ESO

Demand Flexibility Service September 2024 Submission

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Demand Flexibility Service Terms and Conditions

Dear industry and colleagues,

In accordance with Commission Regulation (EU) 2017/2195 of 23 November 2017 as converted into retained EU law (EBR), we are proposing to update our terms and conditions relating to balancing with respect to our Demand Flexibility Service.

The proposed changes cover a range of updates to our services as well as providing additional clarity where this has been requested. A summary of key changes can be found in the 'Summary of proposals' section of this document. In these proposals, we have taken account of feedback we received to our consultation, which we published on 22 July 2024.

On 24 September 2024, we submitted these proposals to Ofgem for approval. In accordance with EBR, Ofgem shall decide on these proposals within two months following submission.

Annexed to this document is a table showing how we believe the updated terms and conditions (and corresponding parts of the GB codes) map across to the terms and conditions related to balancing described by Article 18 of EBR.

Yours sincerely,

Jonathan Wisdom

Market Change Delivery Manager

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Introduction

The Demand Flexibility Service (DFS) Service Terms and Demand Flexibility Service Procurement Rules make up the terms and conditions for our Demand Flexibility Service.

Over the past year we engaged extensively with industry sharing our design proposals, including a feedback questionnaire, three Q&A webinar sessions and 39 one-to-one meetings with individual providers and industry forums. On 22 August 2024, we published our consultation setting out a range of proposed changes reflecting this engagement alongside our internal priorities.[1]

We received 34 responses to this consultation. The feedback included has helped shape the final submissions included in this document. On several topics we have engaged further with providers to understand their feedback and explore possible revisions.

This document is structured as follows:

- In this introduction, we set out our approach to the consultation and submission document.
- In the 'Summary of proposals' section, we set out our proposals, the key themes in responses and signpost where we have proposed changes to Service Terms and Procurement Rules
- In the 'Consultation responses and ESO responses' part of the document, we summarise the feedback we received, set out how we have considered it including where it has led to changes in our proposed terms and conditions since the consultation.

Overview of consultation feedback, and our response

For each proposal, we provide a single overview of all the responses we received. In this, we highlight core themes while ensuring we represent all points and questions made in responses. We then provide a single response in the 'ESO response following feedback' sub section, in which we address all points.

This represents a change from previous years where we would write a single response to each provider. We think this change allows us to better show how our consideration of feedback in the round has informed our decision-making. It also means each respondent only has to read one ESO response document, rather than 34, to understand our full view on responses on a particular issue.

Submissions

We intend that each of the proposed changes may be considered by Ofgem as separate 'submissions' such that they can be reviewed and hence approved by Ofgem in isolation. While in practice we expect all submissions to be approved at the same time, this ensures any delays or concerns by Ofgem around an individual change does not result in an undue delay to other changes independent of that individual change.

[1] Our consultation letter and proposed Service Terms and Procurement Rules are available on our DFS web-page in the Demand Flexibility Service > 2024 EBR Article 18 consultation tab

Summary of proposals

Below, we summarise our proposals, the key themes in responses and – where relevant – signpost where we have changed Service Terms and Procurement Rules compared to last year's DFS service. We highlight where we have revised changes reflecting consultation feedback. This signposting is for guidance and is not exhaustive; the Service Terms and Procurement Rules submitted and published alongside this document represent the contractual documents subject to Ofgem's approval.

1. Service Positioning

We propose moving the service away from an enhanced action to a merit-based margin tool.

Most consultation respondents agreed with this proposal, though several expressed concern about how this might reduce revenue opportunities and have a cooling effect on the market. We recognise those concerns and have retained the ability to offer tests to achieve objectives around market development and learning, but think it is important to promote DFS as a competitive, efficient tool. We are proceeding with this proposal.

2. Stacking

We propose allowing the service to stack with the Capacity Market and DNO Flexibility Services to promote effective competition.

Nearly all respondents agreed with this proposal, though some highlighted challenges with accessing and coordinating revenue opportunities across markets. We welcome the positive reaction and will continue, including in our role as Capacity Market Delivery Body and as part of the ENA Open Networks Project, to promote coordination and coherence across markets. Reflecting feedback on our consultation feedback, we have made some revisions to improve clarity (but not change policy intent):

- Service Terms: In paragraph 12 we have clarified eligible stackable services.
- Procurement Rules: in 4.7.8 and 9.4.2 we have clarified wording on eligible stackable services. We have also revised relevant defined terms.

We propose baseline methodology changes to clarify stacking's impact on baseline calculations.

Most respondents agreed with our changes, though we received additional questions seeking additional clarity which we sought to address in our response. Changes as part of this proposal include:

- Service Terms: Added 'Event Day' into 6.5
- Procurement Rules: Added detail into Schedule 3 and added 'Event Day' as a defined term.

3. Performance incentives

We propose changes to the performance incentive structure to promote accurate and effective delivery of the service.

Most respondents agreed with our proposal. Some questioned the proportionality of the proposed penalty arrangements for opt-out participants. We are continuing with the performance incentive structure, but reflecting feedback we are capping the volume for which opt-out participants are exposed to penalties. To bring this proposal into effect:

- Service Terms: Formulas in 'Schedule 1 Utilisation payments' provide for our performance incentives including the cap we have introduced since the consultation.

4. Procurement / Utilisation

We propose to move the procurement of the service to within day only.

We received mixed feedback to this question; 13 agreed and 11 disagreed. There was support for bringing the service into our BAU daily decision-making process, while there was concern this could reduce participation. We are proceeding with our proposal. This brings the service into closer alignment with our role to procure balancing services closer to real time, and experience shows effectiveness of within day activation.

We propose moving away from a season-to-season derogations to secure a longer-term derogation to reflect DFS's role as an enduring merit-based tool (until market-wide half-hourly settlement).

Most respondents agreed with this proposal, including because it provided longer term certainty for providers. We are proceeding with this proposal. We have made a relevant change to the Procurement Rules:

- Procurement Rules: We have removed paragraph 2 from last year's DFS Procurement Rules which provided that for the duration of DFS procurement.

5. Metering

We propose that an asset meter needn't be linked to a half-hourly settled boundary meter.

Most respondents agreed with this change, though we received questions and requests for clarity. We are proceeding with this proposal, but reflecting feedback we have revised terms to clarify it:

- Procurement Rules: we have clarified that a sub-meter must be associated with a half-hourly metered boundary meter.

We propose additional wording to provide clarity around premises with unique metering sets ups and premises with multiple boundary meters.

Most who responded agreed with our clarifications. We intend to proceed with these changes, including:

- Procurement Rules: We have added additional wording to the definition of sub-meter.

6. Data/process

We propose to remove the obligation for providers to send an incentive file sharing how providers opt to incentivise/pay their customers.

Most respondents agreed with this change. We are proceeding with this proposal:

- Service Terms: we have removed the previous requirement for this in paragraph 8.

We propose to include and share delivery data from all unit meter points that participated in events.

Most agreed with our proposal, but some has questions around granularity of data shared. We are proceeding with the proposal and, reflecting, feedback, we have clarified that we will share data at an aggregated level:

- Service Terms: in paragraph 6.7 we have clarified we will not publish at an MPAN level.

We propose each meter point can only be allocated to a single DFS unit.

Most respondents agreed. Of the couple who disagreed they suggested it undermined flexibility. We will proceed with proposal:

- Procurement Rules: We have amended 4.2 and added 4.3.2 (h)

We sought general feedback on the Anticipated Requirement Notice.

Most who responded to this question said they valued an ARN, saying it promoted consumer engagement. We will retain the ability to publish ARNs, though are not committing to publishing an ARN before publishing a requirement.

Reflecting feedback, we are no longer proposing to share information relating to Registered Service Providers to resolve MPAN duplications.

While most respondents agreed with our proposal to share this information, or the underlying intent of it, several providers highlighted risks this provision could be abused. Reflecting on this feedback, we have decided not to proceed with the proposal as set out in the consultation. We will explore alternative options that avoid the risks set out in consultation responses.

- We are not including paragraph 4.10 of the Procurement Rules that we consulted on which provided for this sharing Registered Service Providers information relating to MPAN duplications.

Reflecting feedback, we propose to move the Unit Meter Point Schedule validation for 11am to 9am.

We did not consult on this specifically but received this suggestion in our generic questions in the consultation. We consider this is an effective change as it will allow all new accepted Unit Meter Points following validation to participate in the service on that day.

- Procurement Rules: in 4.7 we have changed the Unit Meter Point Schedule submission deadline from 11am to 9am. We have also amended 9.1.1. to provide for this proposal.

Consultation responses and ESO response

1. Service Positioning

Do you agree with the proposal to evolve the DFS away from a last resort enhanced action winter contingency service and operate as a merit-based margin tool? Please provide rationale for your views.

Consultation responses overview

Of the 34 respondents to this question, 20 agreed with our proposal to make DFS a merit-based margin tool though some offered caveats or wider reflections (summarised below). Eight respondents disagreed with this and two provided no response or a neutral view. There were four respondents who did not explicitly agree or disagree.

Several respondents agreed with our proposal. They recognised changing system conditions have changed the operability case for DFS. Respondents suggested this as representing the right direction of travel, i.e., putting demand side flexibility on a level playing field with other forms of flexibility. Finally, respondents suggested that using DFS as a merit-based tool can offer better consumer value, as guaranteed acceptance prices are ultimately paid for in consumer bills. Some were keen that we do not pay more for demand flexibility vs alternative forms of flexibility.

ESO decision-making

A few respondents asked for more clarity on how we would compare DFS to alternative margin actions. This included asks around what alternative actions we would compare DFS against, and whether we would take factors beyond pricing, such as carbon, into account.

A couple of respondents disputed the suggestion that our proposal is moving DFS away from an enhanced action; they said carrying out DFS tenders only on specific tight days made it still an enhanced action rather than BAU tool.

Revenue proposition

Several respondents expressed concern that this would have a cooling effect on participation in the DFS market and risk momentum in developing demand flexibility. Some suggested price certainty is necessary while demand flexibility is nascent and manually activated. A few referred to the anticipated need for larger volumes of demand flexibility in future – such as set out in our FES Pathways[2] – and suggested greater revenue certainty is needed to build the capability for that future requirement.

A few respondents suggested we should continue to commit to tests or to guaranteed acceptance prices to provide clear revenue opportunities in advance.

Availability payments were suggested by several respondents as a means to provide revenue certainty and promote continued enthusiasm in participation. Respondents proposed several ways for how these could work, including auctions for availability for a season, month, or day ahead.

A couple of respondents said that as it is difficult for domestic flexibility to participate in the Capacity Market, there is a case for DFS to provide an availability payment to level the playing field with flexibility that can more easily participate in that market.

Pay-as-bid vs pay-as-clear

A couple of respondents suggested pay-as-clear pricing rather than pay-as-bid pricing. This reflected the homogeneity of the service across the country, that they consider the service is competitive, and that pay-as-clear would facilitate price discovery.

[2] https://www.nationalgrideso.com/future-energy/future-energy-scenarios-fes

Reliability

One respondent did not agree with using DFS as merit-based margin tool because it is less reliable than alternative actions and there is not parity in penalties for under-delivery.

DNO coordination

One respondent suggested there is a case to consider ESO-DNO coordination and share appropriate data with DNOs.

ESO response following feedback

We recognise the majority of respondents agreed with this proposal, and we intend to progress DFS as a merit-based margin tool.

ESO decision-making

To help set out how we intend to make commitment decisions, during the consultation process we published a document (Market Guidance V.1) to set out how we would assess margin and what situations would lead to DFS being in merit. As with any new service we expect a period of learning and development following go-live as the market matures.

Revenue proposition

We recognise some participants' questions and concerns around the revenue proposition and that there are a wide range of views expressed. As the ESO, and as we step into our new role as NESO, it is critical that we spend consumer money efficiently and ensure that our costs of balancing are minimised in the short and long term. We have received strong opinions both on increasing the revenue proposition and also on ensuring that no additional payments are made compared with other market participants. Given this, we are proposing to continue to deploy the service as an in-merit service while retaining the contractual provisions allowing us to carry out tests. As we do not propose the service to be time limited, we can assess how the market evolves and whether additional support is necessary and justifiable. Finally, we think it is important to reflect DFS's role as a transitional product before enduring market initiatives to strengthen market signals for demand flexibility are established in the long-term such as Market Wide Half-Hourly Settlement (MWHHS) and the Review of Electricity Market Arrangements (REMA).

Revenue proposition – availability payment

We are ruling out an availability payment, as we do not have a need for a fixed volume of the service, nor do we consider it would represent good value for consumers. It would also be difficult to determine what price we should be willing to pay as there would not be an alternative market option to price against.

Revenue proposition – testing

We propose to retain the ability to carry out tests. We will consider whether to carry out further tests for defined and specific goals around market development and learning. We intend to engage with Ofgem and the wider market on what might make such testing appropriate. As part of that, we must consider our legislative duties and values to avoid significant distortions and inefficiencies in the balancing market.

Pay-as-bid vs pay-as-clear

With regard to pay-as-clear vs pay-as-bid, we agree that the product is homogenous. However, we have set out in our Pricing Proposal to Ofgem that we do not believe that the market has full information, and having assessed last year's events, only 1 out of 16 events met the threshold for the Herfindahl-Hirschman Index competitive market score, so we don't yet believe that the DFS market is sufficiently competitive to justify pay-as-clear.

Reliability

We understand one respondent's concerns about the reliability of the service. Our experience of DFS demonstrates the service can effectively reduce demand so that, in conjunction with our suite of reserve and other balancing tools, we can manage the system securely and efficiently. Our proposals around performance incentives will promote more accurate delivery.

DNO coordination

We welcome broader feedback on the role of DFS and coordination with other markets. Through our work on the Open Networks programme, we are delivering more standardised and coordinated processes for the alignment of our network operations and market development with DNOs. Through this we are developing a set of primacy rules and dispatch systems interoperability. Additionally, we are aligning the prequalification and settlement process and provide a set of standards for baselining. We have also delivered a set of recommendations for the DNO flexibility products and revenue stacking. We are also supporting the Market Facilitator (MF), to establish a new governance model with clear roles, responsibilities and priorities prior to the beginning of MF operations, and we will work towards more coordinated network planning with DNOs and align on standardised forecasting methodologies through our new RESP function.

2. Stacking

Do you agree with the proposal to facilitate stacking with the Capacity Market and DNO Flexibility Markets? Please provide rationale for your views.

Consultation responses overview

Of the 34 respondents to this question, the majority were in favour with 30 agreeing with the proposal to facilitate stacking with the Capacity Market (CM) and DNO Flexibility Markets. Most felt that this helps to unlock revenue streams, can reduce barriers to participate, and can ultimately increase DFS volume.

One respondent did not fully agree, suggesting that stacking may have a detrimental impact on DFS's ability to deliver when needed. Additionally, they felt it doesn't help domestic customers who do not have access to automated controllable assets such as EVs. Three respondents did not provide an answer to the question.

Revenue proposition

Of the 30 respondents who agreed, seven have challenged us on the lack of revenue certainty. Three of those seven asked that we look to include availability payments and the others felt that stacking should not be seen as a substitute for providing greater revenue certainty through DFS alone. Several referred to barriers to participating in the CM (described below) as reasons why DFS should offer availability payments.

Stacking with the CM challenges

While there was broad support for us enabling stacking with the CM and discussion of the potential benefits, some respondents set out challenges of stacking.

Several respondents said CM rules make it difficult to access value in that market. Four respondents said that they are unable to participate in the CM due to the requirement to be half-hourly settled (HHS) and therefore are not able to access any additional revenue streams through stacking.[3] Some respondents said accessing CM is particularly challenging for domestic flexibility. Other respondents set out specific challenges for I&C flexibility.

Three respondents argued that DFS should be included as a Relevant Balancing Service, which would ensure that any DFS activity is taken out of the CM baseline should there be a System Stress Event or for the purpose of Capacity Market Unit testing.

Coordination with DNO flexibility markets

Again, despite broad support for enabling stacking, several respondents raised issues and questions around stacking with DNO flexibility markets. Three respondents have highlighted that there is a potential issue with DFS and DNOs using different baselining methodologies. One respondent highlighted there may be some

[3] As we set out in the 'ESO Response following feedback section,' we do not agree there is a requirement in the Capacity Market for participants to be half hourly settled.

regional variation in the extent to which unlocking stacking affects providers in relation to DNO services due to DNO specific characteristics.

Other stackable services and ESO communication

Two respondents said they were supportive of our intention to publish and maintain a publicly available list of services participants are allowed to stack DFS with. Meanwhile, a respondent suggested there is a lack of alignment between the contract and our stated intent as the consultation letter states an intent to introduce a clause allowing ESO to maintain an updated list of stackable products on their website, but the relevant clause in the service terms (12.1) does not fully reflect this intention.

Two respondents questioned how we determine what services are stackable. One felt that no information has been provided on how the decisions as to which services are included in this list will be made whilst the other respondent feels the rationale for limiting stacking with CM and DNO services was unclear.

A respondent said we should consider the commercial and operational implications of not integrating stacking with the BM. Another said we should consider stacking with the wholesale market because several companies in the domestic flexibility space are looking to P415[4] to open up wholesale access and establish a foundation for monetising domestic flexibility.

Onboarding tests and IT process checks

A respondent suggested we should conduct onboarding tests to assess the baseline and settlement processes. Also, we should engage with flexibility service providers for additional testing to verify the efficacy and compatibility of the new processes with actual operational scenarios.

ESO response following feedback

Overall, we welcome the positive support for this proposal and intend to proceed with promoting opportunities for stacking DFS with other services.

Revenue proposition

We have enabled the opportunity to stack DFS with the Capacity Market (CM) and DNO flexibility markets this year. While in previous years we deliberately did not pay high DFS enhanced action prices for volume already in another market, we are now moving to an in-merit service. Therefore, unlocking stacking with the CM promotes a level playing field for DFS participants with other market participants.

As we set out in response to the first question, we do not intend to introduce an availability payment because we do not have a need for a fixed volume of the service, nor do we consider it would represent good value for consumers. We have retained the capability to run tests should we consider a suitable justification to run them in future. We will continue to consider this option and consult with Ofgem and industry on such justifications, for example to test processes or to increase confidence in current or future volumes available where we have a short- or longer-term system need for a guaranteed volume of the service, such that we promote value for future consumers.

Stacking with the CM challenges

We expect to set out DFS as a Relevant Balancing Service (RBS) in the future, particularly when considering a turn up service. We do not believe, however, that DFS not being an RBS creates any issue for providers in the short term. This is because providers can still meet their CM commitment while providing DFS without a penalty. We set out scenarios for this in our pre-consultation webinar. We think there is risk that making DFS and RBS would allow providers a route to not fulfil their CM commitment, but only be exposed to a DFS penalty which may be lower than the CM penalty. Therefore, we believe that we need to consider this more carefully to ensure that we do not affect the effectiveness of the CM.

We do not agree that there is a requirement to be half-hourly settled to participate in the Capacity Market.[5] We expect this confusion arises due to the CM requiring half hourly metering, or a methodology to convert metered data to half hourly data, but half-hourly settlement (with respect to the wholesale market) isn't required.

[4] https://www.elexon.co.uk/mod-proposal/p415/
[5] As provided by Capacity Market Rules

Generally, we think the service design of DFS is not the appropriate vehicle to address challenges with accessing the CM. Nonetheless, we are willing to engage with providers on the CM arrangements in our capacity as the CM Delivery Body.

Stacking with DNO flexibility markets

Our DFS service design reflects our operational needs and engagement with and capability of participants. Nonetheless, we recognise the case for coordination across markets and are working to promote that. Through our work on the Open Networks programme, we are delivering more standardised and coordinated processes for the alignment of our network operations and market development with DNOs. Through this we are developing a set of primacy rules and dispatch systems interoperability. Additionally, we are aligning the prequalification and settlement process and provide a set of standards for baselining. We have also delivered a set of recommendations for the DNO flexibility products and revenue stacking.

Other stackable services and ESO communication

We deliberately exclude the ESO core balancing products including the Balancing Mechanism from being stackable with DFS. A core purpose of DFS is to represent a route to market for flexibility otherwise unable to access our markets.

Meanwhile, stacking with the wholesale market is implicit, in that the energy position of units over time affects the baseline calculation.

Reflecting feedback on service terms references to the stacking list, we have added additional wording to clauses 12.1 and 12.5 of the Service Terms to offer clarity.

Onboarding tests and IT process checks

While we do not have plans to carry out onboarding tests, we are retaining the ability to do so through the contractual terms. This provides us the flexibility to offer such tests should we consider there is a need.

For IT process checks, providers have the option to test out submissions of various files (MPAN, Weekly Indicative Forecast, Bid File, Weekly Settlement) via Sharepoint or the API. As part of the eligibility requirements, we conduct a test of DFS requirements including IT process checks, testing submission of the Weekly Indicative Forecast file, MPAN file and Bids file. We send instructions in an email to test upload of the settlements submission file and other post process files. The purpose of the IT process check will be to ensure you have access to the correct templates and the required data flows are in place for you to be able to take part in the service. Reflecting feedback, settlement file submission will be part of the IT process check. The API schema document sets out our enhancements for the API for DFS. We will be publishing additional guidance on IT process checks in our upcoming DFS Participation Guidance Document which will be available on the DFS page.

Do you agree with the proposed additions within the baseline methodology to offer clarity on how stacking will impact parties baseline calculations? Please provide rationale for your views

Consultation responses overview

Of the 34 respondents, 17 agreed with the proposed additions within the baseline methodology. Three disagreed and seven did not explicitly agree or disagree. Seven respondents did not provide any feedback.

P376 baseline methodology

Three respondents said P376 is not the best baseline methodology to be used for DFS. One respondent suggested it is unsuitable for electric heating loads and another questioned its suitability for energy intensive industries. Another respondent suggested we should review and potentially accept different baseline methodologies, as P376isn't appropriate for all asset types and usage patterns. They referred to initial findings from their participation in the CrowdFlex, indicating that using the P376 baselining methodology does not accurately reflect the true demand shift from participants. Similarly, another respondent suggested we allow all baselines under P376 or P415 for DFS.

DNO flexibility services

Three respondents have raised concerns surrounding the different baseline methodologies being used by DNOs. They suggested this has created confusion and could potentially cause issues moving forward – for example around the feasibility of stacking.

Three respondents have queried why DNO events called more than 48 hours in advance are not included in the definition of event days. One respondent said they procure flexibility services for dispatch at week-ahead and sees no reason that participation in these services should be handled any differently. Another respondent said this exclusion makes it more difficult for customers to 'beat' their baseline and the other queried why the event day is considered at the time of instruction and not the time of delivery.

Event days

Two respondents would like further clarity from ESO on the distinction between "frequent" and "infrequent" DNO utilisations as they feel it has not been covered and in the procurement rules document and clear definitions are not provided.

Changes to CM and DNO methodologies

There were three respondents who highlighted that further changes to the CM and DNO methodologies may be required to avoid DFS event days eroding the baselines for these services. Several respondents asked questions or made suggestions around how event days are defined for the purpose of calculating baselines.

Settlement

A respondent has asked for clarity on the settlement processes for stacking. They said we should endeavour to provide additional information on how settlement will be calculated in the event of stacking of services, in particular for service 'splitting' as this will require an allocation of the measured change from the baseline to two separate parties.

Another respondent asked for further clarification on how the baseline data will be validated, e.g., what source of data would confirm when an asset has participated in another service.

ESO response following feedback

P376 baseline methodology

We recognise broad support for P376, and we intend to continue to use this for the baselining methodology. Nonetheless, we do understand there are concerns with this approach – and any baselining methodology.

The effect of weather on P376 methodology is included in the within-day adjustment term. This term shifts the unadjusted baseline (which only considers historic trends) up or down depending on meter consumption from the 4 hours prior to the event. Having this within-day adjustment would increase baseline accuracy if event days conditions differed markedly from those of the recent past.

The within-day adjustment, however, can lead to perverse incentives if event notification occurs well in advance of delivery. That is, in some market conditions an end-consumer might be incentivised to increase consumption in the adjustment period and inflate their event baseline. This was evidenced in the first iteration of the service. As the notification for the event is still hours before the adjustment period, we think not having a within-day adjustment term is still the best solution to prevent perverse incentives. Delivery from the service will be used to assess baseline methodology.

We recognise challenges for assets with irregular operation patterns, i.e., where the average consumption is not a good predictor of consumption during event days. It is important to note that over 99% of the meters enrolled for DFS 23/24 corresponded to manually activated domestic consumers, for which P376 generates a good prediction of consumption during event days.

Changes to DFS introduced this year are expected to draw in more assets with irregular operation patterns This is why we are directly involved in trials such as CrowdFlex that are looking at baseline methodologies for other asset types e.g., EVs. Findings from these trials will directly inform future baselining approaches for DFS.

DNO flexibility services

Our DFS service design reflects our operational needs and engagement with and capability of participants. Nonetheless, we recognise the case for coordination across markets and are working to promote that. Through our work on the Open Networks programme, we are delivering more standardised and coordinated processes for the alignment of our network operations and market development with DNOs. Through this we are developing a set of primacy rules and dispatch systems interoperability. Additionally, we are aligning the prequalification and settlement process and provide a set of standards for baselining. We have also delivered a set of recommendations for the DNO flexibility products and revenue stacking.

Event days

We opted to use the difference between the instruction time of an event and its time of delivery as a parameter to determine impact on DFS baseline. Events scheduled well in advance of delivery (defined here as with a notice greater than 48 hours) are treated as forming part of the typical demand pattern of the asset and therefore, should be included in the baseline calculations.

Equally, eligible flexibility events (DNOs, trials, etc) for delivery within 48 hours of instruction introduce changes to meter's regular consumption patterns and therefore can be treated as "Event Day" for the purposes of DFS Baseline calculations.

We reserve the right to request the data used to calculate the DFS baseline, including justification for selection of "Event Days" where applicable.

We have clarified Schedule 3 of the Procurement Rules to include Capacity Market Units and other flexibility trial participants in the treatment of "Event Days" when stacking with DFS.

Changes to CM and DNO methodologies

Through a role as the CM Delivery Body and our work as part of the Open Networks project (as referred to above), we will continue to promote coherence and share learning across the respective baselining methodologies to facilitate stacking.

Settlement

Providers will be settled with respect to their delivery vs their baseline, and subject to the performance incentive structure. A provider will not split the allocation of demand reduction across the DNO service and our DFS service. We consider our proposal to reflect the co-delivery type of stacking.[6] We provide more detail and examples in our Proposal to Industry Video. For avoidance of doubt, the settlements process is not changed from previous service iterations.

3. Performance Incentives

Do you agree with the proposed performance incentive structure? If not, please explain your rationale.

Consultation responses overview

Of the 34 respondents, 21 were in favour of this proposal, with many providing the rationale that it helps to ensure bids are as accurate as possible and it gives accountability to those who underdeliver. Six did not explicitly agree or disagree in their answer. Five respondents did not answer this question.

Opt-out rule

Six respondents made additional comments regarding the performance structure for those who participate under the 'opt out' methodology. Several respondents considered this disproportionate or otherwise unfair. A couple said this was unfair on those providers with large portfolios, as it could create a large administrative

[6] As, for example, described in the ENA report 'Revenue stacking assessment for DSO services'

burden for all assets to be registered as opt-in. They also feel it would have a significant effect on I&C asset participation, which tend to have minimal margin to allow for the risk of being penalised.

One said it is not fair for manual activation to face the same penalties as automatic activation. One respondent would like us to clarify why this rule has been introduced and it is uncertain as to why a flexibility service provider would choose to register meters as opt-out when there doesn't appear to be any clear advantage to do so.

Applicable Balancing Services Volume Data (ABSVD)

One respondent would welcome further clarity from us as to how this proposed performance incentive structure interacts with the ABSVD methodology. They said that ABSVD should still use delivered volumes even if they are over/under the incentive threshold.

Performance incentive scale

While some noted and welcomed that the proposal brings DFS more in line with other balancing services procured by the ESO, some felt the scale was too strict, while others thought it too generous.

A couple of respondents said the cap, at 120%, is too low, with one proposing it be upped to 130% or more. Respondents suggested the upper limit may encourage non-participation as providers will still need to compensate their end customers for the demand reduction achieved. One respondent deemed the current scale reasonable but would like us to revisit the range again after six months to a year to review its impact on uptake.

Another respondent, meanwhile, said that by not applying full penalties below 90% to ensure reliability, DFS participants have an unfair advantage compared to other ESO services.

Impact on end consumer

Two respondents have queried how the performance incentive structure will impact rewards and incentives being made to end customers and individual households. One respondent said there should be clear guidelines as to how this should transfer from aggregators to individual households.

Another respondent wanted to further understand if the DFS Registered Provider is expected to make the calculations of expected settlement or whether this will be done by us.

Standardised payment/incentive structure

One of the respondents agrees that whilst the performance incentive structure makes sense given the move to a market-based service design, they have suggested we review the proposed standardised payment structure from the ENA Settlement working group. They said a simple standardised payment structure that applies to both DFS and DNO services could reduce barriers to stacking.

ESO response following feedback

We welcome broad support for the proposed performance incentive structure.

Opt-out rule

The purpose of the penalty arrangements associated with the opt-out rule is to prevent large groups of opt-out meters being entered into the service on the basis that they may deliver a reduction by chance. However, we recognise the concerns in the feedback around proportionality. As such, we have limited the penalty amount. to the contracted quantity bid in the opposite direction of the contract. As an example, an opt-out participant that was contracted to deliver 20MW (10MWh) of demand reduction over a settlement period but that actually increased their demand by 40MW (20MWh), will need to pay ESO only for 10MWh of increase.

While we note some respondents highlighted differences in asset types, we think it is important that the penalty structure implemented in DFS applies equally to all DFS Units, regardless of their asset composition. Removing penalties for certain classes of consumers creates an imbalance in the conditions for different players which can have serious detrimental market consequences.

ABSVD

ABSVD quantities are calculated before the inclusion of any penalty factors as per paragraph 10 of the Service Terms.

Performance incentive scale

We think it is important to incentivise accurate delivery of the service. At the same time, as a relatively nascent market and reflecting the purpose of DFS as a margin tool (compared to for example a response product), we think the proposals for DFS are proportionate. We will keep the scale under review.

Impact on end consumer

Each participant is free to choose how to structure the reward to their end-consumers for their service participation.

Standardised payment/incentive structure

Our DFS service design reflects our operational needs and engagement with and capability of participants. Similarly, DNOs' flexibility services shall represent their needs, the value of the service, and capability of their participants. Nonetheless, we recognise the case for coordination across markets and are working to promote that. For example, through our work on the Open Networks programme, we are delivering more standardised and coordinated processes for the alignment of our network operations and market development with DNOs.

4. Procurement / Utilisation

Do you agree with this proposal to move the procurement of the service to within-day only? If not, please explain your rationale.

Consultation responses overview

Of 34 respondents, 13 agreed with our proposal to move the procurement to within-day only, 11 disagreed, and 8 provided mixed or neutral feedback. Two did not comment.

Those who agreed (and several of those who did not), recognised that by moving procurement to within day only, we could better reflect system needs in our service requirement. Some respondents saw this as a step to establishing demand side flexibility as a business-as-usual tool. Several respondents highlighted the improvements in accuracy for within day procurement.

All who disagreed suggested we risk losing volume by discounting day-ahead procurement. Eight respondents said domestic consumers or smaller demand customers may struggle to respond to within day signals, for example because they are not home or are not able to charge home batteries and vehicles overnight in preparation. These consumers may have less ability to monitor within-day signals and less capacity to harness automation and APIs.

Meanwhile, six respondents highlighted challenges for industrial and commercial customers responding to within day signals. Such customers may need to schedule for demand reduction, taking account equipment and staff needs for example.

Several respondents challenged our justification for moving to within-day only procurement. A couple of respondents suggested there is insufficient evidence to draw conclusions about accuracy improvements from within-day procurement (though a couple also said there is insufficient evidence to conclude volumes will decrease with within-day procurement, referencing Crowdflex trials showing different results). A respondent said the recast Electricity Regulation (retained from EU law) provision that "Market participants shall be allowed to bid as close to real time as possible" does not necessitate within-day procurement.

ESO response following feedback

As we move from the use of DFS as an enhanced action service to an in-merit margin service we have removed the option to call the service at the day ahead stage. The early view of winter suggests that margins

are expected to be adequate and within the Reliability Standard.[7] Therefore, we are evolving DFS to a service which shall compete commercially with other actions available to maintain margins. These services are typically called within day when we have a clearer view of what demand is likely to be and what options are available to meet this. Our DFS experience indicates within-day procurement means we can procure required volumes, with good accuracy, and competitive prices.

At longer timescales there is a higher level of uncertainty, and this could lead to inefficient dispatch of services to maintain the required margin. Dispatching within-day allows us to compare DFS with other viable options leading to more efficient system operation. We have avoided specifying a time in the contract terms, but we will generally expect to offer 4-8 hours' notice. However, if a requirement does become apparent at shorter notice, we may issue a DFS requirement as we don't want to preclude the opportunity for demand flexibility through DFS.

We consider that by moving our procurement to within-day, we drive more effective competition across alternative actions, reducing the risk of distortive effects. This is the underpinning rationale for Article 6(4) of the recast Electricity Regulation, for which we require a derogation. It provides bids should be allowed as close to real time as possible and balancing energy gate closure times should not be before the intraday cross-zonal gate closure time. We are separately seeking a derogation from Ofgem from this provision, setting out that we are taking into account the necessary lead time for delivering the service while taking action to reduce the risk of distortive effects.

Do you agree with the move away from a season-to-season derogation approach to offer the market confidence in the evolution and growth of the service as the market transitions towards market-wide half-hourly settlement (MWHHS)? If not, please explain your rationale.

Consultation responses overview

Twenty-six respondents agreed, one said they disagreed, and four provided mixed responses. Others did not respond.

Two key themes came across many of the comments. First, that this would provide longer term certainty for providers. One respondent mentioned that having to wait for Ofgem approval adds uncertainty around the progression of the service. Second, many respondents said that the transition to an enduring service (towards MWHHS) should not mean we stop reflecting on the service design and evolving the service as necessary to ensure it is fit for purpose. This included making developments to the service but also exploring more fundamental changes such as providing for a demand turn-up service. One respondent suggested the service terms include KPIs that if not met could lead to a review of the service design.

Some respondents asked the ESO to provide a clear roadmap for DFS, and a couple reiterated that the service should last only until MWHHS because that would be the mechanism to provide for demand flexibility through the wholesale market and other ESO services.

The respondent who disagreed said that they would agree if the service reliability and penalty regime reached parity with that of other reserve and balancing products; as it is, they considered the service is unreliable and uncompetitive.

ESO response following feedback

We recognise broad support for our proposed derogation approach.

We will continue to monitor the service and keep under review the case for additional design changes. We aim to be transparent and provide clear timelines around any service term changes. Our proposal to move away from a season-to-season derogation approach doesn't preclude us from continuing to evolve the service, though we generally will be required to carry out consultation in accordance with Article 18 of EBR when we do so.

[7] Early View of Winter 2024/25.

We understand one respondent's concerns about the reliability of the service. We think experience of DFS demonstrates the service can effectively reduce demand so that, in conjunction with our suite of reserve and other balancing tools, we can manage the system securely and efficiently.

5. Metering

Do you agree with our proposal to further facilitate the participation of asset metering within the DFS by removing the requirement for asset meter to be associated to a half-hourly settled (HHS) boundary meter? If not, please explain your rationale?

Consultation responses overview

Nineteen respondents agreed, six disagreed, two provided mixed views, and seven did not provide any comment.

One respondent said that requiring boundary meter data for audit purposes failed to meet the objective of the proposal and questioned why this was not required in the Capacity Market, BM or frequency services. Another respondent stated that consideration should be given to the burden and cost for non-supplier providers requesting data from the Data Communications Company (DCC) for the ad-hoc checks. Another asked why the asset and boundary meter needed to be half hourly metered. They highlighted this is not explicit in the service terms and is only captured in the baseline methodology, which risks providers being unaware of this when registering assets.

Two respondents had concerns about the impact on suppliers by other parties' actions, shifting their demand in a way that was not visible to suppliers and to hedge their customers supply, although they recognised this was a broader issue beyond DFS and felt a longer-term solution was needed.

One respondent said there was a risk that creating rules which do not require half hourly settlement, reduces the impetus to market wide half hourly settlement, whilst another sees it as backward step and didn't believe it would add more volume. They also feel it could set a precedent and increase costs for consumers through GSP Group Correction Factors and create a mismatch between profiles and demand. One respondent opposed this previously but felt the removal of the guaranteed acceptance price, and the move to an in-merit margin service, reduced the risk of gaming.

ESO response following feedback

We recognise broad support for our proposal and intend to implement it.

Following our introduction of sub-metering (asset metering) in DFS for winter 23/24, we saw a small number of asset meters participating. As such we proposed to remove barriers to entry related to sub-metering, such as requiring associated boundary meters to be half-hourly settled and half-hourly metered. We have added a clarification in Procurement Rules – Sub-meter definition. We have kept the rule that asset meters must meet the same or exceed the standard requirement for the associated boundary meter. This will open the service to large numbers of domestic asset metering participants which are not half-hourly settled (HHS) and should increase service available volume.

This DFS evolution will continue to provide a route to market for flexibility for HHS and non-HHS participants until market-wide half-hourly settlement (MWHHS) is established as an enduring, robust part of the market arrangements. We anticipate that allowing non-HHS assets to be part of the service will encourage positive behaviour changes by allowing consumers to realise the benefits of adjusting demand and becoming HHS.

We believe our proposal requiring boundary meter data for audit purposes will allow providers to deliver DFS from assets that they control, removing the noise and uncertainty of the impact of other assets/parties that also operate behind the same boundary, while mitigating the risks around double counting of delivery.

We are aware of suppliers' feedback regarding change in consumers' load. However, for non-HHS meters (the majority of existing volume and the new volume accessed by the asset meter changes) we do not think this will be a significant impact. This is because for these customers, their load profile is assigned to standard Elexon demand profile shapes, and therefore not directly impacted by DFS activation. There may be a small effect on total demand so far as DFS reduces overall demand but given likely DFS volumes (compared to

overall demand) we do not believe that to be a significant impact. In any event, this gives suppliers the opportunity to learn about customer behaviour before the advent of MWHHS.

We have left unchanged the requirement that providers participating with a sub-meter must be able to provide data for the associated boundary on an ad-hoc basis. This data is important for us to learn how sub-meter behaviour and boundary meter data correlate, improving our understanding of how flexibility works at various levels. It offers the potential to detect forms of gaming that we have not yet identified or successfully mitigated. We are currently exploring alternatives for the ESO to access this information directly in future.

Does the additional wording provided in the contractual terms offer suitable clarity around unique metering setups such as premises with multiple boundary meters?

Consultation responses overview

Out of the 34 respondents, 12 agreed that the additional wording in the contractual terms provided clarity on unique metering setups. Four respondents said the change still was not clear. Two respondents did not explicitly agree or disagree. Sixteen respondents did not offer any view or comment on the question.

One respondent mentioned that there might be opportunities for some sites with two import connections to manipulate the system by using the other connection to make it appear that the MPAN has not been consuming. They highlighted the need for clarification on what constitutes a premise for the purpose of enforcing the rule that all MPANs in the same premises should be signed up together.

Another respondent asked about potential changes to the data requirements for registering half-hourly settled industrial and commercial unit meter points, as they found the data points required for DFS Winter 23/24 excessive compared to domestic requirements.

One respondent expressed support for less strict metering requirements in the DFS compared to other flexibility markets. They argued that errors in half-hour periods would effectively cancel out at an aggregate level. They also emphasized the importance of minimising the cost of domestic DSR for end users, suggesting that existing in-built metering in high-powered assets could be utilized instead of requiring a dedicated electricity meter. They further mentioned the need for alignment between DFS requirements and other developments in the domestic flexibility space, such as the metering requirements in PAS 1878, the SSES Programme, and the Smart Heat Mandate.

ESO response following feedback

We welcome broad support for this change.

Learnings from winter 23/24 has prompted us to suggest the added clarification in our Service Terms for Premises with multiple Boundary Meters. We have considered the potential risk of gaming by adding in our legal documentation (Procurement Rules 4.5.2) a mandatory requirement for premises with multiple boundary unit meter points to take part in the service with all meters to avoid volume shifting. This is provided that all meters are eligible and signed up to be represented by the Registered Service Provider.

Generally, our requirements for industrial and commercial vs domestic customers reflect the different demand characteristics as well as proportionality. Through our Participation Guidance, webinars, and IT process checks we hope to improve the onboarding process.

We recognise there are alternative approaches to requiring dedicated meters. While we do not have the evidence nor have done sufficient consultation to provide for such arrangements for these DFS proposals, we will continue to explore such options, including as part of our wider work to unlock flexibility.

6. Data/Process

Do you agree with our proposal to remove the obligation to send an incentive file sharing how providers opt to incentivise/pay their customers? If not, please explain your rationale.

Consultation responses overview

Nineteen respondents agreed, with several suggesting the previous obligation was an unnecessary burden. Twelve respondents offered no views or comments to the proposal and one neither agreed nor disagreed.

One respondent agreed but encouraged ESO to continue to use FlexAssure and HOMEFlex certification for providers signed up to these. Some highlighted a potential risk that without transparency suppliers could try to lower the value offered and reduce participation.

One respondent disagreed as they felt understanding what reward was available to the end consumer would help us to improve the product. An additional comment said if this was made optional then clearer guidelines should be made available, whilst another asked if the removal of paragraph 8.5 from the Service Terms meant that Aggregate Incentive Value files would no longer need to be submitted for each settlement week and would there be a new format for this file.

ESO response following feedback

Following feedback, this file is now optional. Providers that wish to share their incentive structure may continue to do so but this submission is not mandatory for service participation. We consider providers should be free to compete with one another with respect to how they incentivise participation. As there is no requirement, there is no new format for this file.

Do you agree with our proposal to include and share delivery data from all unit meter points that participated in events? If not, please explain your rationale.

Consultation responses overview

Nineteen agreed with the proposal although some had reservations about the granularity of the data, the level of transparency and how it would be shared and for what purpose. One respondent asked whether there will be any anticipated changes to the format of the weekly settlement files to facilitate the change.

Two disagreed with one feeling the proposal was unnecessary and we have not justified why we have requested it, whilst another felt it was irrelevant to a commercial in-merit service. This respondent felt the ESO's contract for DFS service delivery is with the FSP, and therefore the delivered volume versus bid volume is the main measure of delivery performance that is relevant.

Nine respondents were neutral or did not answer.

Four provided an answer but did not provide clarity as to whether they agree or disagree.

Overall, many who agreed felt sharing data should be encouraged and any learnings used to improve the service but stressed the need to make sure individual customers could not be identified from anything published. One provider agreed but wanted to be sure it would not affect the settlement process.

ESO response following feedback

We will continue to share reports that show aggregated delivery for each event. These reports can use consumer type, region, and half-hourly settled status as variables for aggregation. Delivery from individual meter points will not be published. This does not affect settlement.

Do you agree with our proposal whereby each meter point can only be allocated to a single DFS unit?

Consultation responses overview

Eighteen agreed with many feeling it offered less risk, made the rules clearer and would assist with the evolution of the service. Thirteen respondents offered no comment and/or did not provide an answer.

Two respondents disagreed. While recognising the rationale, one felt it might create a barrier for smaller sized DFS units as it would prevent more sophisticated bids with different asset combinations at different prices. Similarly, another respondent said that allowing unit meter points in different DFS units allowed them to optimise their flexibility to meet varying requirements at different DFS events. They felt this was crucial and would allow more flexibility in adapting their strategies and their participation in the service. The other who disagreed understood the rationale but said it created challenges for providers with large customer bases. They said this could lead to customer segmentation in a way that customers were not used to before and they think this will cause customer confusion and dissatisfaction.

Another respondent asked if the movement of unit meter points between units would require updated forecasts to be submitted.

One who agreed felt it would be better if the system allowed allocation of the unit meter points to a unit once a service requirement had been made and prior to submitting a bid.

ESO response following feedback

We recognise broad support for this proposal and intend to implement it.

We understand a minority of respondents felt this stifles sophisticated bidding and optimising MPANs for particular events. We will keep bidding arrangements and decision-making under review.

In respect of feedback, including that above and wider feedback, we are now proposing to move the Unit Meter Point Schedule validation for 11am to 9am. We will allow all new accepted Unit Meter Points following validation to participate in the service on that day. We did not specifically consult on such a proposal in the consultation but agree with the feedback and intend to implement this change.

We have since directly engaged with a provider to clarify their query.

Please share your thoughts on the topic of Anticipated Requirement Notice (ARN) and how the move to within day only procurement impacts these. Does the increased automation around various processes impact your views on this notice value/purpose?

Consultation responses overview

Fifteen respondents felt publishing an ARN was either essential or useful. Smaller providers particularly found it important, saying they needed time to engage their customers. Similarly, participants with manually initiated dispatch assets favoured having an ARN and said it enhanced consumer engagement and participation. Some wanted a day ahead ARN and one suggested having an ARN with a low, medium, or high rating for each event.

Six respondents thought that through improved automation in our API and their systems, this meant not having an ARN and this wouldn’t have any effect on them.

Nine respondents did not provide an answer to this question and three remained neutral.

ESO response following feedback

We have retained the option to publish an ARN, however it is not a required part of the service. As DFS is no longer an enhanced action it should compete on its own merit against alternative actions which do not get advance notice of a requirement. We will endeavour to issue a requirement as soon as we have a reliable view of what the requirement is and what options are available to resolve it. As the service will be called within day an ARN would only be issued a short time ahead of the actual requirement going out and so we consider it would be of limited value.

Do you agree with our proposal to include the ability to share additional information relating to the Registered Service Provider for the purposes of resolving unit meter point duplications?

Consultation responses overview

Twenty respondents agreed with this proposal or the underlying intent, however, there were several differing views as to how the process should be managed and a number raised the importance of having adequate data protection. A number who agreed said it would enhance the consumer experience, resolve any disputes quickly and allow the consumer to choose who they wished to be signed up with for DFS. Three respondents did not agree, particularly on grounds of data protection and the risk that the provision is abused to gain competitive advantage. One felt there was no need to change from the current arrangements.

Eleven respondents did not answer.

Four respondents made comments that this proposal is contrary to outputs and lessons from the BSC workgroup on P354. Respondents highlighted that these workgroups highlighted the value in knowing aggregators or suppliers to whom an MPAN is registered, and the case for consent before such information is shared. There is concern that our proposals could be misused, or otherwise are contrary to principles established by that workgroup.

ESO response following feedback

We have decided not to progress with our consultation proposal to share the new registered service provider of an MPAN with the previous registered provider of that MPAN where there is duplication. We recognise feedback around the value of knowing which provider an MPAN is registered to, and that this risks such a provision being misused. As such, we believe we would need to give further consideration to that approach before we would implement it.

Nonetheless, we recognise that many respondents agreed with the overall intent of our proposal. We will explore alternative solutions to achieve the same outcome, i.e., a solution which resolves cases where participants do not know who their registered service provider is, while avoiding the risks highlighted in consultation feedback. We will engage with providers on such alternative approaches which we consider we can deliver without changes to service terms, such that we can bring a solution into effect quickly.

7. Generic Questions

Annex 1 – Do you have any comments on the highlighted Article 18 mapping for the Demand Flexibility Service

Consultation responses overview

Thirty-two respondents did not answer or responded no comment.

One respondent encouraged Ofgem to approve the Service Terms in a timely manner.

Do you agree with the proposal for the Demand Flexibility Service?

Consultation responses overview

Of the 34 respondents, 14 agree with the overall proposal for the Demand Flexibility Service. Three respondents disagreed and six provided no feedback or had no further answers they wished to provide. There were 11 respondents who had mixed opinions – whilst there were some elements of the proposed service design they agreed with, there were areas they did not approve of. Across all respondents, we received feedback on a broad range of themes which we have sought to summarise below.

Note that some themes emerged in this question and the next question. In these cases, we have included these points in the table as part of the following question to avoid duplication.

Revenue proposition

One respondent explained that whilst they recognise the motivation behind the proposed changes and agree they are required, they feel the proposals seek to align the service with other actions but does not seem to recognise the difference between generating assets in the BM and consumer actions. As they understand the changes are required, they have suggested they are staggered as they currently make DFS less attractive and engagement with consumers more difficult. Another respondent who disagreed explained that they foresee difficulties for pure-play retailers to create a compelling customer proposition for the upcoming DFS period. They would welcome the opportunity for the scheme to be refined using input from domestic supply focused energy providers to help find a way for all domestic customers to participate equitably in future flexibility schemes.

Participation capability

The final respondent who disagrees stated that as set out in their overall responses, they have significant concerns about their ability to participate in DFS as is and have proposed some changes. Another suggested DFS risks excluding low income, vulnerable and renter households.

Half hourly settlement and alternative arrangement for promoting demand flexibility

One respondent said that whilst our proposal includes some important improvements for DFS and they are welcome for the next two years, in the long term, they feel that consumer flexibility should be built through a fresh product and markets design process, in the lead up to MHHS and this should also include demand turn up. They remained unconvinced that adding expanding requirements to an interim service in the best way to build a sustainable foundation for consumer flexibility. Another respondent explained that given the ad-hoc nature of events and relatively low value this year, they will be prioritising other ESO/DNO services over DFS where the commercial case is clearer. They support our proposal as a way of testing stacking, tendering, and dispatch processes, and as a route into flexibility for other providers.

A respondent said they support DFS as an effective tool for realising the value of flexibility but are yet to be convinced that it should persist past the time when MHHS has been fully rolled out. Should HHS coverage be less than 100%, they think DFS rules may serve as a model for an enduring service that allows consumers to participate in flexibility services using non-HHS assets.

Onboarding tests

One would like to re-stress the importance of implementing a handful of onboarding tests to ensure the transition to the new version of DFS is carried out efficiently and effectively.

DNO flexibility markets

A respondent considered there is a case for further clarification of clauses relevant to stacking and baselining. They encourage us to continue working with organisations on data sharing to ensure both parties operate flexibility markets as efficiently and effectively as possible to ultimately minimise costs to customers.

ESO response following feedback

We thank respondents for taking time to consider our proposals in the round and provide broader feedback on DFS today and its role in the future. We will continue to engage with industry to shape this service alongside our other balancing services.

Revenue proposition

In relation to the comments around how DFS changes may make DFS less attractive, we recognise we need to strike a balance between providing an adequate route to market and supporting the development of such flexibility, while avoiding distortions and keeping balancing costs lower. We address our revenue proposition in response to the first question: ‘Do you agree with the proposal to evolve the DFS away from a last resort enhanced action winter contingency service and operate as a merit-based margin tool?’

Participation capability

We are making changes to promote participation in DFS this year. That includes some of our metering changes, such as removing the requirement for an asset meter to be associated with a half hourly settled boundary meter. We will keep under review further possible changes to the service while ensuring it meets our operational requirements.

Half-hourly settlement and alternative arrangement for promoting demand flexibility

We expect that market wide half hourly settlement will in future incentivise demand flexibility such that DFS – at least in its current form – is not required. In the nearer term, we will continue to engage with stakeholders on the DFS roadmap, as well as other possible changes to the service for future iterations. Future changes would be subject to an additional EBR Article 18 consultation process.

Onboarding tests

We address points around onboarding in our question: 'Do you agree with the proposal to facilitate stacking with the Capacity Market and DNO Flexibility Markets?'

DNO flexibility markets

Throughout this consultation submission document, we have addressed specific points in relation to coordination with DNOs and their flexibility market and have sought to offer clarity about stacking. We will continue to work with DNOs to promote coordination and coherence across markets. The ENA Open Networks group has several technical working groups which focus on Operational Data Sharing, Baselining, Stackability and settlements, which we participate in.

Do you have any other comments on the Demand Flexibility Service proposal?

In the below table we set out themes in response to this question. We also include some other points raised across the consultation that did not clearly align to a question.

Topic	ESO response
MPAN registration Two respondents have requested ESO review the current MPAN registration process and enquired as to whether provisions be made to allow customers and new users who sign up on the day of an event to be able to participate on the same day, with one explaining that this change would greatly enhance user engagement and inclusivity. Last season, the requirement was D-1 from the day of the bid, which poses a significant barrier for consumers. One of the two respondents feel the current proposal has insufficient clarity on how many days prior to an event users must have their MPANs registered to participate.	This topic has also been raised on several 1-1 calls with Providers who also expressed allowing the participation of accepted Unit Meter Point Schedules for an event called the same day. The reason for the D-1 requirement was to allow providers with large submissions the time to process the removal of duplicated MPANs from their portfolios. We decided to review this clause (4.8 Procurement Rules) based on the feedback and move the Registration and Pre-Qualification Procedure from 11am to 9am and allow participation of accepted Unit Meter Point Schedules to participate the same day should an event be called. Subsequent calls to providers on this proposal received positive feedback and providers who wanted time to process duplications felt the move to a 9am submission time allowed sufficient time to remove duplications and supported the new proposal. We have amended the contracts to reflect these changes.
When DFS events will take place One respondent enquired as to when events are likely to take place as current communications from their supplier often felt at very short notice and hindered efforts to participate.	We have published a Market Guidance document for educational purposes which is designed to help set out how we would assess margin, manage the choices and what situations would lead to DFS being in merit. DFS will now be called within day to allow us to compare DFS with other options leading to more efficient system operation. For detailed insights into how the DFS is tendered, delivered, and settled alongside the full view of providers obligations under the service, parties should refer to the DFS Service Terms and Procurement Rules.

Acknowledging Net Zero contribution A respondent feels it would be beneficial to have some official acknowledgement from the ESO that can be shared with end users to list them as participating in DFS and helping the transition to Net Zero, especially if prices are expected to fall. They also expressed that it would prove helpful to have a summary of each proposal/change to reference in line with each question as there is currently a lot of back and forth.	We will continue to publish a list of all DFS Registered Providers on our website, highlighting those that are HomeFlex and FlexAssure Partners. At this stage, ESO are unable to officially present Registered Providers with documentation to acknowledge their help to transition to Net Zero however, we will look to create material which covers the importance of the transition to Net Zero and how participating in DFS can facilitate this. This will be shared with industry at a later stage. We thank you for your feedback around the usefulness of a summary of each proposal/change in reference to each question and whilst it is something we are unable to change at this stage, we acknowledge how this would support responses and will bear it in mind for future consultations.
Submitting settlement files late Clearer guidelines on how to submit late settlement files and reconciliation of delivery payments against processed submissions.	Thank you for your feedback. We will endeavour to include further detail around late settlement file submission in the Participation Guidance Document which will be published on our website in the coming weeks.
Additional transparency measures One respondent fed back that with any new service, transparency is essential to ensure efficient integration with the wider system. Therefore, DFS unit level information on baselines and outturn should be made transparent as part of the new service, to enable integrated forecasting.	ESO publishes aggregated delivery data for each event in our Data Portal. Detailed reports looking at trends and key insights have been produced for the first two iterations of the service. These detailed reports show typical baseline and outturn figures at the DFS Unit level.
Stacking and the Market Facilitator One respondent noted that DFS was originally introduced to meet urgent requirements and whilst this is the case, they would like to see more explicit consideration of stacking in all new service design and would expect the Market Facilitator to work with System Operators to ensure this is the case.	Without the need for the service to stay as an enhanced action we have proposed moving the DFS to a commercial in-merit margin service. In our proposals we have introduced the possibility stacking with capacity market units and DNO flexibility services. We think that is important to help demand flexibility access multiple revenue streams and compete on a more level playing field with alternative actions. We will continue to work with industry stakeholders, forums, and regulators for any future design proposals to promote opportunities to stack revenue and realise the value of flexibility.
Supplier hedging Another respondent feels that overall, the proposal is broadly sensible for small-scale end-consumers engaged in automated DSR however, the main area they think needs future work is mitigating the impact of independent aggregators' actions on suppliers' ability to hedge.	This is broader than DFS, and something being looked at in BSC Issue Group 114, which we encourage providers to engage with.

Consultation process and Ofgem decision-making A couple of providers expressed concern about the delay to ESO publishing proposals and then the two-month Ofgem decision-making. There were concerns this process would impact industry's readiness.	We have carried out a range of engagement activities to promote industry readiness. For example, we published our early winter outlook and initial design proposals in June, followed by three Q&A sessions. We launched the EBR consultation on 22 July, providing one month for responses. The EBR provides time limits for Ofgem's approval of the terms. We will work with Ofgem to address queries and otherwise justify our submission to aid Ofgem in its decision-making process.
ABSVD for half hourly settled domestic and I&C One asked why 10.2 of the Service Terms only applies ABSVD to half-hourly settled domestic customers and not I&C? This omission unnecessarily impacts suppliers who have no control over when an aggregator dispatches flexibility and should be brought in line with the provision for Domestic customers. The respondent said: "For HH settled customers DFS is more profitable for aggregators than for suppliers, because suppliers are only able to achieve the spread between the price they paid for the energy (which isn't used by the customer during the DFS event and isn't taken to imbalance because of ABSVD) and the DFS achieved price. However, aggregators are able to earn the DFS achieved price without incurring any costs. For a service such as the Local Constraints Market (turn-up) which was found to benefit suppliers unduly due to ABSVD, an alternative was quickly proposed where supplier imbalance isn't adjusted by ABSVD and the aggregator is instead paid through RCRC. No similar methodology is in place for demand turn-down services which continue to see suppliers at a disadvantage to aggregators."	As part of our obligations, we apply ABSVD for all services including DFS so far as possible. However, in this case, we are impeded by data availability issues. We are aware that the current market does have some differences between different types of providers, however there are also some benefits for suppliers avoiding peak periods such as reduction in Capacity Market Levy and potential DNO charges. However, we believe that these issues should be looked at holistically and recommend that providers seek to engage with BSC Issue Group 114 which is looking at these issues in detail.
ENA Flexibility Services Standard Agreement A respondent asked which version of the ENA standard terms was being used. They felt it would be preferable to have the actual ENA terms incorporated in the DFS contracts rather than being referenced. They requested clarity on Clause 14 of the Service Terms on Termination and the inconsistency of this clause with paragraph 7.1 of the ENA terms. Also, clause 22 of the DFS Service Terms Modern Slavery was one-sided and onerous and they wanted to know why ESO required this. They provided some suggested amendments that could be used from the ENA Flexibility Services Standard Agreement and these included Paragraph 15.2 and Paragraph 15.7.	The ENA standard terms (referred to as the **Flexibility Services Standard Agreement**), are incorporated into this agreement via a defined term in the prevailing version of the **Balancing Services Glossary of General Terms and Rules of Interpretation.** At the present time, this glossary identifies the ENA document as the "Common Flexibility Service Terms and Conditions", defined as the prevailing version of the document with that title as published by the ENA. However, the **Balancing Services Glossary of General Terms and Rules of Interpretation** is currently in the process of being amended as part of a consultation on ESO's "Quick Reserve" product and will replace the definition of Common Flexibility

	Service Terms and Conditions with a new defined term “Flexibility Services Standard Agreement” referring to version 3.0 of the document of that title published by the Energy Networks Association in the form which is published on NGESO’s website. On the assumption this amendment to the Glossary is approved by Ofgem as part of the QR product documentation, this version 3.0 will therefore be the version of the Flexibility Services Standard Agreement that the DFS terms incorporate. On the other hand, if this updated definition is not approved by the time the DFS contract terms are approved, then the current defined term (i.e., Common Flexibility Service Terms and Conditions) in the Glossary will still be applicable, and therefore some minor consequential updates to terminology and cross referencing in the DFS terms will be undertaken. <u>Service Terms</u> <u>No Termination for material breach</u> This is an intentional omission. Each DFS contract is of limited duration, meaning a right to terminate by notice is unlikely to be relevant. Material Breach in the DFS service terms is however relevant as it may give NGESO a right to deregister any **Registered DFS Participant** pursuant to paragraph 5.2.4 of the DFS Procurement Rules. <u>Modern Slavery</u> As with other Balancing Services, DFS incorporates ‘boilerplate’ terms from the ENA’s Flexibility Services Standard Agreement. In doing so, NGESO has elected to incorporate all of those terms unless irrelevant or inoperable, with limited amendments to the extent needed. NGESO has placed reliance on the fact that those terms have been the subject of discussion within the ENA, and has wished to be supportive by utilising the Flexibility Services Standard Agreement in this way so as to further the ENA’s aims to: • make participation easier by offering standard terms across the industry, especially for those who operate in multiple markets across many locations; • reduce resource and cost burden in assessing contracts for different markets; and • facilitate shorter term markets by providing an over-arching agreement, available prior to bidding and which can be used for numerous tender rounds. For these reasons, the modern slavery clause has been adopted without material amendment.

Number of significant figures A respondent asked about the number of significant figures in the settlement file. .	Delivery should be reported in kWh and with at least two decimal places. E.g., 2.15 kWh or 23.537 kWh. This is unchanged from last year.

8. Appendix 1 – Mapping Document

EBR Article 18 mapping for the Demand Flexibility Service Terms and Conditions

Please note: The table below cross references the terms and conditions related to balancing described in article 18 of Commission Regulation (EU) 2017/2195 of 23 November 2017 (as incorporated into EU retained law, and as amended by the Electricity Network Codes and Guidelines (Markets and Trading) (Amendment) (EU Exit) Regulations 2019/532) ("**EBR Article 18**") against the corresponding parts of the GB codes and relevant contractual provisions, with particular reference to the Demand Flexibility Service. This cross referencing includes the terms and conditions for balancing service providers and the terms and conditions for balance responsible parties.

Nothing in this table shall prejudice or otherwise affect the operation of the GB codes and relevant contractual provisions, and furthermore in the event of any conflict or inconsistency between this table and EBR Article 18 the latter shall prevail.

Table 1 – Mandatory Elements

Below is the mapping of EBR Article 18 with references to the relevant Demand Flexibility Service terms and conditions.

Article	Text	Code or Document	Section
18.2	The terms and conditions pursuant to paragraph 1 shall also include the rules for suspension and restoration of market activities pursuant to Article 36 of Regulation (EU) 2017/2196 and rules for settlement in case of market suspension pursuant to Article 39 of Regulation (EU) 2017/2196 once approved in accordance with Article 4 of Regulation (EU) 2017/2196.	Grid Code	OC9.4
		BSC	G3, P1.6, P5, Q4.3.4, Q5.4, Q5A and T1.7
18.4	The terms and conditions for balancing service providers shall:	-	-

Article	Text	Code or Document	Section
18.4.a	Define reasonable and justified requirements for the provisions of balancing services;	DFS Procurement Rules DFS Service Terms	**DFS Procurement Rules** 4 – Registration of DFS Units 5 – Registration as Registered DFS Participant 6 – DFS Operational Baselines 8 – Weekly Indicative Forecasts 9 – Updates to Unit Meter Point Schedules 11 – Submission of DFS Bids 15 – Delivery of DFS **DFS Service Terms** 5 – Service Delivery
18.4.b	allow the aggregation of demand facilities, energy storage facilities and power generating facilities in a scheduling area to offer balancing services subject to conditions referred to in paragraph 5 (c);	BSC	A, H3, H4.2, H4.7, H4.8, H5.5, H6, H10, J3.3, J3.6, J3.7 and J3.8
		CUSC	4.1.3
		Grid Code	BC1, BC2, BC3 & BC4
		BSC	K3.3, K8, S6.2, S6.3 and S11, S12, S13 and S14
		Grid Code	DRSC 4.2, BC1.4
		DFS Procurement Rules	**DFS Procurement Rules** 4 - Registration of DFS Units Schedule 2 – Registration and Pre-Qualification Procedure
18.4.c	allow demand facility owners, third parties and owners of power generating facilities from conventional and renewable energy sources as well as owners of energy storage units to become balancing service providers;	BSC	K3.2, K3.3, K8
		DFS Procurement Rules	**DFS Procurement Rules** 4 - Registration of DFS Units 5 – Registration as Registered DFS Participant Schedule 2 – Registration and Pre-Qualification Procedure
18.4.d	require that each balancing energy bid from a balancing service provider is assigned to one or more balance responsible parties to enable the calculation of an imbalance adjustment pursuant to Article 49.	BSC	T4, Q7.2, Q6.4

Article	Text	Code or Document	Section
18.5	The terms and conditions for balancing service providers shall contain:	-	-
18.5.a	the rules for the qualification process to become a balancing service provider pursuant to Article 16;	DFS Procurement Rules	**DFS Procurement Rules** 4- Registration of DFS Units 5 – Registration as Registered DFS Participant Schedule 2 – Registration and Pre-Qualification Procedure
		Grid Code	BC5, BC4.4.2
		CUSC	4.1
		BSC	J3.3, J3.6, J3.7, J3.8, K3.2, K3.3 and K8
18.5.b	the rules, requirements and timescales for the procurement and transfer of balancing capacity pursuant to Articles 32 and 34;	-	-
18.5.c	the rules and conditions for the aggregation of demand facilities, energy storage facilities and power generating facilities in a scheduling area to become a balancing service provider;	DFS Procurement Rules	**DFS Procurement Rules** 4 - Registration of DFS Units Schedule 2 – Registration and Pre-Qualification Procedure
		BSC	K3.3 and K8
		Grid Code	BC1.4 and BC1.A.10
18.5.d	the requirements on data and information to be delivered to the connecting TSO and, where relevant, to the reserve connecting DSO during the prequalification process and operation of the balancing market;	DFS Procurement Rules DFS Service Terms	**DFS Procurement Rules** 4 – Registration of DFS Units 5 – Registration as Registered DFS Participant 6 – DFS Operational Baselines 8 – Weekly Indicative Forecasts 11 – Submission of DFS Bids Schedule 2 – Registration and Pre-Qualification Procedure Schedule 3 – DFS Operational Baselines **DFS Service Terms** 6 – Performance Monitoring 8 – Payment Procedure
		BSC	O

Article	Text	Code or Document	Section
		Grid Code	DRC, BC5 BC1.4
		CUSC	4.1.3.14 and 4.1.3.19
18.5.e	the rules and conditions for the assignment of each balancing energy bid from a balancing service provider to one or more balance responsible parties pursuant to paragraph 4 (d);	BSC	T4
		DFS Procurement Rules DFS Service Terms	**DFS Procurement Rules** 15 – Delivery of DFS **DFS Service Terms** 18 – Assignment
18.5. f	the requirements on data and information to be delivered to the connecting TSO and, where relevant, to the reserve connecting DSO to evaluate the provisions of balancing services pursuant to Article 154(1), Article 154(8), Article 158(1)(e), Article 158(4)(b), Article 161(1)(f) and Article 161(4)(b) of Regulation (EU) 2017/1485;	DFS Service Terms	**DFS Service Terms** 6 – Performance Monitoring
		Grid Code	BC1.4, BC1.A.10,
		CUSC	4.1.3.19
18.5. g	the definition of a location for each balancing product taking into account paragraph 5 (c);	Grid Code	BC1.4
18.5.h	the rules for the determination of the volume of balancing energy to be settled with the balancing service provider pursuant to Article 45;	BSC	T3
18.5. i	the rules for the settlement of balancing service providers defined pursuant to Chapters 2 and 5 of Title V;	DFS Service Terms	**DFS Service Terms** 8 – Payment Procedure Schedule 1 – Utilisation Payments Schedule 2 – Payment Provisions
		BSC	T1.14, T3 and U
		CUSC	4.1.3.9 and 4.1.3.9A
18.5. j	a maximum period for the finalisation of the settlement of balancing energy with a balancing service provider in accordance with Article 45, for any given imbalance settlement period;	DFS Service Terms	**DFS Service Terms** 8 – Payment Procedure Schedule 1 – Utilisation Payments Schedule 2 – Payment Provisions
		BSC	U2.2
		CUSC	4.3.2.6

Article	Text	Code or Document	Section
18.5. k	the consequences in case of non-compliance with the terms and conditions applicable to balancing service providers.	DFS Procurement Rules DFS Service Terms	**DFS Procurement Rules** 5 – Registration as Registered DFS Participant 11 – Submission of DFS Bids **DFS Service Terms** 6 – Performance Monitoring 12 – Provision of Other Services Schedule 1 – Utilisation Payments
		BSC	H3, Z7 and A5.2
		CUSC	4.1.3.9, 4.1.3.9A and 4.1.3.14
18.6	The terms and conditions for balance responsible parties shall contain:	-	-
18.6. a	the definition of balance responsibility for each connection in a way that avoids any gaps or overlaps in the balance responsibility of different market participants providing services to that connection;	BSC	K1.2, P3 and T4.5
18.6. b	the requirements for becoming a balance responsible party;	BSC	A, H3, H4.2, H4.7, H4.8, H5.5, H6, H10, J3.3, J3.6, J3.7, J3.8, K2, K3.3 and K8
18.6.c	the requirement that all balance responsible parties shall be financially responsible for their imbalances, and that the imbalances shall be settled with the connecting TSO;	BSC	N2, N6, N8, N12, and T4,
18.6. d	the requirements on data and information to be delivered to the connecting TSO to calculate the imbalances;	BSC	O, Q3, Q5.3, Q5.6, Q6.2, Q6.3, Q6.4
		Grid Code	BC1.4.2,3,4, BC1 Appendix 1 BC2.5.1,
18.6. e	the rules for balance responsible parties to change their schedules prior to and after the intraday energy gate closure time pursuant to paragraph 4 of Article 17;	BSC	P2
		Grid Code	BC1.4.3,4,
18.6.f	the rules for the settlement of balance responsible parties defined pursuant to Chapter 4 of Title V;	BSC	T4, U2
18.6.g	the delineation of an imbalance area pursuant to Article 54(2) and an imbalance price area;	-	GB constitutes one imbalance area and imbalance price area and they are equal to the synchronous area
18.6.h	a maximum period for the finalisation of the settlement of imbalances with balance responsible parties for any given imbalance	BSC	U2.2

Article	Text	Code or Document	Section
	settlement period pursuant to Article 54;		
18.6.i	the consequences in case of non-compliance with the terms and conditions applicable to balance responsible parties;	BSC	H3,Z7 and A5.2
18.6.j	an obligation for balance responsible parties to submit to the connecting TSO any modifications of the position;	BSC	P2
18.6.k	the settlement rules pursuant to Articles 52, 53, 54 and 55;	BSC	T4, U2
18.6.l	where existing, the provisions for the exclusion of imbalances from the imbalance settlement when they are associated with the introduction of ramping restrictions for the alleviation of deterministic frequency deviations pursuant to Article 137(4) of Regulation (EU) 2017/1485.	Deterministic frequency deviation is a continental European concept and is not a characteristic of the GB system. Therefore, this requirement does not apply to GB.	N/A

Table 2 - Non- Mandatory elements

Article	Text	Comment
18***.7. a***	-	Sub-paragraph 18.7.a was repealed pursuant to paragraph 18(6)(a) of Schedule 2 of the Electricity Network Codes and Guidelines (Markets and Trading) (Amendment) (EU Exit) Regulations 2019/532.
18.7. b	where justified, a requirement for balancing service providers to offer the unused generation capacity or other balancing resources through balancing energy bids in the balancing markets after day ahead market gate closure time, without prejudice to the possibility of balancing service providers to change their balancing energy bids prior to the balancing energy gate closure time due to trading within intraday market;	NG ESO does not expect to require this from Balancing Service Providers, except where balancing capacity or energy has been contracted. Although in the BM defaulting rules apply if data is not updated, there is no legal requirement for parties to offer unused generation capacity or any other balancing resource.
	-	Sub-paragraph 18.7.c was repealed pursuant to paragraph 18(6)(c) of Schedule 2 of the Electricity Network Codes and Guidelines (Markets and Trading) (Amendment) (EU Exit) Regulations 2019/532.
18.7. d	specific requirements with regard to the position of balance responsible parties submitted after the day-ahead market timeframe to ensure that the sum of their	NG ESO does not expect to require this from Balancing Service Providers. No BSC party is required to contract to match its Final Physical Notifications (FPNs).

Article	Text	Comment
	internal and external commercial trade schedules equals the sum of the physical generation and consumption schedules, taking into account electrical losses compensation, where relevant;	
18.7. e	an exemption to publish information on offered prices of balancing energy or balancing capacity bids due to market abuse concerns pursuant to Article 12(4)	NG ESO does not expect to require this exemption. Such data is published on Insights Real-Time Information Service (IRIS).
18.7. f	an exemption to predetermine the price of the balancing energy bids from a balancing capacity contract pursuant to Article 16(6)	A derogation will be sought under Regulation (EU) 2019/943 Article 6(14) from the requirements of Regulation (EU) 2019/943 Article 6(4) and this will be submitted alongside the Article 18 submission and subject to Ofgem approval
18.7. g	An application for the use of dual pricing for all imbalances based on the conditions established pursuant to Article 52(2)(d)(i) and the methodology for applying dual pricing pursuant to Article 52(2)(d)(ii).	NG ESO does not expect to apply for the use of dual pricing for all imbalances. A single imbalance price was adopted by the GB market in November 2015.