

Demand Flexibility Service

Guaranteed Acceptance Price – Winter 2022/23

Key points

- We will be running a series of tests of the Demand Flexibility Service (DFS), which will help to mitigate the uncertainty of how often we will need to use it. The tests are designed to make the service a viable commercial proposition, and to create confidence in both using it and providing it.
- The “Guaranteed Acceptance Price” (GAP) represents the absolute lowest price we will accept during tests
- The GAP for winter 2022/23 will be £3,000/MWh, as feedback indicates this will unlock the majority of the available volume
- We are also publishing a [DFS requirement paper](#) along with this document, following publication of the [Winter Outlook Report](#)

What is the Guaranteed Acceptance Price?

The GAP is designed to provide certainty to providers by giving an absolute lowest price we will accept during tests of the Demand Flexibility Service.

While the marginal BM price may occasionally be higher than the GAP, we cannot guarantee it, and so we are aiming to give certainty by guaranteeing this minimum price threshold instead.

As a reminder, there will be two tests every month, plus an additional two onboarding tests in a provider’s first full month of the service. Tests are not a pre-requisite to participate in the actual service.

NB: Providers could choose to bid below the Guaranteed Acceptance Price if they wanted, and would be accepted at their bid price, but we understand it would probably not be in their commercial interest to do so. Some I&C consumers may require a higher value to participate in tests, and this can also be done, but they may risk not being accepted if their bid price is above the marginal BM price.

What level are you setting the Guaranteed Acceptance Price at?

At our webinar on Mon 5th September 2022 we outlined our proposal to set the GAP according to the prevailing average Ofgem price cap for a unit of electricity. This would have been £520/MWh from October 2022, the equivalent of 52p/kWh.

Since then there has been an update from government on energy price caps for this winter, reducing the unit price cap to the equivalent of £340/MWh, which would make the service less attractive and reduce the volume participating.

We have also received a range of feedback on the proposed price level from potential providers, which indicates that much higher GAP level is required to unlock maximum volumes and to meet our aim of making the service viable for this winter.

We are setting the GAP for winter 2022/23 at £3,000/MWh, as feedback indicates this will unlock the majority of the available volume.

What prices will ESO accept for the tests of the service?

For the tests, we will accept all bids up to the marginal price of balancing energy we would expect to have accepted in the Balancing Mechanism (BM) during the delivery period. For example, using prices from winter 2021/22: if we expected to run a BM unit at £4,000/MWh during the test period, then we would accept all DFS bids up to £4,000/MWh.

However, the marginal BM price will change from day-to-day and month-to-month with system conditions, market conditions, weather etc. which gives uncertainty to providers about potential revenues and returns from setting-up and participating in the service.

How often will ESO require actual use of the service?

As an enhanced action, our new Demand Flexibility Service will allow us to access new flexibility that is not currently accessible through existing services and market incentives, in the event that insufficient upwards flexibility is forecast at the day ahead stage.

There are a range of scenarios for what this winter might look like, so we can't be definitive on how often we will need to use the service.

We are publishing a "DFS requirement paper" along with this document, following publication of the Winter Outlook Report, which details how often we might need DFS in the different scenarios.

What prices will ESO accept for actual use of the service?

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

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