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Drax Intelligence

Flexibility Focus

A quarterly update on demand-side revenue streams

A review of Q2 2025 and look ahead at Q3

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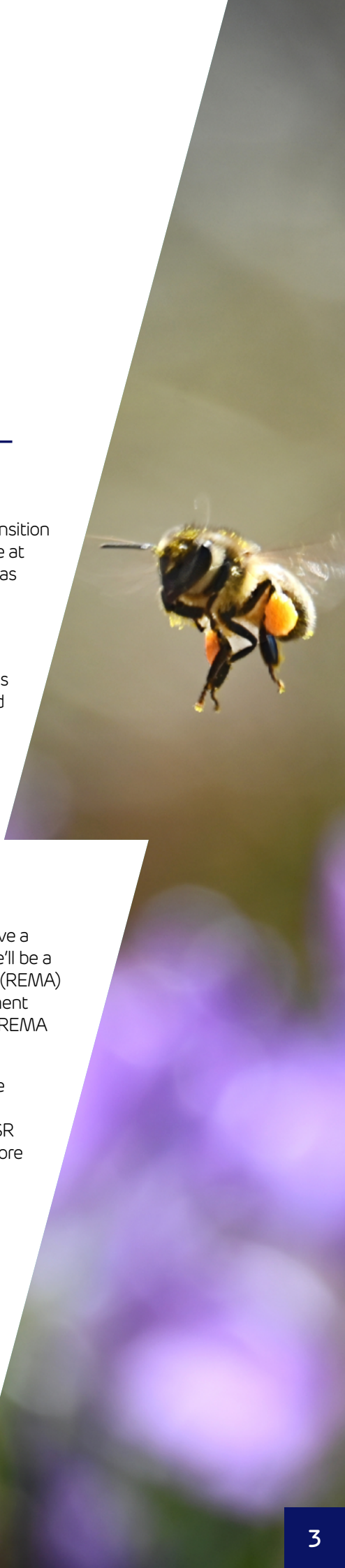
Welcome to our new quarterly newsletter on the key market, policy and regulatory developments affecting Consumer-Led Flexibility (CLF, otherwise known as Demand Side Response (DSR)).

Clean Power 2030 requires significant growth in the amount of flexibility on the GB electricity system. There's an expectation that a large proportion of this increase will come from a near tripling of DSR, from just under 4GW in 2025 to almost 12GW in 2030.

At Drax Energy Solutions (DES), we're investing in systems and services to support our customers in accessing a range of CLF revenue streams. Our activities will also help to enable the grid transition.

Initially, we're reaching out to customers to enter flexibility into the Capacity Market. Please get in touch if you have DSR capability in the CM (or other markets) and want to know more about the revenues available.

Developments this quarter



Market updates

In Q2 2025, we saw the sunniest – and one of the stillest – springs on record transition into a sunny and windy June. This change muted prices and drove them negative at several points. Generally, a negative minimum price (rather than the maximum) has driven those days with good within-day spreads.

While intermittent generation output continued to drive spot markets, concerns about conflict in the Middle East caused oil, gas and power futures to jump in mid-June. Then, following a ceasefire announcement, prices retreated rapidly. Gas prices, the fundamental driver of power prices, remain relatively muted compared to recent highs, although concerns over French nuclear reactor availability have influenced prices at times.

In ancillary services, the National Energy System Operator (NESO) continues to progress plans for its Slow Reserve (SR) product. Read more about this in our Q3 look-ahead on the final page.

Policy updates

Additionally, announcements this summer about major policy decisions could have a fundamental impact on the workings of the electricity market. For example, there'll be a decision in July about one of the Review of the Electricity Market Arrangements (REMA) workstreams. This could split the GB market into several zones or reduce settlement periods to a 5- or 15-minute granularity. We've summarised some of the recent REMA announcements here.

The Government published the outcome of its proposed measures on DSR in the Capacity Market (where CLF remains firmly referred to as DSR). This included an additional £5,000/kW termination fee for Unproven DSR that fails to deliver a DSR Test Certificate, which acts as a disincentive to speculative DSR. You can read more about the outcome here.

As part of its Industrial Strategy, the Government announced that more businesses would be exempt from policy costs and it enhanced network cost rebates for energy intensive industry. These changes will have a nuanced effect on the value of CLF for these customers. Finally, we also expect this summer's Low Carbon Flexibility Roadmap to outline how the Government plans to deliver its CP2030 CLF ambitions.

Regulation updates

From a regulatory perspective, a wide range of changes are in progress. These include changes to the Measuring Instrument Regulations, Issues Group 144, and a number of code modifications to support CLF.

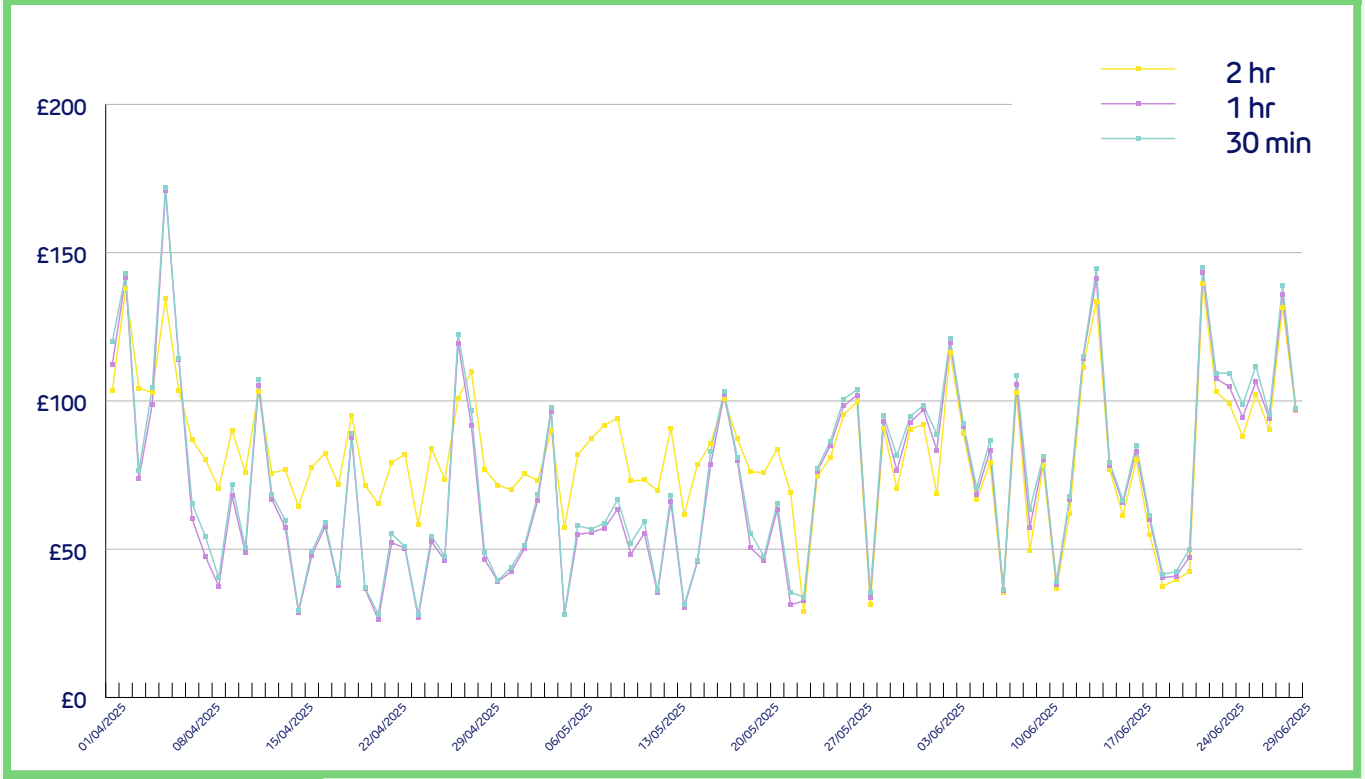
Revenue opportunities

Wholesale arbitrage

Spreads in within-day wholesale prices from April to June have been volatile, and driven by near zero or negative prices at times. For 30 minutes of flexibility, the greatest spread was on 2 April at £142.93/MWh and the lowest was £28.15/MWh on 5 May. The daily average was £74.12/MWh.

Strong solar output driving midday troughs in demand supported this trend. The differential in value between 30 minutes and 2 hours of flexibility have been low for much of the period (8.9% on average). However, it did increase to almost 25% in days with low arbitrage values.

Daily maximum £/MWh value for a single load shift of varying durations (wholesale only)



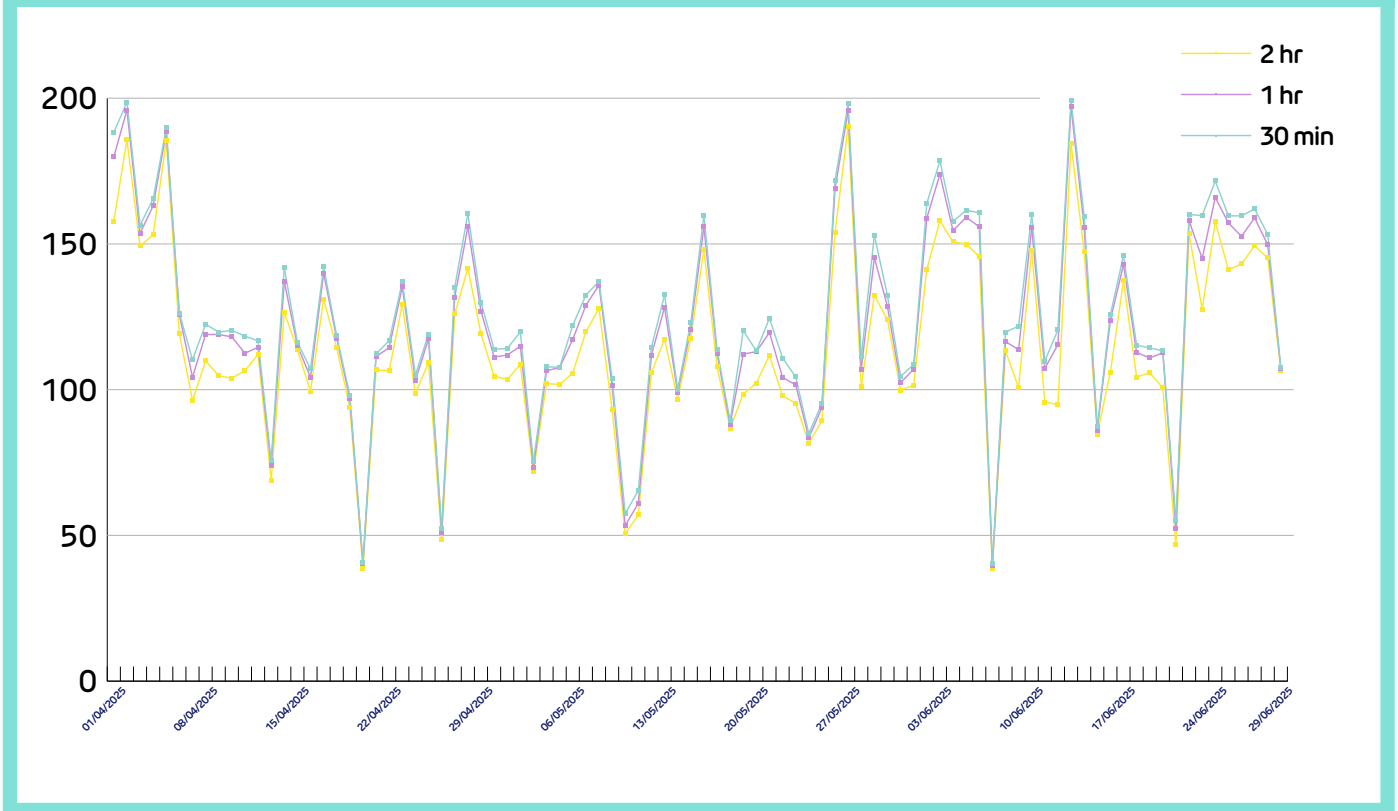
Source: Elexon Market Index Price

Delivered cost arbitrage (example customer)

The delivered cost arbitrage tends to be of a higher value than wholesale only, as peak demand tends to align with higher wholesale costs and both distribution charges and losses. By shaving peak demand consumption, customers could save up to £199/MWh on some days. The average figure saved was £125.65/MWh for 30 minutes of peak demand shaving.

This representative example is for a low voltage half-hourly consumer connected in the Eastern region, and isn't necessarily representative of every region in GB. It also assumes that all costs are passed through to the end customer.

Daily maximum £/MWh value for a single load shift of varying durations (delivered price)



Source: Elexon Market Index Price plus applicable DUoS, TNUoS, CM charges and distribution losses in the period, as the only within-day variable tariff components.

Demand Flexibility Service (DFS)

NESO introduced the Demand Flexibility Service (DFS) back in the winter of 2022/23 as a means of procuring CLF for balancing the grid during periods of tight system margins. After two winters of trial, in which Drax was one of the largest contributors, NESO restarted the service as an in-merit margin tool at the end of November 2024. Approximately two million of the UK's 32 million MPANs have registered.

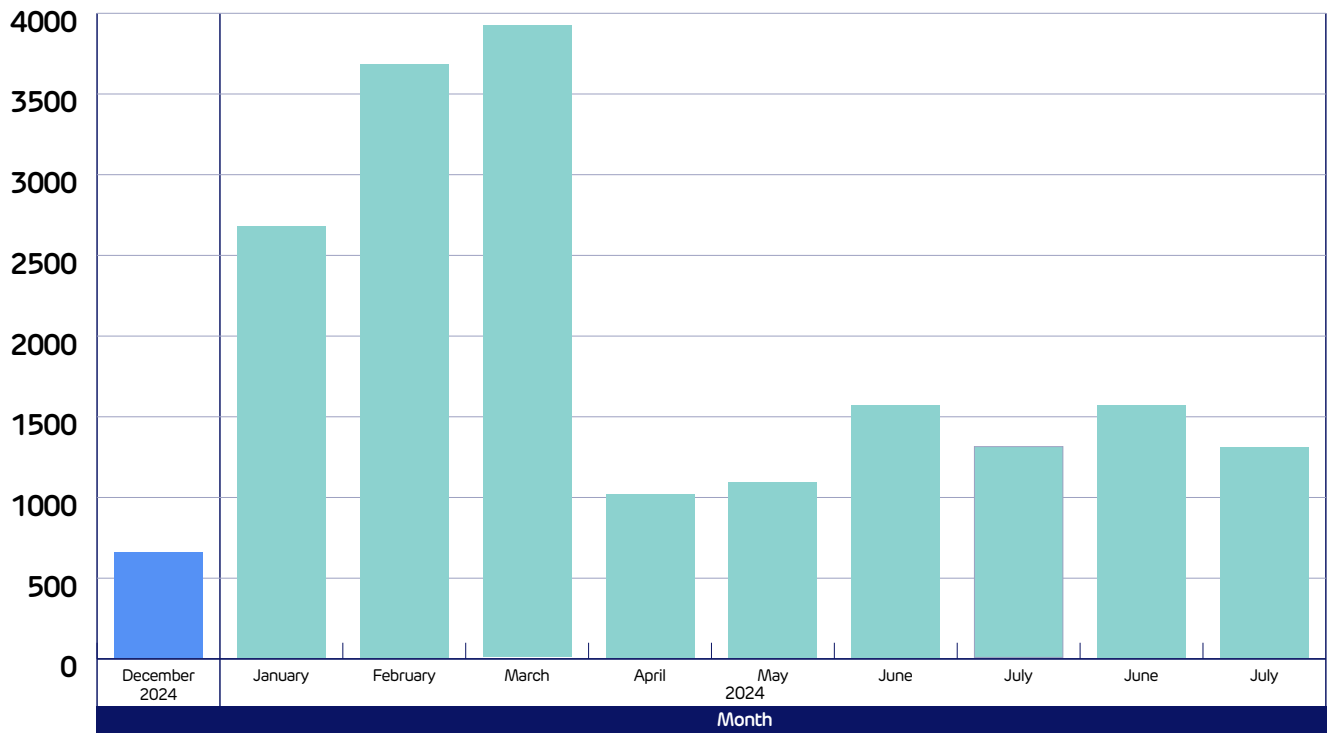
Since November 2024, NESO's called 109 DFS events and accepted bid volume in 85 of them. The events total 7,865MWhs of turndown volume, with industrial and commercial (I&C) customers delivering 40% of this. The event on 12 March 2025 saw the largest single turndown delivery of 196.7MW between 18:30 and 19:00.

NESO's accepted bids are worth a total of £1,530,809 since November 2024, with an average accepted bid of £211/MWh in Q1 2025. The maximum accepted bid (of £1290/MWh) occurred on 8 January.

Over the winters of 2022-23 and 2023-24, DFS was an enhanced action service. NESO primarily looked to procure volume in settlement periods during the peak evening hours (4PM to 7PM). Since converting DFS to an in-merit margin service, there's been an expansion in the duration of some events (e.g. on 4 July, the event ran from 4PM to 11PM). Indeed, since 7 April, 68% of event settlement periods have fallen outside the evening peak window. This signals the evolving role of DFS outside of peak periods to support the delivery of broader ambitions aligned to Clean Power 2030.

With increasing competitiveness, greater price fluctuations and event durations, Drax Energy Solutions provides customers with the flexibility to enter events when it suits them. We do so by sending a notification when market conditions are potentially favourable – a judgement we base upon our experience and intelligent market insights. Through this, we've allowed our customers to achieve successful bids in the upper range of accepted prices, achieving the second highest accepted bid price since the service restarted.

DFS monthly volumes since restart



Data up to 25/07/25

Source: NESO data with DES analysis

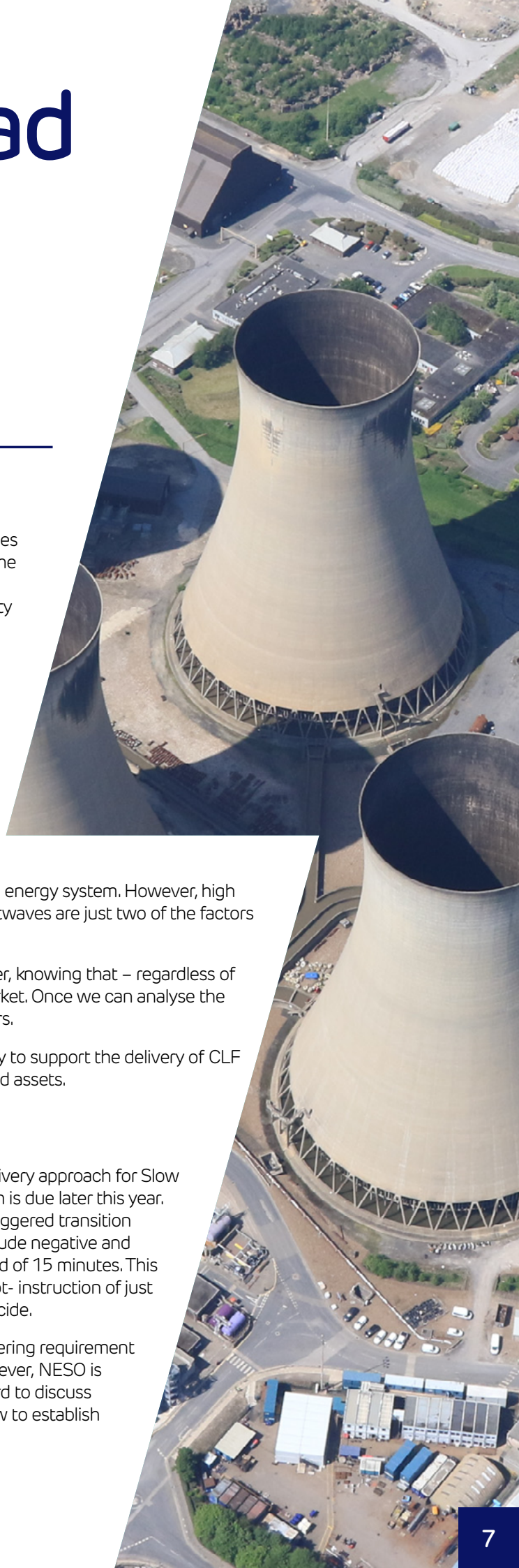
Looking ahead at Q3

What we're doing at Drax

In Q3, DES will continue to develop and deploy our internal capabilities to enable customers to gain access to further value. Building upon the strong pedigree of our ElectriFlex product and the value we enable through the DFS service, we'll offer a fuller and more holistic flexibility value for our customers.

First, we'll be looking at the Capacity Market. In early Q3, we'll engage with our largest and most flexible customers. We want to understand the appetite for working in partnership with us to earn some of the most stable flexibility values in the market.

In addition, we have more plans in the pipeline to enhance our flexibility offering – so watch this space!



Market and policy developments

The summer period is typically a time of comfortable margins on the energy system. However, high levels of asset unavailability from planned outages and summer heatwaves are just two of the factors that can have a significant impact on energy prices.

We expect to receive the final decision on REMA during this summer, knowing that – regardless of the outcome – it'll have fundamental implications for the power market. Once we can analyse the announcement, we'll summarise the key outcomes for our customers.

We also await further news on the Government's long-term strategy to support the delivery of CLF at scale in GB, including options to improve the visibility of distributed assets.

Quarter in focus: Slow reserve

On 16 May 2025, NESO published a range of documents on the delivery approach for Slow Reserve. This is the newest refreshed ancillary service, and its launch is due later this year. It's set to entirely replace STOR on 15 October, in contrast to the staggered transition model adopted for services in recent years. The new service will include negative and positive reserve (turn up and down) and a time-to-full-delivery period of 15 minutes. This makes it suitable for some fast-acting CLF although a time-to-accept- instruction of just two minutes means providers have a limited window in which to decide.

Interested parties should be aware that the desired operational metering requirement is once per 15s, with a latency of no greater than five seconds. However, NESO is aware this may be a barrier to entry and asks parties to come forward to discuss how to circumvent it on a bilateral basis. It also wants to discuss how to establish daily forecast Physical Notifications as a baseline for CLF.

For more information on **Drax Energy Solution's flexibility offering and services**, please visit our website or message insights@drax.com.

For more information about the **latest market, regulatory and policy developments**, please visit our Intelligence webpage.

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