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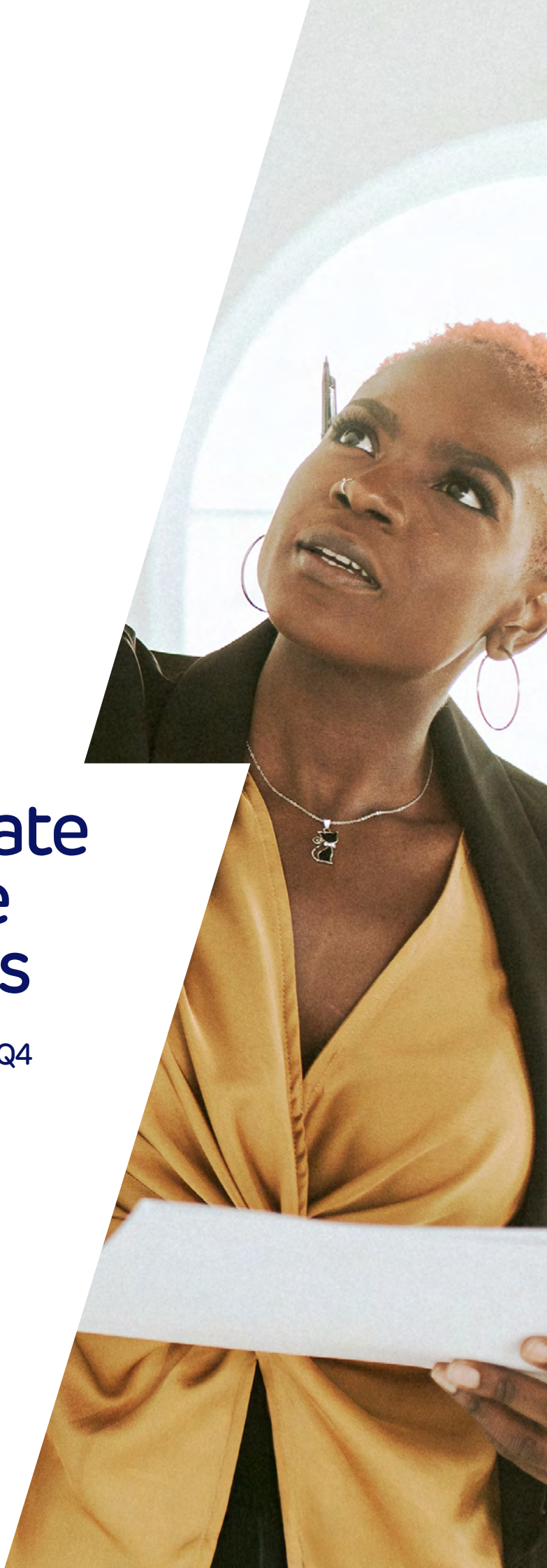
Drax Intelligence

## Flexibility Focus

# A quarterly update on demand-side revenue streams

**A review of Q3 2025 and look ahead at Q4**

Daniel Starman and Jake Miller



Dan Starman

Jake Miller

# Welcome to the second edition of our quarterly newsletter focusing on the key market, policy and regulatory developments affecting consumer-led flexibility (CLF). CLF is the newly coined catch-all term previously referred to as demand side response (DSR).

Q3 2025 has seen significant policy developments looking to enable substantial levels of flexibility from DSR. This includes news that the National Energy System Operator (NESO) will be introducing annual capacity targets for non-domestic DSR participation in NESO markets out to 2030. Alongside, NESO will implement an outreach programme and delivery team focused on DSR from non-households.

The Demand Flexibility Service (DFS) has continued at pace, although it hasn't delivered the value for a single period that we saw in the first year of the scheme. Even so, it continues to offer value to flexible customers and was utilised multiple times during summer 2025.

The Government made clear that the Capacity Market (CM) will be subject to reforms in 2026, and it's also opted to retain a single national wholesale market under its Review of Electricity Market Arrangements (REMA) programme. Other decisions on various reforms that could have a substantial impact on DSR are still pending.

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 to a decarbonised energy system with an even greater reliance on renewable power.

# Developments this quarter

## Policy updates

Several important policy decisions that will shape the future of DSR flexibility occurred in Q3. In its summer REMA update, the Department for Energy Security and Net Zero (DESNZ) confirmed it wouldn't go ahead with zonal pricing reforms to the wholesale electricity market. Instead, it decided to retain a single GB-wide wholesale market under a Reformed National Pricing (RNP) model.

However, DESNZ still hasn't decided on specific proposals in the RNP model that could impact DSR. These could include shortening settlement periods to 5 or 15 minutes; lowering thresholds for accessing the Balancing Mechanism (BM); and changing the recovery of Transmission Network Use of System (TNUoS) charges.

In July, the Government released The Clean Flexibility Roadmap. This was accompanied by both a consultation on how to engage with users about CLF and a call for evidence on increasing distributed asset visibility. The Roadmap includes a number of commitments which aim to unlock short-term flexibility from DSR and technologies like EVs, batteries and smart appliances, helping consumers shift demand and cut energy costs. With the Government targeting 10-12GW of DSR by 2030, the consultation around customer engagement aims to make flexibility opportunities more visible and easier to understand.

The primary driver to deliver this involves Government, Ofgem and NESO taking steps to remove barriers to non-domestic CLF participation and therefore reinvigorating that part of the CLF market. Commitments in the Roadmap included:

NESO to set an annual, public capacity target for non-domestic CLF in its markets by December 2025;

NESO to launch by end October 2025 an open call for industry to bring forward large loads that can participate in flexibility markets – at the time of writing this has not yet been published;

NESO to establish a dedicated onboarding team for these customers by October 2025.

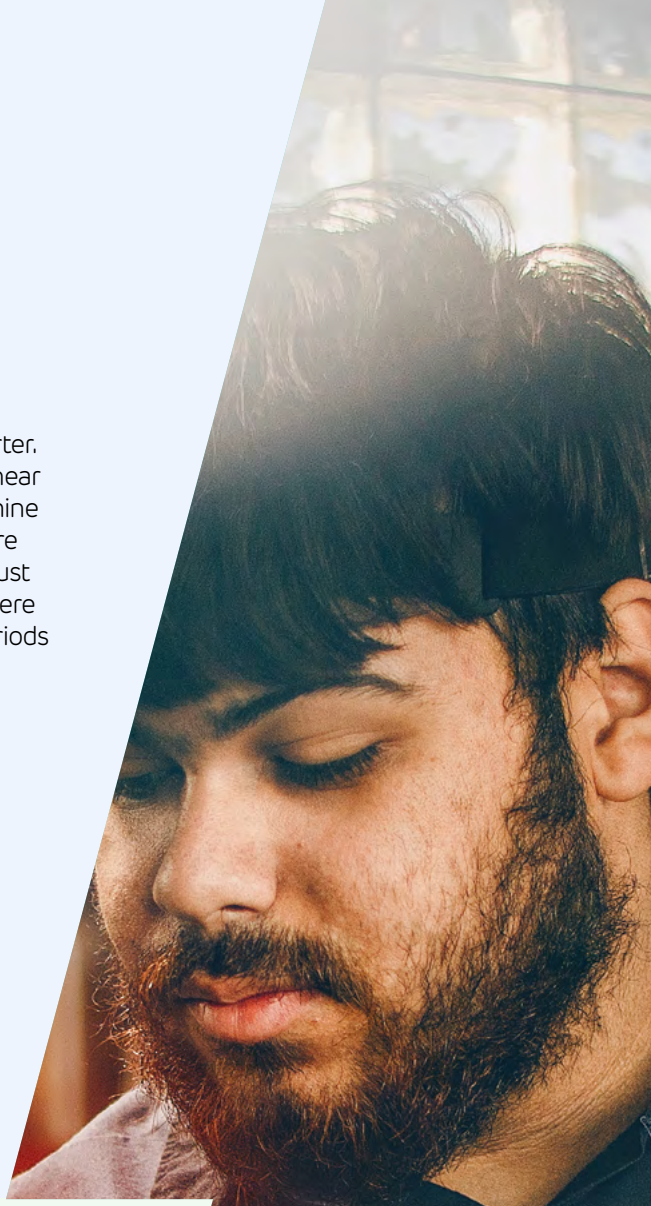
Whilst Ofgem has now approved the Slow Reserve service, in August NESO announced a postponement to implementing Slow Reserve, which was due to launch in October 2025. Although there's no official revised go-live date, NESO expects the launch in early 2026. As a result, NESO will continue procuring Short Term Operating Reserve (STOR) until Slow Reserve is implemented.

At the start of October, DESNZ also released a consultation on proposed changes for the 2026 CM pre-qualification. We cover this in greater detail in the 'Looking ahead at Q4' section of this report.

## Market updates

Renewable output heavily influenced spot prices during this quarter. On multiple days, power prices swung from circa £100/MWh to near zero and even negative due to strong solar or wind output. Sunshine hours were above average across July and August, and there were also periods of above average wind generation at the end of August and into September. And, in response to system scarcity, there were significant price hikes (all above £145/MWh) in weekday peak periods including on 1 July, 11 August, 26 August, and 8 September.

In Europe, heatwaves over the summer reduced nuclear output, and electricity demand increased for cooling purposes. While geopolitics continued to play an important role in energy markets, talks of peace deals across the past three months have dampened market volatility compared to spring.



## Regulation updates

Elexon will take on the role of Market Facilitator, and in September Ofgem opened a consultation on a Market Facilitator blueprint, setting out key functions such as providing strategic leadership and market coordination for flexibility. One of the barriers the Market Facilitator aims to address is the market entry constraints that Flexibility Service Providers (FSPs) face.

The Market Facilitator will also deliver the Flexibility Market Asset Registration (FMAR) digital infrastructure, which will increase the visibility of assets available to participate in the market and reduce administrative burdens on FSPs when registering the same asset in multiple flexibility markets. This should make it easier for FSPs to access more than one market.

# Revenue opportunities

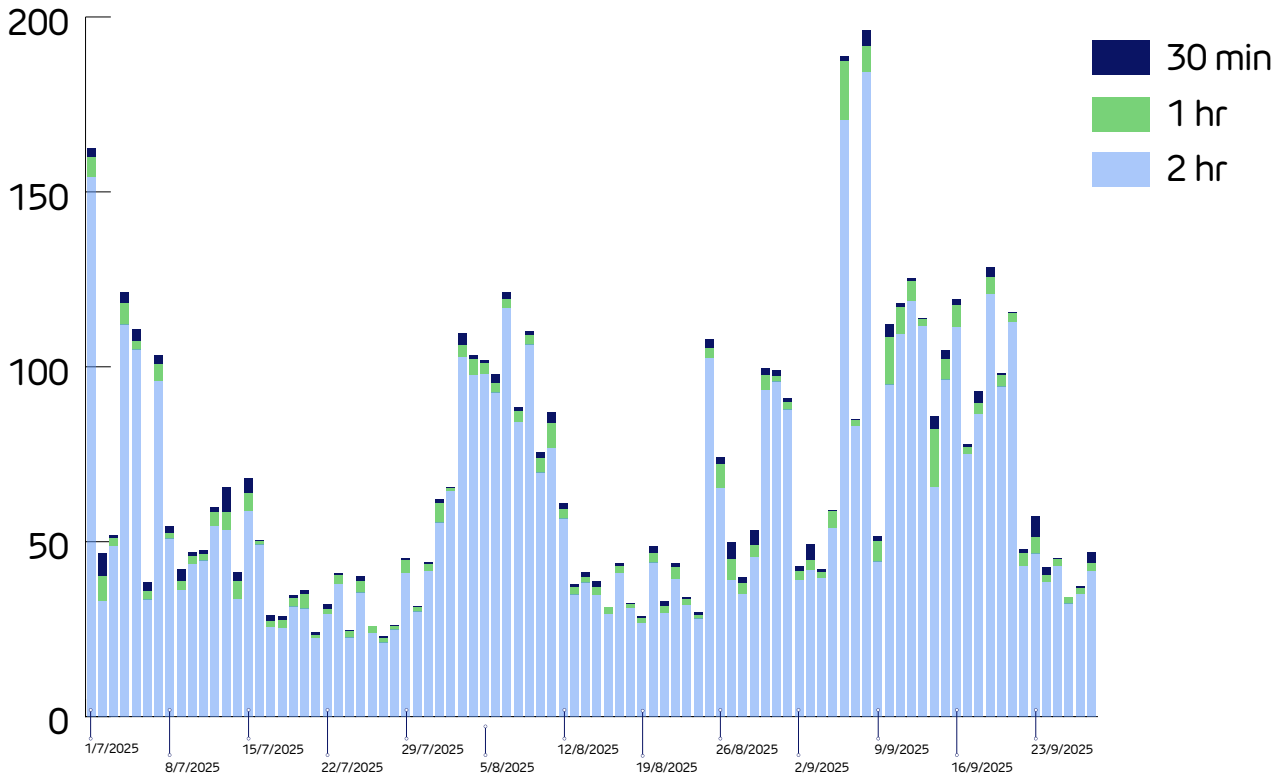
## Wholesale arbitrage

Compared to the previous quarter, wholesale prices from July to September saw less day-to-day volatility. However, there were higher daily peak prices – with the highest value for 30 minutes being £249.50/MWh on 8 September.

The greatest spread (the difference between the highest and lowest prices within the same day) also occurred on 8 September, at £196.22/MWh. The lowest spread – only £22.93/MWh – was on 27 July. The average spread across the three months was £67.29/MWh, although, as you can see in the following graph, there was a wide range.

The differentials in value between 30 minutes and 2 hours of flexibility have been low for much of the period (8.5% on average). However, on 2 July, there was a difference of 29%. This is because differentials on the day were relatively low as prices were reasonably stable. However, a limited number of high and low settlement periods have increased the value for shorter duration flexibility.

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




Source: Elexon Market Index Price

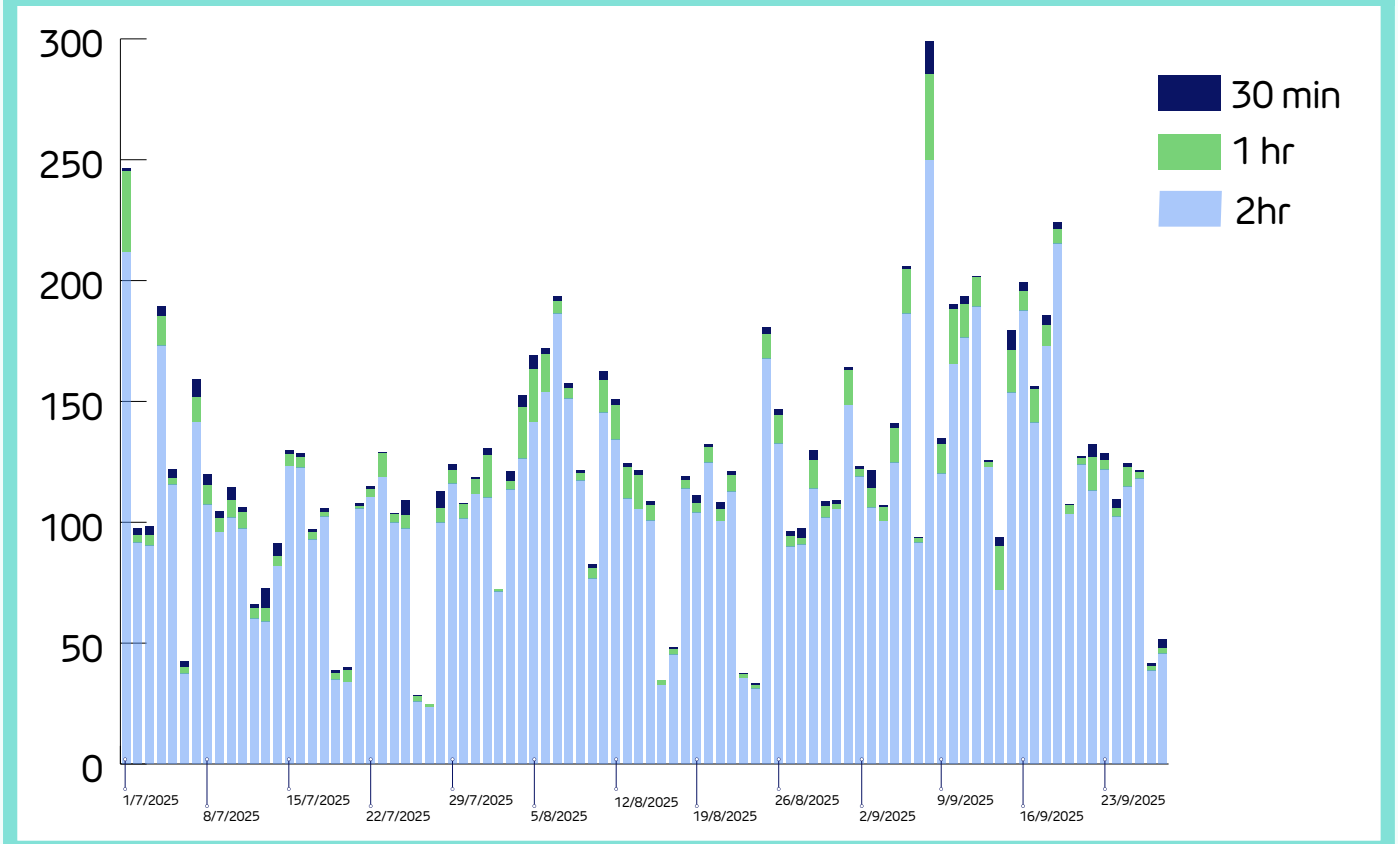
**Note**: The top of each data point on the bars represents the value available for each duration indicated by the key

# 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 on a tariff that fully passes costs through could have saved up to £299/MWh during the peak on 8 September. The average figure saved was £122.15/MWh for 30 minutes of peak demand shaving, lowering to £111.74/MWh for 2 hours of demand shaving (8.3% lower).

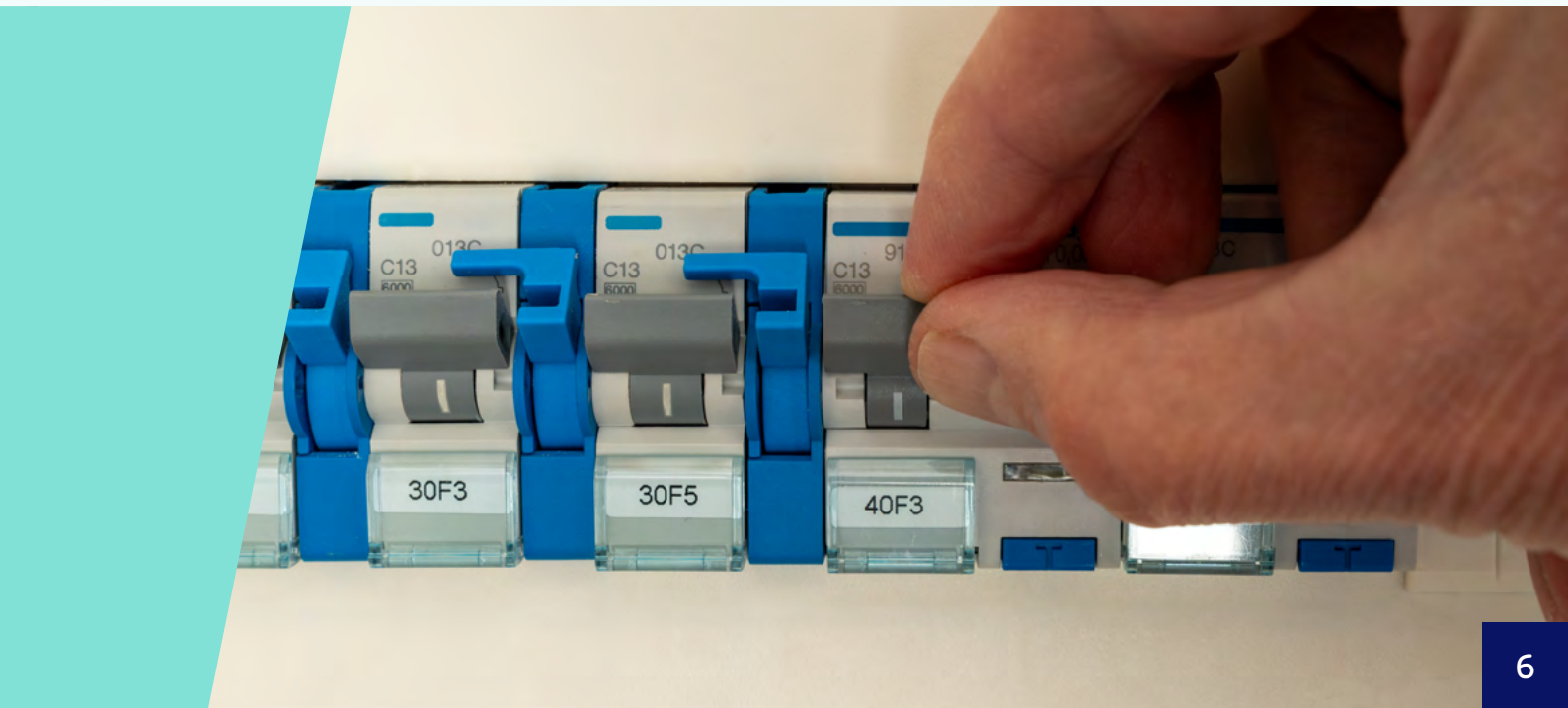
This representative example is for a low voltage half-hourly consumer connected in the Eastern region and isn't necessarily representative of every region in Great Britain. It also assumes the pass through of all costs to the end customer.

## 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.

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



# Demand Flexibility Service (DFS)

Q3 marked another successful quarter for the DFS, with NESO procuring 2,505MWh across 43 events, up from 1,833MWh in Q2. While July saw the highest accepted bid price of £400/MWh, September saw the most volume accepted at 1,100MWh. We expect this number to grow during the winter months.

NESO is continuously looking to evolve the service and there could be significant changes in the pipeline. The most exciting news is the potential introduction of demand turn-up to DFS - subject to consultation and approval, this could go-live around April 2026. Just as NESO looks to procure positive margin via demand reduction, demand turn-up allows the system operator to procure downward/negative flexibility. This allows NESO to manage uncertainty around the potential for demand loss.

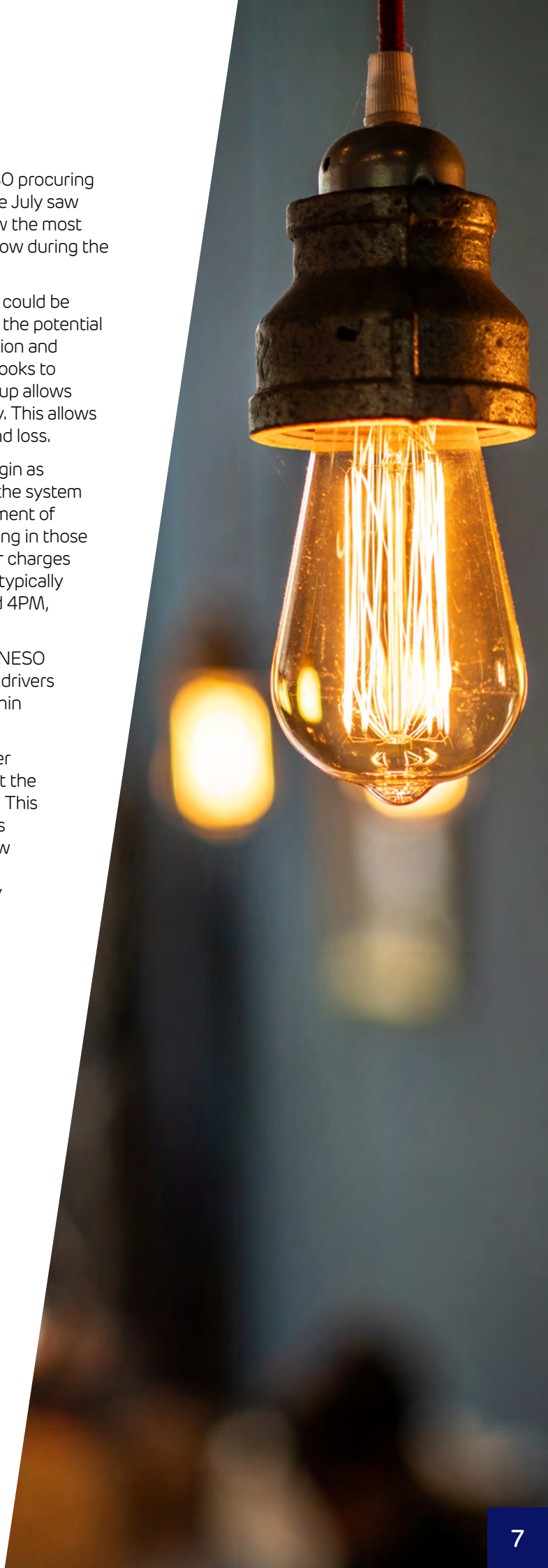
Traditionally, NESO would be paid for procuring negative margin as generators save fuel and carbon costs and are willing to pay the system operator to turn their generation down. However, the curtailment of assets such as wind and solar is happening more often resulting in those generators losing subsidies and consequently increasing their charges to NESO as compensation for the turn down. These periods typically fall over the weekends and bank holidays between 11AM and 4PM, and between 1PM and 3:30PM on weekdays.

In line with wider reform in Reserve and Response products, NESO is also considering locational procurement for DFS. The main drivers being network constraints (meaning power cannot move within constrained areas) and stability.

At present, NESO is considering a simpler 5-zone model rather than the existing 12-zone one; the current indications are that the zones won't influence pricing and uniform pricing will remain. This will allow NESO to publish zonal maximum procurement limits alongside nationwide requirements when the DFS bid window opens. These changes aim to increase operational certainty and control, as well as to lower barriers to entry by potentially reducing the minimum unit bid volume from 1MW to 0.1MW.

In addition to these prospective changes, NESO continues to assess its baseline methodology. Currently, baseline methodologies (which derive the counterfactual used to compare DFS delivery against) mean baselines are simple averages of the previous eligible days, which fails to account for variations in factors such as weather and temperature. Within-day adjustments could be a potential solution. An example would be to add the mean of the difference between the baselined entity metered volume and the unadjusted baseline in the six periods before gate closure. This would allow the baselines to capture the meteorological variations.

With the introduction of a negative margin service, NESO is also looking at the potential to add renewable asset specific baselining. Due to renewable technologies' intermittent nature, the current one-size-fits-all baselining would make it difficult to capture instances where these assets intentionally alter their patterns. The addition of new baselining methods would open up the possibility of more customers participating in the DFS.



# Looking ahead at Q4

## What we're doing at Drax

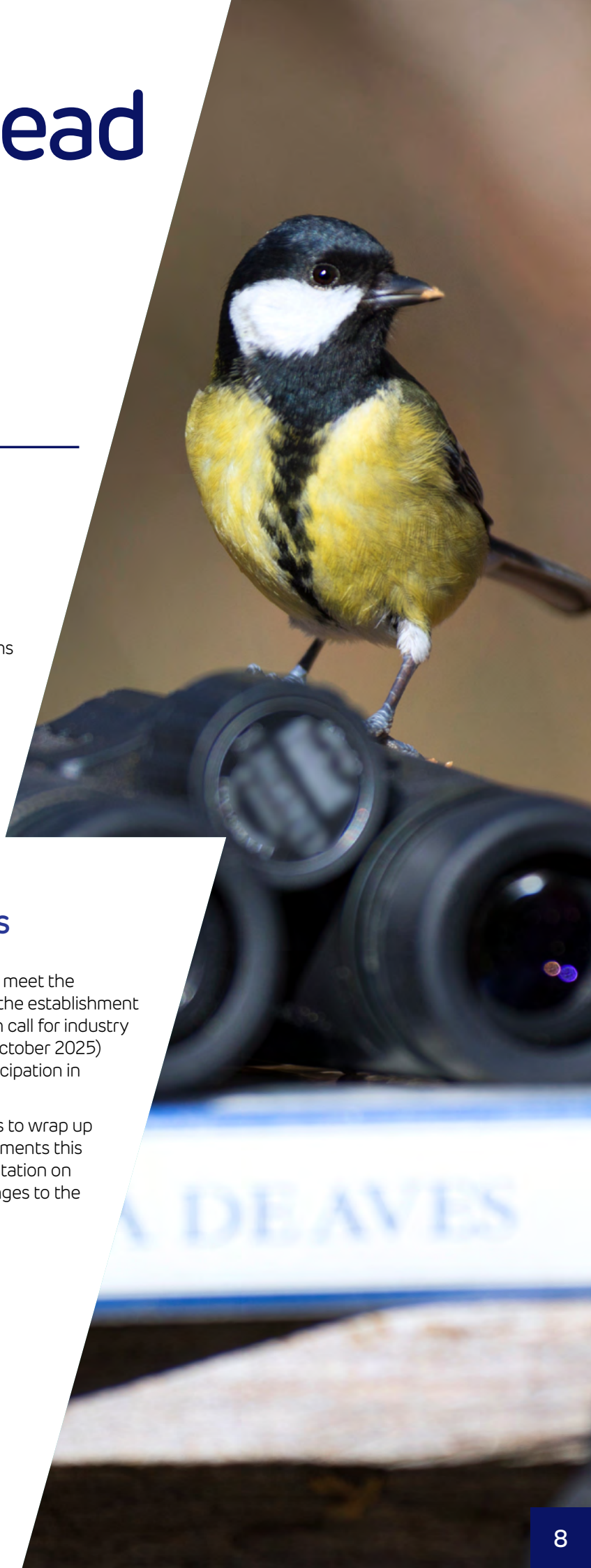
During Q4, DES will continue to support customers with accessing value in the flexibility market. The winter months are the peak opportunity for DFS, with a greater need for flexibility on the grid.

This quarter will offer much stronger delivered price arbitrage with the addition of the CM levy, which is chargeable from 4-7pm on weekdays from November. Also of note is that, over the periods of peak demand in the winter, transmission charges will rise slightly for customers in the south of GB.

## Market and policy developments

We expect to see engagement from NESO this quarter to meet the commitments in the Clean Flexibility Roadmap, including the establishment of an onboarding support team. There will also be an open call for industry to bring forward large flexible loads (originally slated for October 2025) and an annual non-domestic CLF capacity target for participation in NESO markets out to 2030 (in December 2025).

There are a few developments that the Government plans to wrap up before the end of the year. Off the back of REMA developments this summer, we expect to see a RNP delivery plan and consultation on balancing reform in Q4. This could help shape future changes to the BM that tackle entry barriers for smaller assets.



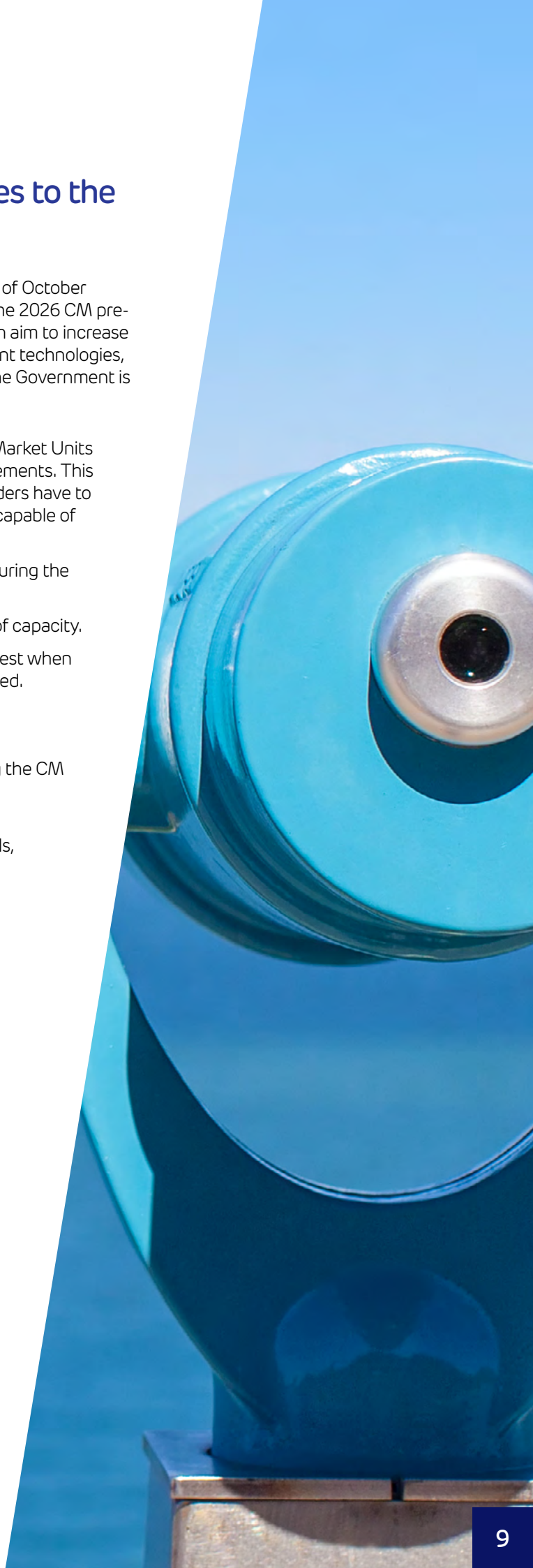
# Quarter in focus: Possible changes to the Capacity Market (CM)

Following its December 2024 call for evidence, at the start of October DESNZ released a consultation on proposed changes for the 2026 CM pre-qualification. The DSR-related proposals in the consultation aim to increase transparency and ensure a level playing field across different technologies, whilst ensuring there are no unintended consequences. The Government is considering introducing:

- A requirement for more evidence from DSR Capacity Market Units (CMUs) that are pursuing longer-term, multi-year agreements. This may increase the information that DSR Capacity Providers have to submit, including evidence that the assets will remain capable of delivering capacity for the duration of the agreement.
- More DSR technology categories, with the aim of capturing the diverse capabilities of different DSR technologies.
- A minimum testing requirement to demonstrate 50% of capacity.
- An additional requirement to complete a prompt DSR test when the components that comprise a CM Unit are reallocated.
- Freezing the de-rating factor applied to DSR, with a consultation in 2026 exploring an enduring approach.
- Measures to ensure fossil fuel generation isn't entering the CM as sub-components of DSR agreements.

The Government is also consulting on many other proposals, some of which could affect DSR.

The consultation closes on 27 November 2025 with the Government anticipating issuing a response in early 2026, outlining the proposals it intends to implement.



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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