



Drax Intelligence

Flexibility Focus

A quarterly update on demand-side revenue streams

A review of Q4 2025 and
look ahead at Q1 2026

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Welcome to the third edition of our quarterly newsletter focusing on the key market, policy and regulatory developments affecting consumer-led flexibility (CLF).

Q4 2025 was an important period for policy developments and for signposting the more flexible power system to come. As part of that, we saw movements on a range of workstreams and reforms to reduce barriers for CLF. The National Energy System Operator (NESO) proposed an intention to add 750MW of extra industrial and commercial (I&C) flexibility to its markets by 2030. This target suggests there's likely to be a strong focus on CLF development over the next few years, and sets an expectation for quarterly reporting on progress.

The Demand Flexibility Service (DFS) saw less activity compared to Q3, despite the move into colder, darker, comparatively higher-demand winter months. This downward trend reflects the mild and relatively dry weather conditions observed at the back end of 2025.

Looking ahead to Q1 2026, we may discover the outcomes of several consultations about changes to the Capacity Market (CM). We are also expecting a Reformed National Pricing (RNP) delivery plan following on from the decision to maintain a single GB wholesale market and not to proceed with a move to zonal pricing as part of the Review of the Electricity Market Arrangements (REMA) programme.

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's decarbonisation transition to being an energy system with even greater reliance on renewable power.



Developments this quarter

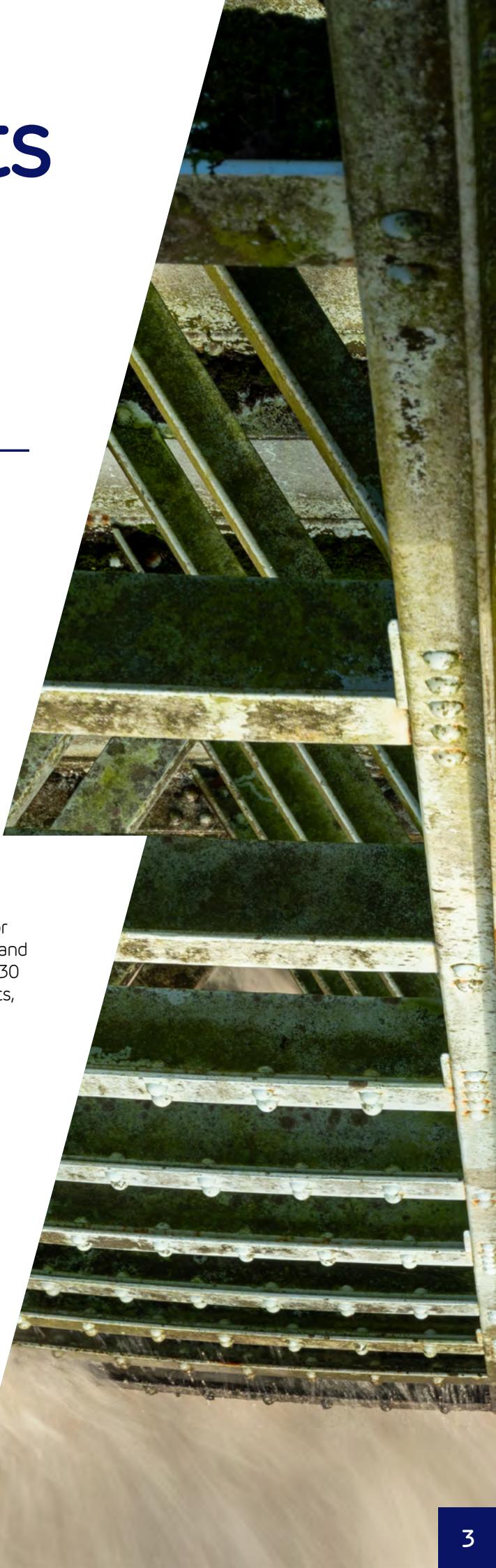


Policy updates

In Q4, NESO published several updates relating to ongoing industry workstreams seeking to unlock CLF. In December, its 'Demand-Side Flexibility (DSF) Routes to Markets Review' reported on progress against identified barriers for DSF accessing NESO flexibility services. The report noted proposed reforms to DFS such as introducing demand turn-up, locational procurement, and a reduced minimum unit size (to 0.1MW). It also announced an update to the operational metering requirements for <1MW aggregated assets associated with the Balancing Mechanism (BM). It plans to relax accuracy, refresh rate and latency requirements in early 2026, to make the BM more accessible to small scale aggregated assets.

Following its DSF Routes to Market Review, NESO set a target to add 750MW of additional I&C flexibility to its markets by 2030. This target, which is for demand turn-down only and excludes the transport sector and embedded generation, aims to support the Clean Power 2030 (CP30) ambition of 1.7GW of I&C CLF by 2030. These targets, combined with wider reforms, highlight that NESO and the Government will have a strong focus on I&C CLF over the next few years.

At the start of October, the Department for Energy Security and Net Zero (DESNZ) published a consultation on proposed changes to the 2026 CM prequalification. Following our coverage of this consultation in the [Q3 report](#), DESNZ published a further consultation on proposals to integrate low carbon technologies into the CM. It's proposing to increase termination fees in one of two ways. Either by raising all termination fees by 30% in line with inflation from 2016 to 2026 money, or by creating one fee (set at £45,500/MW) for all termination events. If this reform goes through, it would significantly increase the risks involved in non-compliance with CM rules.





Policy updates continued

In Q4, DESNZ consulted on proposals to regulate load controllers via a licence framework. Load controllers are essentially parties who adjust flow into or out of a smart appliance on behalf of customers. This could be smart electric vehicle (EV) charge points and/or smart battery storage systems on a customer's site. However, an individual isn't a load controller if they're the end-user of the energy smart appliance themselves. As most consumers use a third party to provide load control, these licences are likely to improve protections for consumers by setting minimum standards for load controllers.

DESNZ also consulted on a proposal to introduce Contracts for Difference (CfDs) for nuclear assets undertaking lifetime extensions. As many nuclear power plants in the UK are set to decommission in the next decade, DESNZ is looking to incentivise refurbishment to extend the plants' operational lifetimes. However, the extent of the impact on expected revenues for flexible assets depends on the structure of the CfD contract – and how many nuclear plants refurbish under this financial support. Nuclear assets are inflexible, so extending operations could result in more oversupply during times of abundant renewable generation. However, it could also dampen the peak prices available to flexibility providers.





Market updates

Wind generation, asset availability, and daily temperatures largely influenced spot prices this quarter.

In October, we saw periods of high wind generation resulting in some negative pricing, particularly towards the end of the month. However, we also saw periods of very low wind generation, with a particularly pronounced wind drought in mid-October supporting peak prices.

Over the whole quarter, temperatures were above average for the time of year, with the Met Office provisionally assessing that December was 1.6°C above the long-term meteorological average. This resulted in lower-than-expected heating demand for much of the quarter and supported price stability, with spot power prices being mostly stable for the period.

We did, however, see some pricing volatility in periods of low wind output, high weekday peak demand, and increased imports from continental Europe and Scandinavia. In these high-priced periods, 21-23GW of Combined Cycle Gas Turbine (CCGT) assets were generating. This was supported by output from flexible assets higher in the merit order, including Open-Cycle GTs (OCGTs) and pumped storage hydro. This led the power price to exceed £200/MWh in three separate events during the quarter.

Slow Reserve (SR) is a new ancillary service that will replace the Short-Term Operating Reserve (STOR) from 31 March 2026 (although originally slated to go live in Winter 2025). This delay is because NESO encountered complexity implementing SR into their processes and systems ahead of winter, which is usually a more operationally challenging period. The new service includes several changes designed to make it more accessible for DSR than STOR was, including a lower minimum threshold (1MW instead of 3MW with aggregation allowed within a Grid Supply Point group). In addition, there'll be an acceptance of non-zero baselines plus shorter service windows. However, NESO recently clarified its intention to implement "Linked Windows" from go live, which will be in place for an initial transition period.

NESO needs a transitional phase to test the system to maintain system security over peak demand periods, given that SR has a more complex procurement design than STOR. Once the service goes live, NESO will initially link morning (06:00-10:30), midday (10:30-15:00) and evening (15:00-21:00) SR windows during transition days. Providers must submit auction sell-orders of identical MW volume for all windows in the linked period. NESO could require energy continuously during these windows, for up to six hours. However, it expects this to be temporary and is aiming to remove the linking requirement by summer 2026.



Regulation updates

Elexon's role as Market Facilitator (MF) went live on 12 December, following consultations on Flexibility Market Rules and Market Facilitator Governance Documents that closed at the start of October. The MF's first step has been to set 10 new rules to improve co-ordination and standardisation across flexibility markets and to reduce barriers to entry for flexibility providers. They include standard baselining methodologies, carbon reporting methodologies, end-to-end process, and a range of definitions and glossaries. These are expected to be implemented throughout 2026.

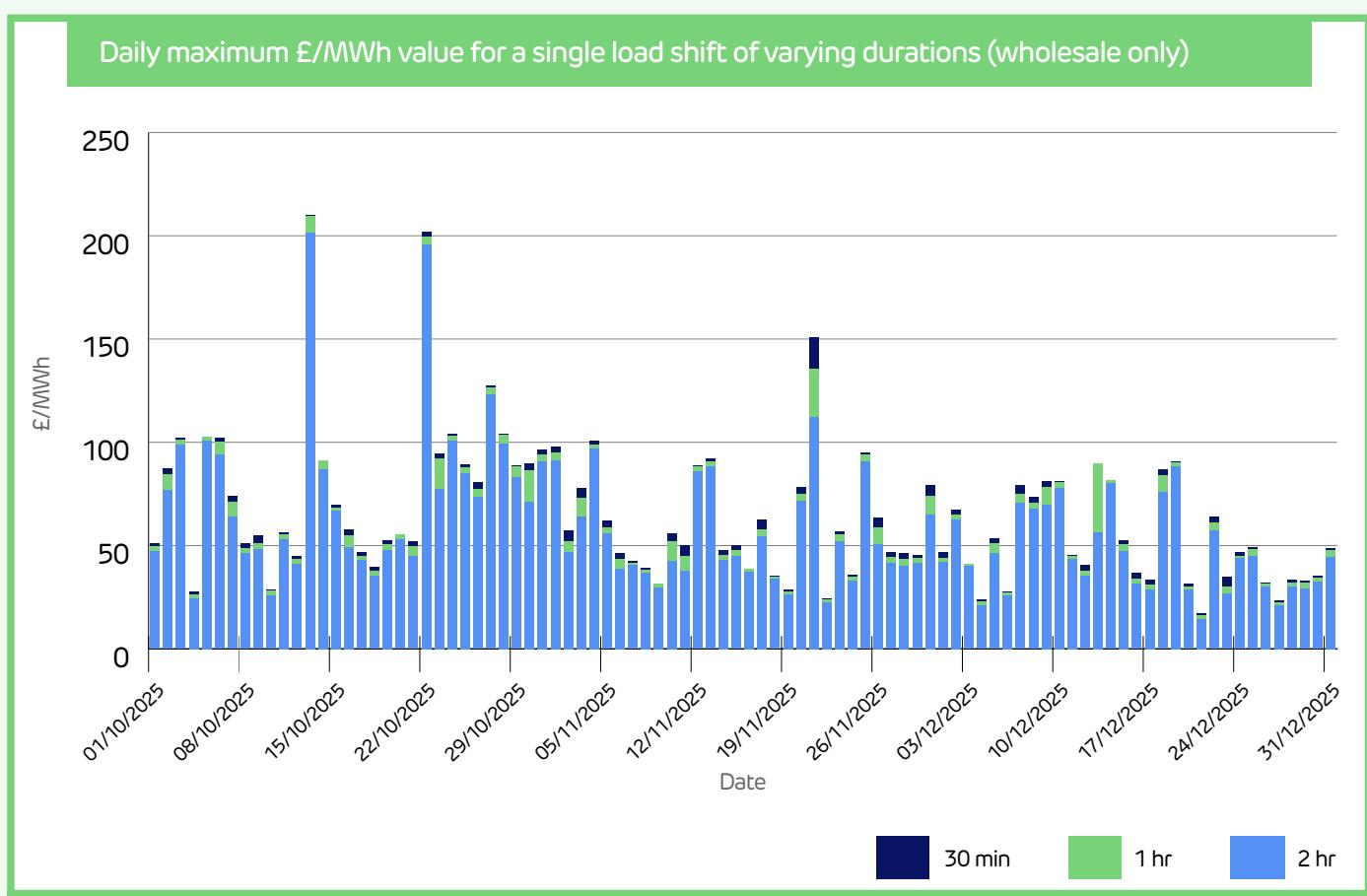
Revenue opportunities



Wholesale arbitrage

In Q3, we saw similar levels of volatility in wholesale prices compared to Q2. Perhaps unusually, the greatest volatility occurred at the start of the quarter before the advent of the winter months. The highest peak prices outstripped those seen in Q3; the highest price was £287.57/MWh on 13 October, and second highest £255.20/MWh on 22 October. These were £38.07/MWh and £5.70/MWh greater than Q3's highest price respectively.

The greatest spread (the difference between the highest and lowest prices on the same day) also occurred on 13 October, at £209.93/MWh. The lowest spread was £17.32/MWh on 21 December.

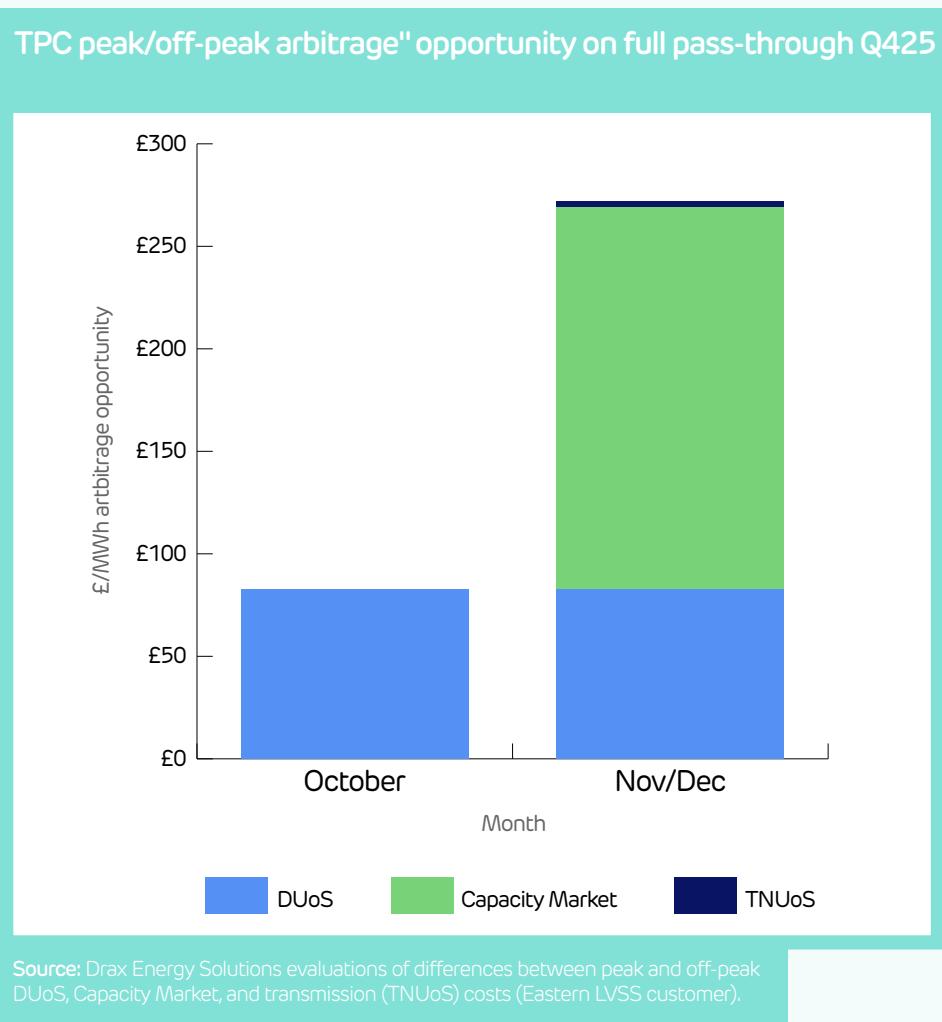


Source: Elexon Market Index Price

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

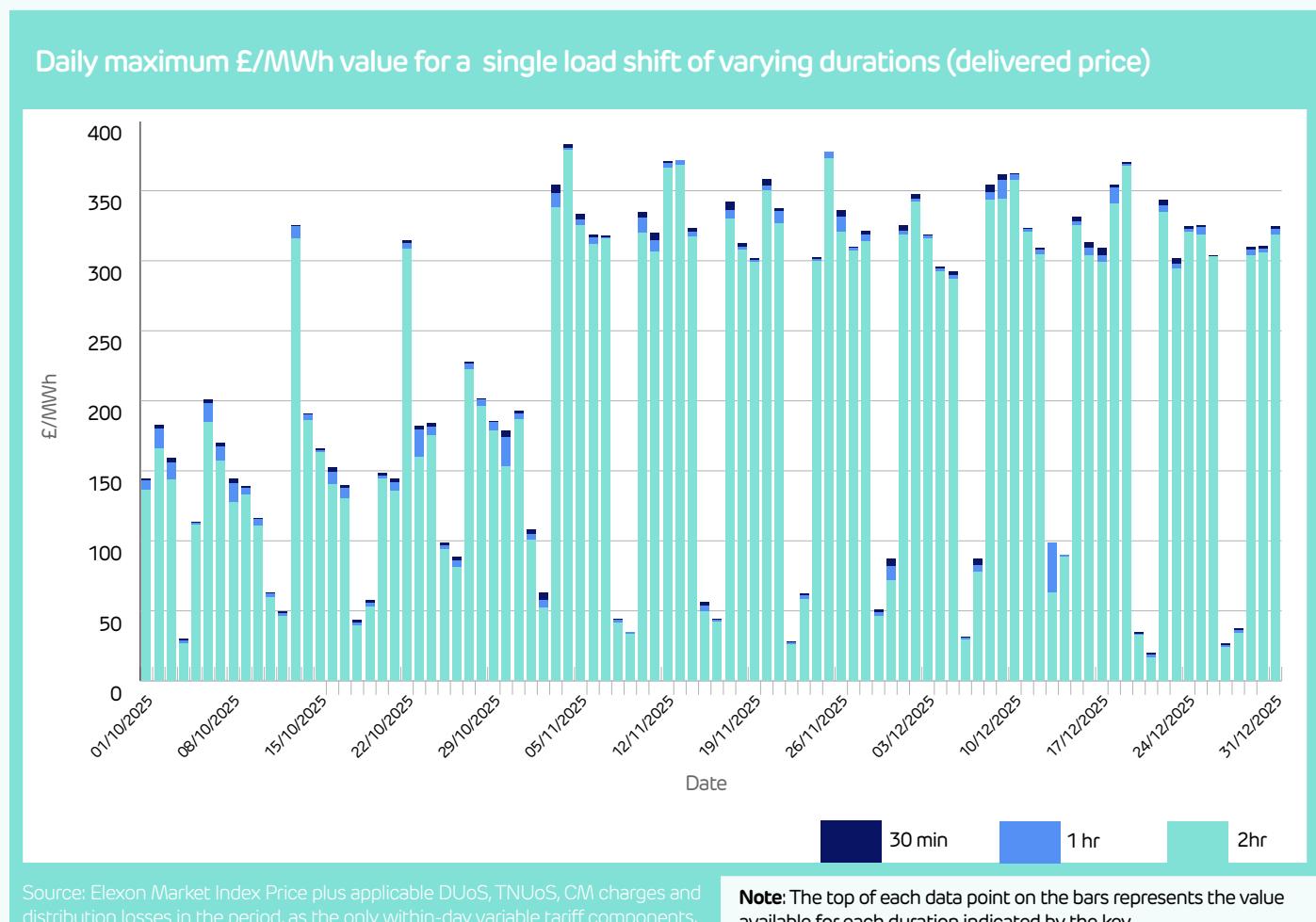
Delivered cost arbitrage (example customer)

The delivered cost arbitrage expands significantly in the winter months, since a range of additional time-of-use charges are levied 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. The effects of adding these costs are outlined in the following graph. Note this excludes the effect of almost 4% higher distribution losses over the winter peak compared to the summer peak.



The CMSC and "triad" window for transmission charges open in November, creating a significant step up in costs during peak hours on weekdays, and supporting the delivered arbitrage value. Please note, only customers that see a pass-through of these costs will be levied the charges in this way. Customers on fixed contracts will see a blended fixed rate for their TPCs and won't be able to benefit from this arbitrage opportunity.

By shaving peak demand consumption, customers on a tariff that fully passes costs through could have saved up to £383.53/MWh during a peak in prices on 13 October. The average amount that flexibility participants could save over the three months was £217.20/MWh for 30 minutes of peak demand shaving, lowering to £209.61/MWh for two hours of demand shaving (around 3.5% lower). Amounts that participants could save in Q4 were, on average, 78% higher compared to Q3 based on 30 minutes of peak demand shaving.



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)

Q4 in the DFS surprisingly saw less activity than in Q3, despite the move into winter. NESO accepted bids worth a total of £274,000 across 35 events, during 111 of the 156 settlement periods. This resulted in 1,721MWh of procured volume, down from 2,550MWh in Q3, with a maximum price of £350/MWh (£400/MWh Q3) and an average of £152/MWh (£121/MWh Q3). As noted in our [Welcome](#) piece, this downward trend in DFS utilisation reflects the mild and relatively dry weather conditions observed at the back end of 2025.

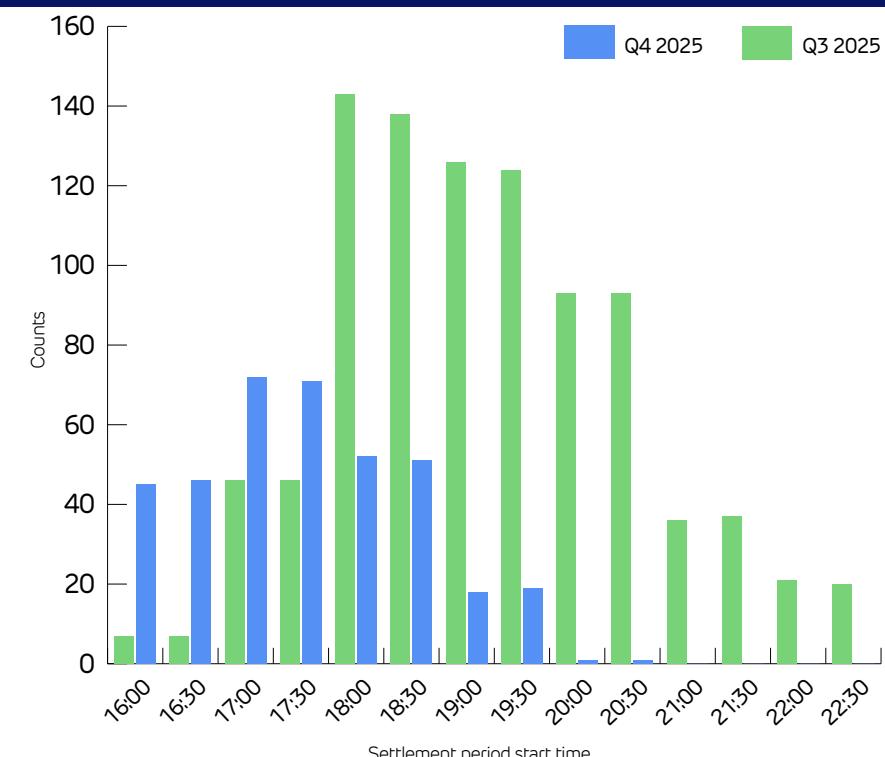
The move into winter has seen a shift in when DFS bids were accepted, as shown in the below figure. Q4 saw more periods with accepted bids in the early evening, compared to the larger spread across periods in Q3. This is likely driven not only by shifting consumption patterns, but also changes in the generation mix, namely the decline of solar generation through autumn and into winter. This

highlights the growing importance of DFS and DSR, not just in the traditional winter peak periods but across the day.

To recap the changes mentioned in our [Q3 report](#), we expect the introduction of demand turn-up into DFS (expected to go-live around April), locational procurement, and sub 1MW bid volumes. Alongside these, NESO is looking to align with local Distribution Network Operators (DNOs) to determine primacy for consumer participation.

In practical terms, DNOs will have the option to exclude individual customer meter points from taking part in DFS should they deem participation to contradict their network management obligations. For example, by increasing their consumption while the network's at its limit. This change is unlikely to have a significant impact on I&C customers due to their higher voltage connections, although domestic meters could see more constraints.

Shifting times between Q3 and Q4 accepted DFS bid periods



Source: NESO DFS Utilisation Report

As reported previously, NESO is set to introduce self-nominated baselines for intermittent renewable technologies. This allows participants to submit, at the day-ahead stage, the assets' forecast generation figures. These forecasts can be updated right up to the publishing of a DFS service requirement. The purpose of this is to more accurately reflect the generation from these assets which, due to their high variability, isn't well modelled by the simple averages used in the current P376 baselining method. Relying on P376 for such assets would result in imbalances for the participating party and revenues not reflective of the actual response volume delivered. As many I&C customers also experience highly volatile consumption patterns across days, they face the same issues. We've brought this to the attention of NESO who are considering the use of self-nominated baselines for I&C customers.



Looking ahead at Q4



What we're doing at Drax

On 21 January 2026, Drax Group announced that it had [reached an agreement to purchase Flexitricity Limited](#), a UK-based optimiser of flexible energy assets. Flexitricity provides both grid-connected and behind-the-meter optimisation solutions. We expect the acquisition to complete in Q1 2026, subject to regulatory approvals. Once complete, the acquisition will add complimentary capabilities to the existing flexibility offerings of Drax Group and Drax Energy Solutions.

We'll also continue to work with customers to earn revenues from flexibility and assess appropriate options to help them maximise their value for DSR.



Market and policy developments

Moving into the start of 2026, we're expecting more policy developments and announcements. Elexon will shortly publish its final version of the two-year Market Facilitator delivery plan (January 2026 – March 2028). In Q1, we could also hear about the outcomes from the CM 2026 prequalification consultations.

We originally expected the Government to provide further information before Christmas on next steps following the REMA policy decision in Q4 2025. However, it's now expected that publication will occur in Q1 2026. This will take the form of a Reformed National Pricing (RNP) delivery plan, potentially accompanied by some cost-benefit analysis of reform options.

It's expected that NESO will publish a separate consultation on balancing reform around the same time as the RNP delivery plan, and Ofgem is expected to publish its next steps on network charging reform related to the RNP plan.

Separately, NESO will be relaxing accuracy, refresh rate and latency requirements in early 2026 to make the BM more accessible to small scale aggregated assets. It's also confirmed that Slow Reserve will go-live on at the end of the quarter, on 31 March 2026.

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.