition to unlock new sources of demand side flexibility and increasing collaboration with DNOs and DSOs to enable distributed demand turn up. Whilst the ESO supports the principle of which the proposed compensation mechanism is</p>

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	<p>Energy Technology Group</p>	<p>ETG members discussed ESO's proposals at our February meeting and were in agreement that the potential alternative compensation route was a positive step forward. It is critical to our members that properly valued demand turn up (DTU) markets are available to consumers, and we see this as a critical first step.</p> <p>LCMs will have a significant role to play in future constraint management and it is essential that ETG members' customers can access these revenue streams through aggregators.</p> <p>The proposal is a proportionate response to the current market distortion and should be expedited. The ETG will also proactively work with ESO on an enduring solution for DTU and ABSVD application, but do not believe the application of the proposed alternative compensation methodology for LCM should wait until that work has taken place.</p>	<p>Thank you for your response, we appreciate the feedback you have provided. We have taken this into consideration as part of the consultation process.</p> <p>ESO believes there is a strong case to address the concerns raised by industry around the LCM market unfairness and a solution is required to ensure all participants can effectively access the LCM.</p> <p>ESO believes that LCM has significant value to facilitate future flexibility markets, by enabling increased participation from distributed energy resources, encouraging more competition to unlock new sources of demand side flexibility and increasing collaboration with DNOs and DSOs to enable distributed demand turn up. Whilst the ESO supports the principle of which the proposed compensation mechanism is trying to achieve, further time is required which the regulatory timescales associated with the C16 process do not allow, to fully understand the concerns raised in the consultation and, given the nature of the ABSVD process, allow us to implement the proposal effectively.</p> <p>Consequently, ESO will be withdrawing its proposal to make the required revisions to the ABSVD Methodology to accommodate the ABSVD opt out facility but reserves the right to bring this forward in a future proposal. We intend to re-engage further with industry on this proposed mechanism when the process, technical requirements and timescales have been finalised.</p>



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<p><b>11. Where the Provider is also the BSC-Registered part supplier for a consenting MPAN, should the LCM providers also be permitted an opt out of the existing intended ABSVD mechanism?</b></p>	<p>CUB (UK) Ltd</p>	<p><b>Informal:</b> I am unclear on this and don't feel informed enough to provide an answer. <b>Formal:</b> Yes I believe all market participants should be given the same options provided that there is commercial equality across both options.</p>	<p>Thank you for your response, we appreciate the feedback you have provided. We have taken this into consideration as part of the consultation process.</p> <p>ESO believes there is a strong case to address the concerns raised by industry around the LCM market unfairness and a solution is required to ensure all participants can effectively access the LCM.</p>

**Please provide rationale**

ESO believes that LCM has significant value to facilitate future flexibility markets, by enabling increased participation from distributed energy resources, encouraging more competition to unlock new sources of demand side flexibility and increasing collaboration with DNOs and DSOs to enable distributed demand turn up. Whilst the ESO supports the principle of which the proposed compensation mechanism is trying to achieve, further time is required which the regulatory timescales associated with the C16 process do not allow, to fully understand the concerns raised in the consultation and, given the nature of the ABSVD process, allow us to implement the proposal effectively.

Consequently, ESO will be withdrawing its proposal to make the required revisions to the ABSVD Methodology to accommodate the ABSVD opt out facility but reserves the right to bring this forward in a future proposal. We intend to re-engage further with industry on this proposed mechanism when the process, technical requirements and timescales have been finalised.

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		<p>holistic review of the current settlement arrangements is required to alleviate the concerns across all services.</p> <p>We will commit to working with industry stakeholders and policy makers at pace to develop an enduring cross market solution via the most appropriate forum. To further support this, we are establishing an additional internal workstream which will look to review the current limitations of settlement arrangements and associated compensation mechanisms across all services.</p>
E.ON Heat Co Ltd	No comment regarding this suggestion as it needs further discussions.	Thank you for your response, we appreciate the feedback you have provided. We have taken this into consideration as part of the consultation process.
Flextricity	Our understanding is that the opt-out of the existing ABSVD mechanism is intended to divert the ABSVD volume and redirect it to the appropriate recipient. It is the LCM Provider who should determine whether or not ABSVD flows to the Supplier. In the case that the LCM Provider is the registered Supplier, they will presumably choose that ABSVD should flow. In the case that the LCM Provider is not the Supplier, they will presumably choose that ABSVD should not flow and the alternative mechanism should apply. There might be a case where the LCM Provider would make a different choice, such as where the LCM Provider is a combination of Supplier, VLP and non-BM balancing services provider in respect of the site. It would not be unreasonable to cater for these possible combinations. The test of any mechanism is whether or not a customer is able to receive the same value for LCM provision whether the LCM Provider is the registered Supplier, an aggregator, or the customer itself.	<p>Thank you for your response, we appreciate the feedback you have provided. We have taken this into consideration as part of the consultation process.</p> <p>ESO believes there is a strong case to address the concerns raised by industry around the LCM market unfairness and a solution is required to ensure all participants can effectively access the LCM.</p> <p>ESO believes that LCM has significant value to facilitate future flexibility markets, by enabling increased participation from distributed energy resources, encouraging more competition to unlock new sources of demand side flexibility and increasing collaboration with DNOs and DSOs to enable distributed demand turn up. Whilst the ESO supports the principle of which the proposed compensation mechanism is trying to achieve, further time is required which the regulatory timescales associated with the C16 process do not allow, to fully understand the concerns raised in the consultation and, given the nature of the</p>

			<p>ABSVD process, allow us to implement the proposal effectively.</p> <p>Consequently, ESO will be withdrawing its proposal to make the required revisions to the ABSVD Methodology to accommodate the ABSVD opt out facility but reserves the right to bring this forward in a future proposal. We intend to re-engage further with industry on this proposed mechanism when the process, technical requirements and timescales have been finalised.</p> <p>Alongside progressing the ABSVD Opt Out proposal above, ESO also believes that broader market changes are required to fully resolve the challenge of ABSVD and compensation for Aggregators/Virtual Lead Parties, across all ancillary services. ESO agrees with Energy UK and Association for Decentralised Energy (ADE) that coordinated solutions are needed across all markets and that discussions are required with policy makers as to how best to move this forwards. We are supportive of accelerated action in this area and are in agreement with our stakeholders that a holistic review of the current settlement arrangements is required to alleviate the concerns across all services. We will commit to working with industry stakeholders and policy makers at pace to develop an enduring cross market solution via the most appropriate forum. To further support this, we are establishing an additional internal workstream which will look to review the current limitations of settlement arrangements and associated compensation mechanisms across all services.</p>
	Equiwatt Limited	We advocate for providing LCM providers to opt-out of the intended ABSVD mechanism where they also serve as the	Thank you for your response, we appreciate the feedback you have provided. We have

		<p>BSC-registered party Supplier for consenting Meter Point Administration Numbers (MPANs). This stance is underpinned by the company's commitment to fostering flexibility and efficiency in the management of LCMs within the electricity market. We believe that allowing an opt-out empowers LCM Providers to select compensation mechanisms that best suit their operations, ultimately contributing to a market environment that encourages increased participation and innovation.</p> <p>This proposal aligns with our commitment to tailoring approaches based on specific circumstances, optimizing the delivery of demand-side flexibility services. We emphasize the importance of flexibility in compensation mechanisms for LCM Providers, as it allows them to navigate the evolving energy landscape. By providing autonomy to providers, we envision a more competitive and adaptable market, ensuring that decisions align with the best interests of both providers and their customers. The option to opt-out of the ABVSD mechanism is viewed as a strategic move that enables LCM Providers to explore alternative compensation models, promoting the overall success and evolution of demand-side flexibility in the energy sector.</p>	<p>taken this into consideration as part of the consultation process.</p> <p>ESO believes there is a strong case to address the concerns raised by industry around the LCM market unfairness and a solution is required to ensure all participants can effectively access the LCM. ESO believes that LCM has significant value to facilitate future flexibility markets, by enabling increased participation from distributed energy resources, encouraging more competition to unlock new sources of demand side flexibility and increasing collaboration with DNOs and DSOs to enable distributed demand turn up. Whilst the ESO supports the principle of which the proposed compensation mechanism is trying to achieve, further time is required which the regulatory timescales associated with the C16 process do not allow, to fully understand the concerns raised in the consultation and, given the nature of the ABSVD process, allow us to implement the proposal effectively.</p> <p>Consequently, ESO will be withdrawing its proposal to make the required revisions to the ABSVD Methodology to accommodate the ABSVD opt out facility but reserves the right to bring this forward in a future proposal. We intend to re-engage further with industry on this proposed mechanism when the process, technical requirements and timescales have been finalised.</p> <p>Alongside progressing the ABSVD Opt Out proposal above, ESO also believes that broader market changes are required to fully resolve the challenge of ABSVD and compensation for Aggregators/Virtual Lead Parties, across all ancillary services.</p>
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	<p>The Electricity Storage Network (ESN)</p>	<p>As discussed in our response to the previous questions, where a Supplier is participating in the LCM, it is appropriate for them to be compensated via ABSVD – the alternative mechanism is intended to divert the ABSVD volume and redirect it to the appropriate recipient. However, it is not impossible to imagine a situation where the LCM Provider is a combination of Supplier, VLP and non-BM balancing services provider in respect of the site and might decide that opting out of the existing ABSVD mechanism would be the best options for them. A well-designed mechanism should be able to cater for this.</p>	<p>Thank you for your response, we appreciate the feedback you have provided. We have taken this into consideration as part of the consultation process.</p> <p>ESO believes there is a strong case to address the concerns raised by industry around the LCM market unfairness and a solution is required to ensure all participants can effectively access the LCM.</p> <p>ESO believes that LCM has significant value to facilitate future flexibility markets, by enabling increased participation from distributed energy resources, encouraging more competition to unlock new sources of demand side flexibility and increasing collaboration with DNOs and DSOs to enable distributed demand turn up. Whilst the ESO supports the principle of which the</p>

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	<p>Elxon</p>	<p>The effect of a Lead Party (Supplier) opting out of ABSVD is that they would still be compensated at system price (but through the new compensation mechanism rather than the existing BSC Imbalance calculation). Allowing this would therefore have little overall effect, but would arguably add unnecessary complexity.</p>	<p>Thank you for your response, we appreciate the feedback you have provided. We have taken this into consideration as part of the consultation process.</p> <p>ESO believes there is a strong case to address the concerns raised by industry around the LCM market unfairness and a solution is required to ensure all participants can effectively access the LCM.</p> <p>ESO believes that LCM has significant value to facilitate future flexibility markets, by enabling increased participation from distributed energy resources, encouraging more competition to unlock new sources of demand side flexibility and increasing collaboration with DNOs and DSOs to enable distributed demand turn up. Whilst the ESO supports the principle of which the proposed compensation mechanism is trying to achieve, further time is required which the regulatory timescales associated with the C16 process do not allow, to fully understand the concerns raised in the consultation and, given the nature of the ABSVD process, allow us to implement the proposal effectively.</p> <p>Consequently, ESO will be withdrawing its proposal to make the required revisions to the ABSVD Methodology to accommodate the ABSVD opt out facility but reserves the right to bring this forward in a future proposal. We intend to re-engage further with industry on this proposed mechanism</p>



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	Octopus Energy	Rules should be applied equitably (neither party should be able to opt out of ABSVD).	<p>Thank you for your response, we appreciate the feedback you have provided. We have taken this into consideration as part of the consultation process.</p> <p>ESO believes there is a strong case to address the concerns raised by industry around the LCM market unfairness and a solution is required to ensure all participants can effectively access the LCM.</p>

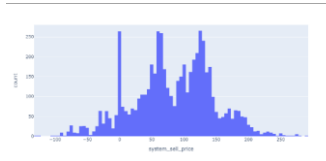
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			<p>holistic review of the current settlement arrangements is required to alleviate the concerns across all services.</p> <p>We will commit to working with industry stakeholders and policy makers at pace to develop an enduring cross market solution via the most appropriate forum. To further support this, we are establishing an additional internal workstream which will look to review the current limitations of settlement arrangements and associated compensation mechanisms across all services.</p>
<p><b>12.Do you have any other comments in relation to the changes proposed to ABSVD? Or any additional changes you would like to see? Please provide rationale</b></p>	<p>Flexitricity</p>	<p>Flexitricity appreciated NGENSO’s webinar of 16<sup>th</sup> January. We have considered the objections which were raised through the informal consultation period and summarised at a high level in the webinar. We hope these will be useful as NGENSO and Ofgem consider the larger messages about competition and fairness which this decision represents.</p> <ul style="list-style-type: none"> <li>○ <b>Larger issues should not be resolved by adjustments on a service-by-service basis:</b> <ul style="list-style-type: none"> <li>○ <i>“LCM is a temporary market”</i> – although LCM in this format is expected to last only 3-4 more years, the need for an LCM type product has been repeatedly referred to throughout the REMA process. We expect to see LCM type markets throughout GB and it is important that we gain learnings about the efficacy regarding competition, avoided curtailment, and domestic and I&amp;C participation using both Supplier and non-Supplier routes. Furthermore, 3-4 years of avoided wind turn down and new, non-BM flexibility consumer participation is welcome to us, whether it is permanent or not. As a potential solution has been identified by ESO, it would be unfortunate to allow the continuation of a market distortion because the market is not enduring. Perhaps in that case, it would be fairer to curtail LCM and design a new market from scratch which better achieved ESO’s objective of promoting competition everywhere.</li> </ul> </li> </ul>	<p>Thank you for your feedback. The insights provided in your response are welcomed and valued.</p> <p>We have taken this into consideration as part of the consultation process.</p> <p>ESO believes there is a strong case to address the concerns raised by industry around the LCM market unfairness and a solution is required to ensure all participants can effectively access the LCM. ESO believes that LCM has significant value to facilitate future flexibility markets, by enabling increased participation from distributed energy resources, encouraging more competition to unlock new sources of demand side flexibility and increasing collaboration with DNOs and DSOs to enable distributed demand turn up. Whilst the ESO supports the principle of which the proposed compensation mechanism is trying to achieve, further time is required which the regulatory timescales associated with the C16 process do not allow, to fully understand the concerns raised in the consultation and given the nature of the ABSVD process, allow us to implement the proposal effectively.</p>

		<ul style="list-style-type: none"> <li>○ <i>“ABSVD should be dealt with holistically”</i> – we agree that a broader review of ABSVD should take place, looking at the generally uneven application of ABSVD across various services and markets. We suspect this review would encompass several BSC mods which are not yet determined (e.g. P412). As this is likely to be a complex, wide-ranging piece of work and a specific solution for LCM distortions has been identified, it would be disappointing if the “lack of fair energy compensation” (ESO, 16 Jan) was allowed to continue in pursuit of a perfect solution across all markets.</li> <li>○ <i>“Demand turn up incentives should be dealt with holistically”</i> – similarly we are keen to work proactively with ESO to establish enduring solutions to incentivise negative energy. Learnings from LCM will better inform this important issue if the proposal is enacted.</li> <li>○ <b>Creates further complexity for market participants (subsequently increasing operating costs and barriers to entry for new entrants):</b> <ul style="list-style-type: none"> <li>○ We appreciate NGENSO’s stated approach which aims to eliminate any net effects on the bill payer. We intend to explore in good faith how direct energy compensation can be made to non-Supplier participants using existing methodologies if possible.</li> <li>○ As a company that explicitly wishes to enter LCM, we can confidently assert that the alleged complexity of ESO’s proposed solution is not what is creating a barrier to entry!</li> </ul> </li> <li>○ <b>Risk of perverse incentives influencing both LCM bidding and consumer action</b> <ul style="list-style-type: none"> <li>○ We question why perverse incentives would be more likely for consumers accessing LCM through non-Suppliers than Suppliers, particularly as the proposal brings value parity. If ESO has more details on these concerns which can be shared, we would consider in more detail.</li> <li>○ Currently the Supplier receives both an increased LCM energy payment from the consumer and the</li> </ul> </li> </ul>	<p>Consequently, ESO will be withdrawing its proposal to make the required revisions to the ABSVD Methodology to accommodate the ABSVD opt out facility but reserves the right to bring this forward in a future proposal. We intend to re-engage further with industry on this proposed mechanism when the process, technical requirements and timescales have been finalised.</p> <p>Alongside progressing the ABSVD Opt Out proposal above, ESO also believes that broader market changes are required to fully resolve the challenge of ABSVD and compensation for Aggregators/Virtual Lead Parties, across all ancillary services. ESO agrees with Energy UK and Association for Decentralised Energy (ADE) that coordinated solutions are needed across all markets and that discussions are required with policy makers as to how best to move this forwards. We are supportive of accelerated action in this area and are in agreement with our stakeholders that a holistic review of the current settlement arrangements is required to alleviate the concerns across all services.</p> <p>We will commit to working with industry stakeholders and policy makers at pace to develop an enduring cross market solution via the most appropriate forum. To further support this, we are establishing an additional internal workstream which will look to review the current limitations of settlement arrangements and associated compensation mechanisms across all services.</p>
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additional benefit of an energy imbalance position correction via ABSVD. This seems like an incentive for Suppliers to object to ESO's proposals in order to maintain a favourable status quo.

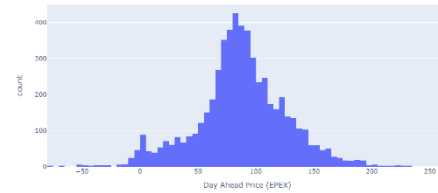
- **Creates an unknowable imbalance exposure for suppliers:**
  - In Flexitricity's response to the informal C16 consultation, we said: *"In general, the registered Supplier to a site participating in LCM directly or through an aggregator is likely to be net positive on average, even with the correction. Constraints are only active when a high volume of renewable generation is present; cashout prices respond to high renewable generation but customer tariffs usually do not."*
  - Seeing that the 'unknowability' of imbalance exposure for suppliers had been raised as a concern, Flexitricity's data team has further investigated the potential impacts to a hypothetical domestic supplier having to over provide at the cost of SIP in cases of system-flagged wind bids in Scotland due to the LCM. We are happy to share more details about the data and assumptions underlying our analysis below.
- **2023 full year data**
  - SO-flagged Scottish wind bids occurred on 238 days in 2023, across 5620 SPs.
  - Looking only at periods where Scottish wind assets have received system flagged bids in 2023, SIP mean prices are as follows:
  - SIP: £82.91/MWh (compared to £93.26 for all SPs in 2023).
  - The distribution of prices during SO-flagged wind bids is below.



- As it is impossible to estimate the forward hedge price of any supplier, we have used as proxies a) the EPEX Day Ahead price and b) the average of the month ahead baseload (UK Power Gregorian Months, found [here](#)) offer contracts from Dec-22 to Nov-23.

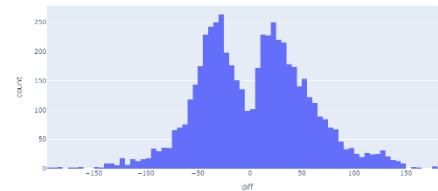
A) Looking only at periods where Scottish wind assets have received system flagged bids in 2023, DA mean prices are as follows:

- EPEX DA price: £86.85/MWh (compared to £94.00/MWh for all SPs in 2023). This price distribution is fairly normal:



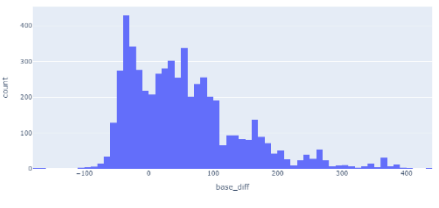
This gives an annualised average uplift for Suppliers of £3.94 for each additional MWh having to be provided that was not accounted for in the initial hedge buy.

- ii) calculating first the difference by SP then averaging over the year gives £3.91/MWh of Supplier uplift.



There is clearly quite a wide distribution here, but over the year the averages remain better than breaking even for Suppliers.

B) Looking only at periods where Scottish wind assets have received system flagged bids in 2023, average month ahead averages were calculated and then the difference between SIP and these averages analysed.

		<ul style="list-style-type: none"> <li>• The average difference across the whole year is £55.07/MWh i.e. by which average SIP is cheaper than average baseload.</li> <li>• In the distribution below, this skews towards the positive direction (favouring SIP over the average monthly baseload contract), with a big density in the £0-100/MWh range, and a lower but notable quantity of higher values that shift the mean difference higher.</li> </ul>  <p>In both analyses we surmise that the imbalance exposure for Suppliers is likely to be minor and overall positive.</p>	
Octopus Energy		<p>A tactical change to ABSVD in the LCM cannot be seen as a wider solution to the greater challenge of how suppliers and aggregators interact within settlement. There is desperate need for a wider strategic review here as poor and uncoordinated solutions across the marketplace have created a messy playing field (ie where tactical fixes try to cancel out the perceived advantage of another player). Further, it is imperative that stacking of LCM with other revenue streams is facilitated, as this is a change that will allow us to offer much greater volumes of capacity into the auctions.</p>	<p>Thank you for your response, we appreciate the feedback you have provided. We have taken this into consideration as part of the consultation process.</p> <p>Your feedback around stacking is welcomed and valued. This feedback has been shared internally and ESO will respond to the non C16 related items separately, via the LCM team who will investigate this further.</p> <p>ESO believes there is a strong case to address the concerns raised by industry around the LCM market unfairness and a solution is required to ensure all participants can effectively access the LCM. ESO believes that LCM has significant value to facilitate future flexibility markets, by enabling increased participation from distributed energy resources, encouraging more competition to unlock new sources of demand side flexibility and increasing</p>

			<p>collaboration with DNOs and DSOs to enable distributed demand turn up. Whilst the ESO supports the principle of which the proposed compensation mechanism is trying to achieve, further time is required which the regulatory timescales associated with the C16 process do not allow, to fully understand the concerns raised in the consultation and, given the nature of the ABSVD process, allow us to implement the proposal effectively.</p> <p>Consequently, ESO will be withdrawing its proposal to make the required revisions to the ABSVD Methodology to accommodate the ABSVD opt out facility but reserves the right to bring this forward in a future proposal. We intend to re-engage further with industry on this proposed mechanism when the process, technical requirements and timescales have been finalised.</p> <p>Alongside progressing the ABSVD Opt Out proposal above, ESO also believes that broader market changes are required to fully resolve the challenge of ABSVD and compensation for Aggregators/Virtual Lead Parties, across all ancillary services. ESO agrees with Energy UK and Association for Decentralised Energy (ADE) that coordinated solutions are needed across all markets and that discussions are required with policy makers as to how best to move this forwards. We are supportive of accelerated action in this area and are in agreement with our stakeholders that a holistic review of the current settlement arrangements is required to alleviate the concerns across all services.</p> <p>We will commit to working with industry stakeholders and policy makers at pace to</p>
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		develop an enduring cross market solution via the most appropriate forum. To further support this, we are establishing an additional internal workstream which will look to review the current limitations of settlement arrangements and associated compensation mechanisms across all services.
Axle Energy	See responses above (RE LCM Additional Questions)	Thank you for your response, we appreciate the feedback you have provided.
CUB (UK) LTD	Only as mentioned above (RE LCM), I am encouraged to see the work going into this change however I am concerned that not enough thought has been given on how this will actually work in practice.	Thank you for your response, we appreciate the feedback you have provided.
E.ON HEAT CO LTD	<p>Pg11 – The Introduction of EAC has resulted in significant impacts to the DM/DR/DC services pricing and has resulted in different impacts between BM and Non BM providers. We feel that this would have been an ideal opportunity to review the impacts and look to separate out the BM and Non BM providers.</p> <p>We do not feel that this review could wait an additional year for review.</p>	<p>Thank you for your response, we appreciate the feedback you have provided.</p> <p>We are reviewing ways to align ABSVD for BMUs and non-BMUs as part of our Response reform work. Significant changes to IT systems and processes have already been identified and work has already been undertaken to deliver some of the new systems which would be required. We are working to confirm timelines for addressing the remaining barriers and hope to be able to share this part of our Response reform future plans.</p>
Equiwatt Limited	No	Thank you for your response, we appreciate the feedback you have provided.
Association for Decentralised Energy (ADE)	No	Thank you for your response, we appreciate the feedback you have provided. We have taken this into consideration as part of the consultation process.
Centrica	<p>Thank you for the opportunity to comment on the C16 consultations. Our comment concerns the proposed revisions to the Applicable Balancing Services Volume Data (ABSVD) Methodology Statement.</p> <p>We think that “frequency services” should be added as part of ABSVD to non-BM providers (section C.1 of <a href="https://www.nationalgrideso.com/document/300796/download">https://www.nationalgrideso.com/document/300796/download</a>).</p>	<p>Thank you for your response, we appreciate the feedback you have provided.</p> <p>ESO welcomes the feedback you have provided. We will review this internally to address the feasibility of a solution. We will update on this via the normal C16 channels</p>

		<p>Currently, the frequency services market is highly distorted between BM units favouring high frequency services (as they do not pay charging thanks to ABSVD) and non-BM units favouring low frequency services (as they get paid their energy with system price). Addressing this distortion would help to improve competition in these services.</p> <p>In addition, in view of the changing market conditions, perhaps a more comprehensive review of issues like this would be more beneficial than the current service-by-service approach.</p>	<p>and welcome your input in future consultations</p>
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## Balancing Principles Statement

Question	Stakeholder	Industry Response	ESO Response
<b>1. Do you agree with the proposed suggestions to the Balancing Principles Statement in relation to housekeeping updates, i.e., version control, link updates? Please provide rationale.</b>	Flexitricity	Yes	Thank you for your response, we appreciate the feedback you have provided.
	E.ON HEAT CO LTD	Yes	
	Equiwatt Limited	Yes	
	Association for Decentralised Energy (ADE)	Yes	
	Octopus Energy	Yes, we agree with the housekeeping change.	
<b>2. Do you agree to the updates to wording in Section 2.3 Control Phase - Pre-Gate Closure in the Balancing Principles Statement on P25? Please provide rationale.</b>	E.ON HEAT CO LTD	Yes	Thank you for your response, we appreciate the feedback you have provided.
	Equiwatt Limited	Yes, rather than depending solely on traditional power plants, demand flexibility services can function as a distributed energy resource (DER). This approach decentralizes the energy supply, harnessing the flexibility of consumer demand to contribute to a more resilient and adaptive energy system.	
	Association for Decentralised Energy (ADE)	Yes	
	Octopus Energy	We are supportive of changes as they reflect the reality of what ESO is procuring.	
<b>3. Do you agree with the proposed</b>	Flexitricity	<b>Informal:</b> Yes	Thank you for your response, we appreciate the feedback you have provided.

<b>suggestions to the wording on Regulating Reserve in the Balancing Principles Statement on P29? Please provide rationale.</b>		<b>Formal:</b>  No Comment	
	E.ON HEAT CO LTD	This needs to be reviewed, there is no reference to “Regulating Reserve” in the Balancing section of the Procurement Guidelines.	Thank you for your response, we appreciate the feedback you have provided.  This has been reviewed and a link provided to the Balancing Services area of the ESO website providing more information.
	Equiwatt Limited	Yes, the inclusion of demand flexibility services is crucial, as they can play a significant role in both BMUs and ancillary services. These services offer the flexibility needed to address short-term generation losses and demand forecasting errors, aligning well with the objectives outlined in the statement.	Thank you for your response, we appreciate the feedback you have provided.
	Association for Decentralised Energy (ADE)	Yes	Thank you for your response, we appreciate the feedback you have provided.
	Octopus Energy	Yes	
<b>4. Do you agree with the addition of Quick Reserve to the list of Reserve Products on P32? Please provide rationale.</b>	Flexitricity	Yes	Thank you for your response, we appreciate the feedback you have provided.
	Octopus Energy	Yes	
<b>5. Do you have any other comments in relation to the changes proposed to the Balancing</b>	Flexitricity	No	Thank you for your response, we appreciate the feedback you have provided.
	E.ON HEAT CO LTD	No	
	Equiwatt Limited	No	

<b>Principles Statement? Or any additional changes you would like to see? Please provide rationale.</b>	Association for Decentralised Energy (ADE)	No	
	ElecLink	<p>In accordance with Ofgem’s derogation decisions,<sup>4 5</sup> it is expected that NGESO will only use NTC limits as a tool of last resort to ensure system security. Furthermore, Ofgem qualify ‘tool of last resort’ by stating that <i>‘NTC should only be applied where other market-based business as usual tools are not available or have proven insufficient’</i>.</p> <p>In this context, it is our view that Part C.10 of the BPS – ‘Net Transfer Capacity (NTC)’ – needs to be updated to remove the wording of ‘feasible economic’. At present, this section of the BPS states that <i>‘NTC will not be used where feasible economic alternative actions are available to resolve the system issue’</i> [<i>emphasis added</i>]. The existing wording is not in keeping with Ofgem’s derogation decisions, namely, it could be interpreted implicitly that NTC limits could be procured by NGESO in the event NGESO deemed potential business as usual alternative actions as being uneconomic. The economic feasibility of alternative actions has no bearing on the order of actions to be utilised by NGESO when considering the use of NTC limits. As per Ofgem’s decisions, NTC limits should only be used in extremis, where NGESO has no viable market-based alternative.</p>	<p>Thank you for your response, we appreciate the feedback you have provided.</p> <p>ESO thanks you for your response and welcomes your feedback. The ESO applies NTC restrictions when there are no available alternative actions to resolve the system issue.</p> <p>The wording in the Balancing Principles Statement reflects the wording in Transmission Licence Condition C16: Procurement and use of Balancing Services. As such we do not feel it is appropriate to remove the references to "economic" during this review</p>

## System Management Action Flagging Methodology

Question	Stakeholder	Industry Response	ESO Response
<b>1. Do you agree with the proposed suggestions to the SMAF Methodology Statement in relation to housekeeping updates, i.e., version control, link updates? Please provide rationale.</b>	Flexitricity	Yes	Thank you for your response, we appreciate the feedback you have provided.
	E.ON HEAT CO LTD	Yes	
	Equiwatt Limited	Yes	
	Association for Decentralised Energy (ADE)	Yes	
	Octopus Energy	Yes	
<b>2. Do you have any other comments in relation to the changes proposed to SMAF? Or any additional changes you would like to see? Please provide rationale.</b>	Flexitricity	No	Thank you for your response, we appreciate the feedback you have provided.
	E.ON HEAT CO LTD	No	
	Equiwatt Limited	No	
	Association for Decentralised Energy (ADE)	No	
	Octopus Energy	No	

## Balancing Services Adjustment Data

Question	Stakeholder	Industry Response	ESO Response
<b>1. Do you agree with the proposed suggestions to the BSAD Methodology Statement in relation to housekeeping updates, i.e., version control, link updates? Please provide rationale.</b>	Flexitricity	Yes	Thank you for your response, we appreciate the feedback you have provided.
	E.ON HEAT CO LTD	Yes	
	Equiwatt Limited	Yes	
	Association for Decentralised Energy (ADE)	Yes	
	Octopus Energy	Yes	
<b>2. Do you object to the removal of Non-BM Negative Slow Reserve Actions (NSR) on P9? Please provide rationale.</b>	Octopus Energy	No	Thank you for your response, we appreciate the feedback you have provided.
<b>3. Do you object to the removal of wording for Operational Downward Flexibility Management (ODFM) from P13? Please provide rationale.</b>	Flexitricity	No	Thank you for your response, we appreciate the feedback you have provided.
	E.ON HEAT CO LTD	Yes	
	Equiwatt Limited	No	
	Association for Decentralised Energy (ADE)	No	
	Octopus Energy	No	
<b>4. Do you object to the removal of the text relating to Price Adjuster on P14? Please provide rationale.</b>	Octopus Energy	No	Thank you for your response, we appreciate the feedback you have provided.
<b>5. Do you object to the update to the Buy Price Adjuster formula on P14? Please provide rationale.</b>	Elaxon	No comment on the formula but does the introduction sentence need to be amended following removal of the previous paragraph. Price Adjusters header is still there numbered 3 but BPA has been changed from 3.1 to 3.	Thank you for your response, we appreciate the feedback you have provided.  We have reviewed the text and added additional clarification into the introductory paragraph relating to Price Adjusters and their usage.
	Octopus Energy	No	Thank you for your response, we appreciate the feedback you have provided.
<b>6. Do you object to the removal of the wording relating to Regulating Reserve on P15-16? Please provide rationale.</b>	Octopus Energy	No	Thank you for your response, we appreciate the feedback you have provided

7. Do you object to the update to the worked example of the Buy Price Adjuster following the update to the formula on P16? Please provide rationale.	Elexon	No comment on the formula but should the numerical example be left in with the £16k/1k for Bc/cB?	Thank you for your response, we appreciate the feedback you have provided.  We have reviewed the numerical example and agree the solution “ $BPA_j = £16/MWh$ ” should be included in the worked example, as it covers the BM Start Up Calculation as such we have withdrawn the deletion of this section of the text.
	Octopus Energy	No	Thank you for your response, we appreciate the feedback you have provided.
8. Do you agree to the updated wording for the Sell Price Adjuster Calculation on P17? Please provide rationale.	Octopus Energy	Yes	Thank you for your response, we appreciate the feedback you have provided.
9. Do you object to the removal of the Sell Price Adjuster worked example on P17? Please provide rationale.	Octopus Energy	No	Thank you for your response, we appreciate the feedback you have provided.
10. Do you agree with the addition of Demand Flexibility Service (DFS) to Part C on Page 19? Please provide rationale.	Octopus Energy	Yes	Thank you for your response, we appreciate the feedback you have provided.
11. Do you object to the removal of Section 2 “Basis of BSAD” from P20 Please provide rationale.	Octopus Energy	No	Thank you for your response, we appreciate the feedback you have provided.
12. Do you object to the removal of wording for Operational Downward Flexibility Management (ODFM) from P20? Please provide rationale.	Flexitricity	No	Thank you for your response, we appreciate the feedback you have provided.
	E.ON HEAT CO LTD	No	
	Equiwatt Limited	No	
	Association for Decentralised Energy (ADE)	No	
	Octopus Energy	No	
13. Do you have any other comments in relation to the changes proposed to the BSAD Methodology Statement? Or any additional changes you would like to see? Please provide rationale.	Flexitricity	No	Thank you for your response, we appreciate the feedback you have provided.
	E.ON HEAT CO LTD	No	
	Equiwatt Limited	No	
	Association for Decentralised Energy (ADE)	No	



