

drax

Drax Intelligence

Flexibility Focus

A quarterly update on demand-side revenue streams

A review of Q1 2026 and
look ahead at Q2 2026

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Welcome to the fourth edition of our quarterly newsletter focusing on the key market, policy and regulatory developments affecting consumer-led flexibility (CLF). The first quarter of 2026 has been one of significant geopolitical, regulatory and market developments, as well as updates to ancillary services.

As with every quarterly report, we look at the biggest developments in this edition. If there are topics we've missed that you think we should cover in future, or any other ways we can improve the content, please send your feedback to insights@drax.com.



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Developments this quarter



Policy updates

NESO published Reformed National Pricing Call for Input

As part of the Reformed National Pricing (RNP) programme – which follows on from the conclusion of REMA - NESO published a Call for Input (CfI) on Balancing, Settlement and Dispatch reforms on 11 February. The reforms include:

- More effective price signals, via a move to shorter settlement periods (SPs) (either 5 or 15 minutes),
- Improved visibility of, and access to, balancing resources by lowering the mandatory BM participation threshold.
- Incentives to make more balancing capacity available in the BM and aligning the market trading deadline and Gate Closure, creating a clearer division of balancing responsibility between market participants and NESO.
- An enhanced ability to perform market monitoring and reducing strategic positioning against constraints. This is intended to mitigate perceived distortions to wholesale and balancing prices by requiring Final Physical Notifications to match traded positions and by introducing Unit-level bidding.

The effects of these changes for DSR could include mandatory BM participation for flexibility assets of 1MW or greater (although NESO's also exploring a 10MW+ threshold). While this would allow DSR to gain access to BM revenue opportunities, it would bring new registration, compliance, and operational costs.

The most significant reform proposal, from an implementation perspective, would be a move to shorter SPs. This would have an impact on processes and systems across the industry and incur significant transition costs. On the other hand, reducing the SP length to 5 or 15 minutes would provide better temporal price signals to market participants to resolve energy imbalances. NESO's initial view is that a 5-minute SP may be the most effective solution.



Policy updates continued

Shortening the SP provides a more granular imbalance signal, incentivising more shape in market parties' trading to better match the demand curve. A shorter SP would benefit fast-responding assets by revealing the value of flexibility to the wholesale market, but increase volatility and data requirements. NESO's initial assessment suggests a phased implementation approach prioritising wholesale and large consumers. NESO will assess timescales following the Cfl.

Government won't go ahead with Multiple Price CM at this time

On 16 February, the Government announced that it won't implement the proposals associated with the Multiple Price CM (MPCM) ahead of prequalification for the CM auction in March 2027. Its original proposal was to introduce a second, higher, price cap into the auction to secure new-build dispatchable enduring capacity to generate power over prolonged periods of tight supply.



Market updates

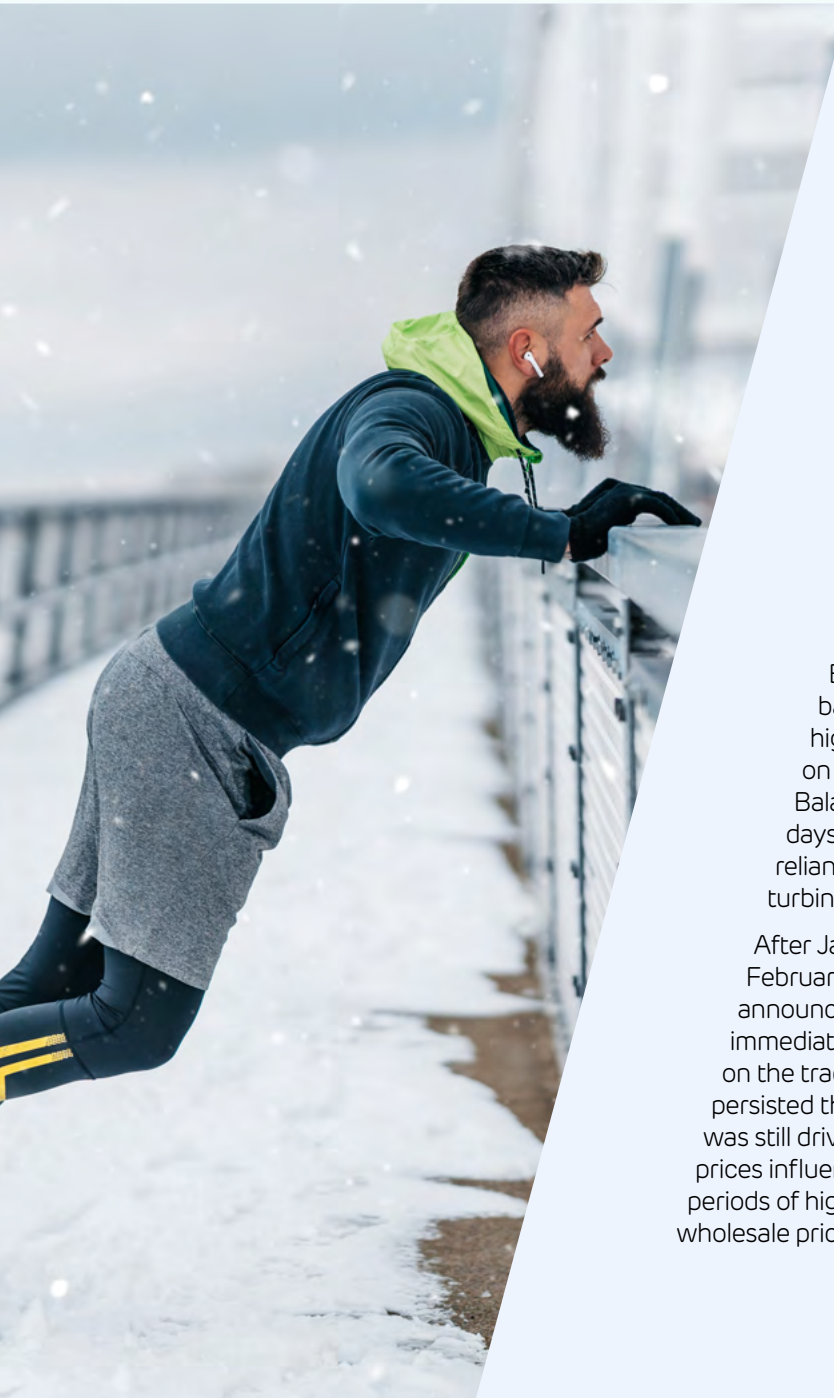
Cold weather and global conflicts caused market volatility

The first quarter of 2026 has been volatile due to a combination of conflict in the Middle East and periods of cold weather.

In the first half of January, market prices rose in response to widespread below-average temperatures and snow across the UK and Europe, plus low regional gas storage levels. The Met Office provisionally assessed that the mean temperature for the UK was 0.5°C below average in January. This cold weather triggered the highest recorded electricity demand since 2018, which caused prices to spike and an increase in imports via interconnectors.

Batteries played a key role in creating headroom to balance the system during this time. In response to the high prices, storage owners chose to sell their power on the wholesale market rather than participate in the Balancing Mechanism (BM). Particularly still and overcast days also contributed to price spikes, with the grid more reliant on pumped storage assets and open-cycle gas turbines (OCGTs) during these windows.

After January's cold spell, prices became more settled across February. However, on 28 February, the US and Israel first announced missile strikes against Iran. This conflict caused an immediate spike in wholesale electricity costs, due to its impact on the trade of oil and liquefied natural gas (LNG). High prices persisted throughout the remainder of the quarter, and the conflict was still driving uncertainty at the end of Q1. While the rise in gas prices influenced most wholesale power prices during the quarter, periods of high renewable generation continued to drive some wholesale prices to sub-£0/MWh, creating large spreads for flexibility.



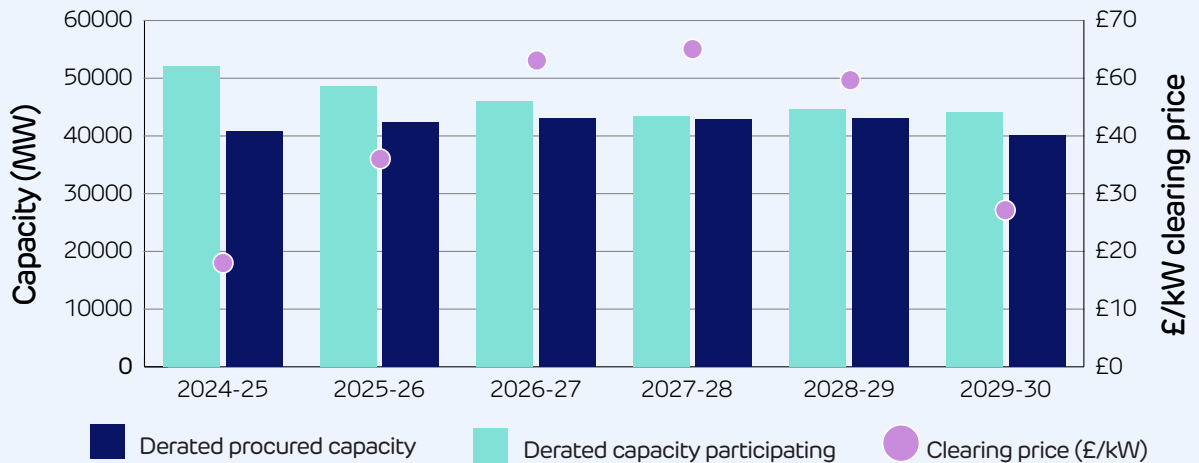


Market updates continued

Capacity Market auction prices fell

The National Energy Systems Operator (NESO) published the Capacity Market (CM) auction results in March. The T-1 2026/27 CM auction provisionally secured 7.2GW of derated capacity at £5.00/kW. The price marks a continued fall in clearing price from the high of £75/kW four years ago. Meanwhile, the T-4 2029/30 CM auction cleared at a price of £27.10/kW, a 5-year low and secured 40.1GW of derated capacity for delivery in 2029/30. The Government set the lowest ever demand target at 39.4GW.

Capacity Market T-4 procurement



Source: EMR Delivery Body published results

3.1GW of nameplate capacity Demand Side Response (DSR) was successful in the auction, with more than 80% coming from 'Unproven' DSR. 85% of the DSR capacity that entered was successful and the Delivery Body awarded agreements to 45% more capacity in the T-4 2029/30 action compared with last year's T-4 2028/29. For more information, see our [article](#).

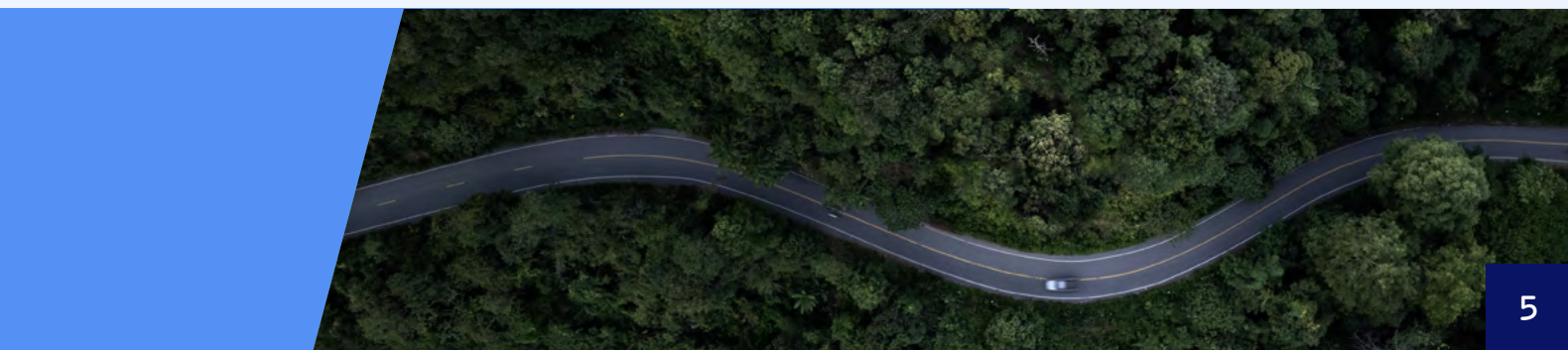
Slow Reserve went live

NESO confirmed that Slow Reserve (SR) went live and its first auctions took place on 31 March, marking the end of Short Term Operating Reserve (STOR). NESO has brought in SR to improve accessibility for DSR participants, which will specifically support smaller, distributed or aggregated assets that faced participation constraints under STOR. SR includes changes including a lower minimum threshold (1MW instead of 3MW, with aggregation allowed within a Grid Supply Point - GSP - group) and an acceptance of non-zero baselines plus shorter service windows. The service is also bi-directional, and available to BM and non-BM units. NESO is currently typically procuring 1.8GW of positive and negative response under the scheme.

NESO published its Electricity Markets Roadmap

In publishing its market roadmap on 31 March, NESO outlined that growing demand side flexibility is becoming a key balancing resource for both itself and Distribution Network Operators (DNOs). 590MW is already active across NESO's markets, mainly through the Demand Flexibility Service (DFS) and the Local Constraint Market (LCM), with increasing participation in the BM and balancing services.

NESO aims to add a further 750MW of industrial and commercial (I&C) flexibility as part of its commitments under the Clean Flexibility Roadmap. It plans to increase participation by changing the DFS service in 2026, extending the LCM until at least January 2027, and relaxing operational metering requirements for assets under 1MW.





Regulation updates

Exelon published its Market Facilitator flexibility delivery plan

Exelon's flexibility delivery plan for 2026-28, published in January, focuses on two key outcomes: simplifying access to markets and enabling coordination and stacking. It identified four main workstreams:

- Enabling stacking – provide a clear, standard understanding of how different flexibility markets interact and fit together.
- Data visibility and alignment – create a portal that establishes a unified location for historic procurement and dispatch data across system operators. This could help flexibility service providers better identify, understand and price commercial opportunities.
- Roadmap for market coordination – create a strategic roadmap to define long-term interaction between flexibility markets and establish an implementation plan.
- Operational flexibility – Rollout a common dispatch Application Processing Interface (API) across DNOs.

Exelon's next step is to deliver against the actions set out in the plan while working with wider flexibility market participants.

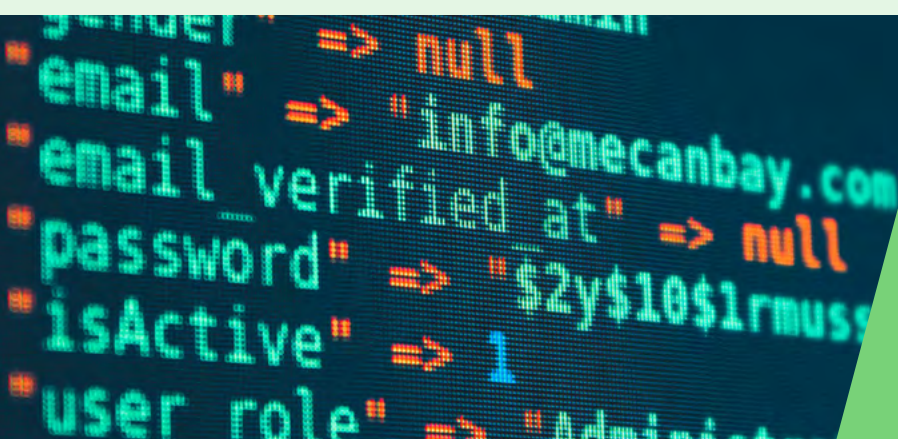
Industry raised VTP code modifications

In March, industry participants proposed the following code modifications to the Balancing and Settlement Code (BSC) relating to Virtual Trading Parties (VTPs):

- P509 Consumer benefits and safety net for DSR participation in the wholesale market
- P510 Introducing Direct Compensation for Virtual Trading Party actions in the Wholesale Market
- P511 Eligibility Boundaries for Generation Participation in P415

Flexitricity's P510 is looking to replace the compensation arrangements for VTP actions in the wholesale market. Currently, Exelon compensates suppliers through a supplier-funded mutualisation pot when a VTP action affects them. P510 looks to change this to a direct compensation mechanism, as the current arrangements don't incentivise VTP-led demand turn-up actions. However, P509 looks to retain the current compensation approach but adopt more checks to address gaming risks. The two modifications are closely related and will follow standard modification timelines as Ofgem rejected the proposers' requests for them to be treated as urgent.

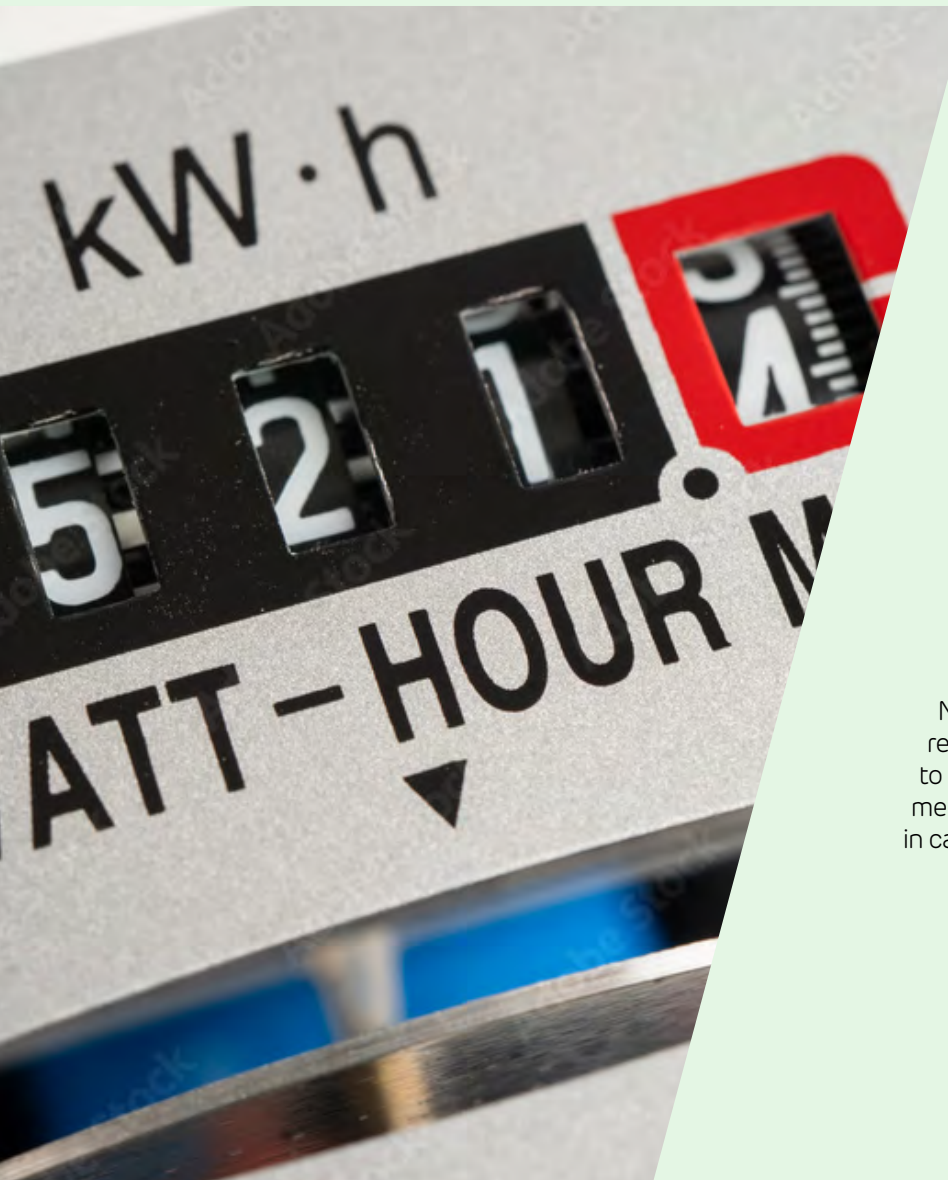
Separately, P511 notes that generation assets can currently utilise the VTP route to market, which was not part of the initial design intent. It notes that Exelon likely distributed around 80% of total VTP cashflows in January and February 2026 to a party using large gas-fired assets (see graph below). The proposal therefore seeks to set a maximum size of generation assets that can access the scheme, initially proposed at 5MW or 10MW. Ofgem granted urgent status for this modification so it will follow an accelerated decision pathway.





Regulation updates continued

Mutualised supplier compensation cashflow data (01/09/25-28/02/26)



NESO changed operational metering for CERs

Separately in February 2026, NESO published information on changes to operational metering for low voltage connected Consumer Energy Resources (CERs). This shifts the sub-asset level metering refresh from one second to at least every 30 seconds.

NESO made this change to prevent metering requirements in the BM from being a barrier to DSR participation. The revised operational metering standards are available for assets <1MW in capacity and connected at 415V or less.



Revenue opportunities

Wholesale arbitrage

In Q1 2026, we saw higher levels of volatility in wholesale prices compared to Q4 2025. The greatest daily volatility occurred at the start of January, due to very overcast and still weather in GB limiting renewable generation as well as widespread cold weather. In March, daily volatility picked up once again as the conflict with Iran involving the U.S and Israel influenced gas prices. The month also saw prolonged periods of high prices, with daily maximum prices exceeding £150/MWh on 11 days.

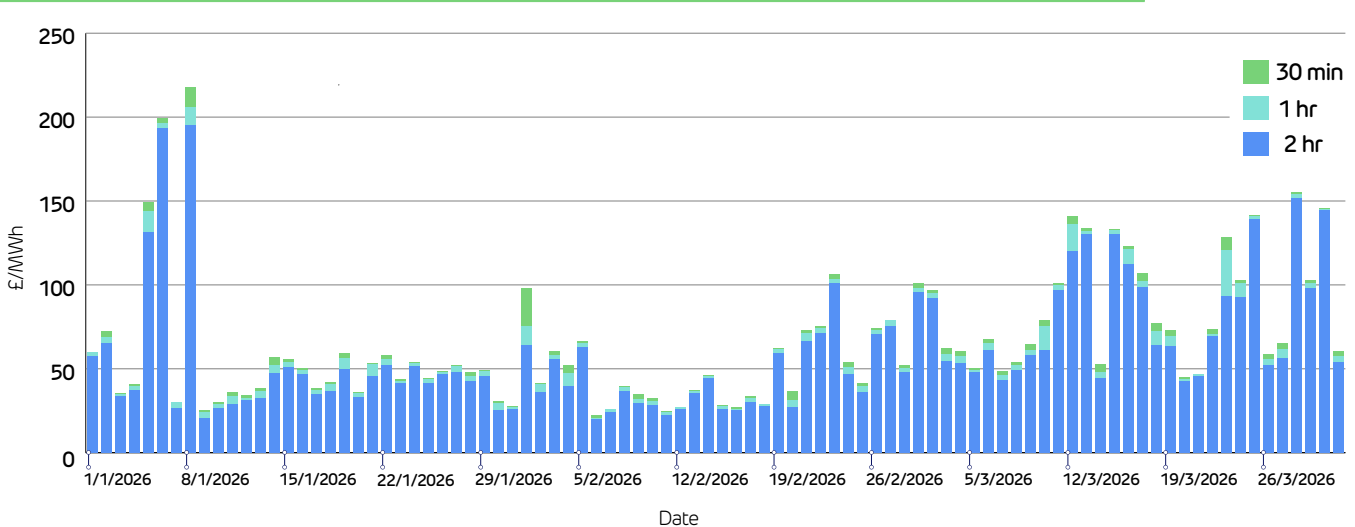
For the quarter overall, the highest peak prices outstripped those seen in Q4; the highest price was £290.89/MWh on 8 January, £3.32/MWh greater than Q4's. The second highest was £273/MWh on 6 January.

The greatest spread (the difference between the highest and lowest prices on the same day) also occurred on 8 January, at £217.78/MWh. The lowest spread was £22.01/MWh on 6 February. The average spread across the three months was £66.11/MWh although, as you can see from the following graph, there was a wide range.

There have also been some high value differentials between 30 minutes and 2 hours of flexibility. On 1 February, there was a 34.5% difference due to a single 30-minute settlement period over £40/MWh higher than other prices on the day.



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



Note: The top of each data point on the bars represents the value available for each duration indicated by the key

Source: Elexon Market Index Price

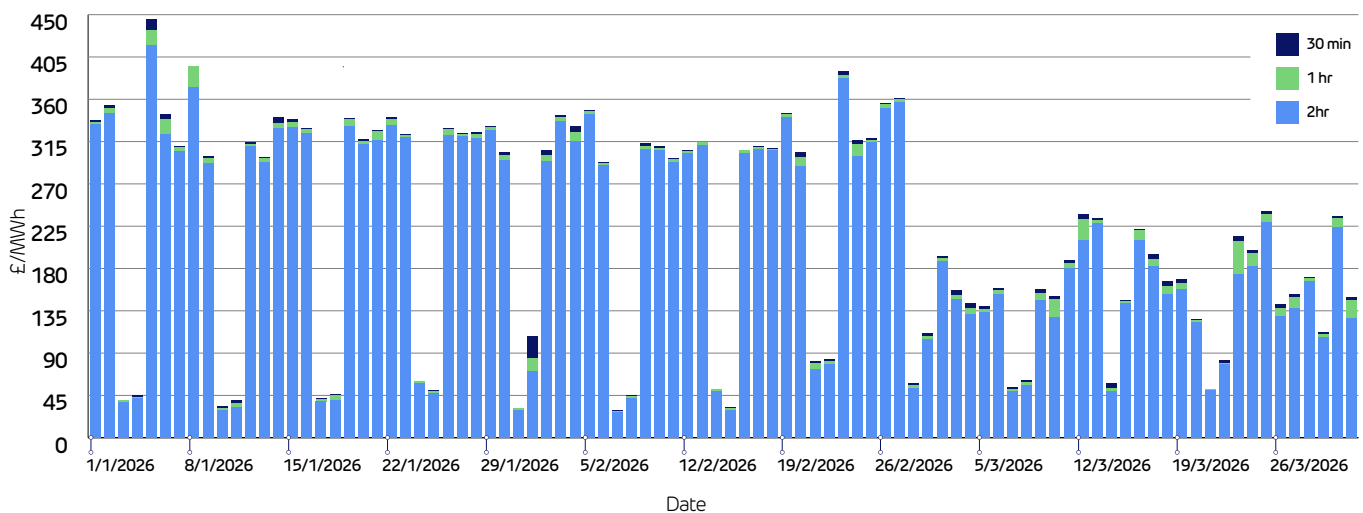
Delivered cost arbitrage (example customer)

The delivered cost arbitrage expands significantly from November to February, since industry levies a range of additional time-of-use charges over the peak period (typically 4-7pm on weekdays). They include the Capacity Market Supply Charge (CMSC), volumetric transmission charges (in regions that are applicable), higher distribution losses, and the ongoing application of variable distribution unit rate charges. Despite higher wholesale spreads in March, a drop in chargeable third party costs (TPCs) means the average delivered cost arbitrage falls significantly in the month.

By shaving peak demand consumption, customers on a tariff that fully passes costs through could have saved up to £444.73/MWh on 5 January, during a period of unsettled, cold weather. The average amount that flexibility participants could save over the three months was £217.12/MWh for 30 minutes of peak demand shaving, a similar average to Q4. The average for two hours of demand shaving dropped to £208.61/MWh (around 4% lower).



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



Note: The top of each data point on the bars represents the value available for each duration indicated by the key

Source: Elexon Market Index Price

Demand Flexibility Service (DFS)

Q1 2026 saw a total of 5,732MWh bids into the Demand Flexibility Service across 26 events, with durations ranging from 4 hours down to 1 hour. The service accepted a total of 1,929MWh and saw prices range from as low as £87/MWh up to £350/MWh, received on 6 January.

These figures are down from Q1 2025, where the service accepted a total of 5,132MWh with prices reaching £1290/MWh. System margins this year have been higher than last winter, in part due to milder weather conditions. Tight system margins often come with higher within-day prices and in Q1 2025 we saw 15 settlement periods where market index data (MID) prices reached over £300/MWh. In Q1 2026, there were no periods where prices spiked over £300/MWh. We haven't seen the crunches this quarter that we observed last year, and this has resulted in less need for NESO to activate the service.

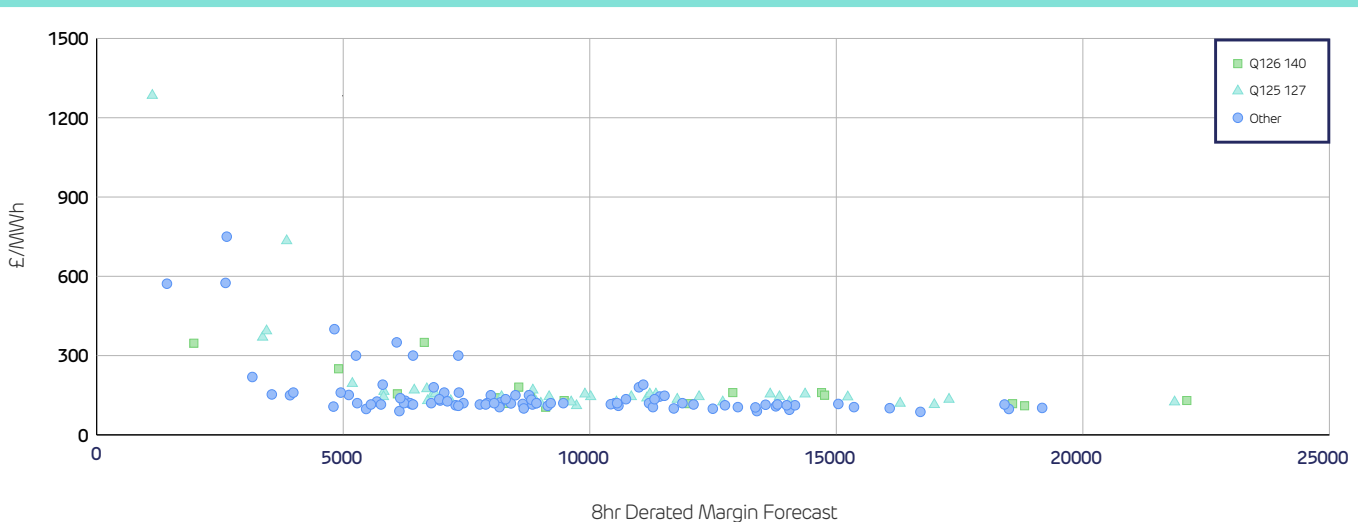
The demand turn-up service will appeal to I&C customers operating on non-standard business days, who can increase their consumption during solar peaks.

On 25 March, Ofgem approved NESO's proposed changes to the DFS (as noted in our previous quarterly report), namely, the introduction of a demand turn-up service, reduced barriers to entry, self-nominated baselines and locational procurement. The demand turn-up service could be particularly appealing to I&C customers that operate across non-standard business days and are able to increase their consumption during solar peaks. This is when prices may be low or negative already.

The introduction of self-nominated baselines will benefit consumers with highly volatile consumption patterns that found their baseline forecast wasn't accurately representing their planned consumption. This meant they were unable to participate competitively in DFS.

NESO's forecast system margin and maximum accepted bids for each DFS event

Derated Margin Forecast (8hr Horizon) vs Maximum Accepted Utilisation Price in DFS events



Source: Elexon Market Index Price





Looking ahead at Q2

What we're doing at Drax

On 1 April, Drax Group completed the acquisition of Flexitricity Limited, a UK-based optimiser of flexible energy assets. Flexitricity provides both front-of and behind-the-meter solutions for grid scale assets, as well as demand response services to over 900MW of operational assets. These include battery energy storage systems (BESS), gas peakers, renewables and demand-side response. Look out for flexibility opportunities from Flexitricity and Drax Energy Solutions in the coming months.

Market and policy developments

As noted last quarter, we expected the Government to provide further information on next steps following the REMA policy decision in Q4 2025. It's now expected that publication will occur later in 2026. This will take the form of an RNP delivery plan, potentially accompanied by a cost-benefit analysis of reform options. Further work on the RNP balancing reforms is likely to progress in Q2, following on from the NESO's CfI. The inaugural months of Slow Reserve deployment will also continue.

Following the decision on the multiple price CM, the Government is due to publish further outcomes for the remaining proposals as part of the consultation on changes for CM prequalification. These include proposals relating to DSR to increase transparency and ensure a level playing field across different DSR technology categories.

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.