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To whom it may concern,

Reformed National Pricing: Balancing, Settlement and Dispatch Call for Input

Scottish Renewables (SR) is the voice of Scotland's renewable energy industry. Our vision is for Scotland leading the world in renewable energy. We work to grow Scotland's renewable energy sector and sustain its position at the forefront of the global clean energy industry. We represent over 360 organisations that deliver investment, jobs, social benefits and reduce the carbon emissions which cause climate change.

Our members work across all renewable energy technologies, in Scotland, the UK, Europe and around the world. In representing them, we aim to lead and inform the debate on how the growth of renewable energy can help sustainably heat and power Scotland's homes and businesses.

We are sending this letter to raise additional points we did not have the opportunity to include in our response to the Reformed National Pricing: Balancing, Settlement and Dispatch Call for Input. We want to raise wider points on the proposals as a package of reforms, and our recommendations for addressing the identified challenges following engagement with the industry. Please also find annexed below (Annex A) our full Call for Input response, submitted via the portal, for completeness.

SR welcomes NESO progressing meaningful work on Reformed National Pricing (RNP) and the positive engagement with industry. We also welcome the opportunity to help NESO find the right balance between optimising balancing and system costs, delivering consumer benefits and preserving generation investment efficiency and trading that contribute to the whole system.

Any reforms should be proportionate to the challenge they aim to address, which we do not believe is the case for some of the proposals. Many of the proposed reforms in the Call for Input would involve significant upheaval without a clear benefits case. The industry is keen to work with NESO to address market issues and can provide valuable input as part of a collaborative approach, as evidenced by the development of the Constraints Collaboration project, which saw positive engagement between the industry and NESO.

Regarding the case for reform of dispatch arrangements, **SR does not support moving to a more centralised dispatch framework**. The government has already discounted taking forward central dispatch in the Review of Electricity Market Arrangements, and moving to a more central dispatch framework does not address the fundamental policy drivers of the observed outcomes. Rather than exploring changes to current dispatch arrangements, **NESO should explore ways to optimise the system within the current self-dispatch framework**, such as the use of forward contracting, Constraint Management Markets and other RNP measures, including introducing a Deemed Contracts for Difference (CfD) model. Using these tools could deliver many of NESO's objectives without the complexity and risk of wider dispatch reform.

NESO has not clearly evidenced how the proposed measures would address the challenges it has identified. This will need to be demonstrated through the upcoming Cost Benefit Analysis (CBA) process. For example, the Call for Input identifies the risk of projects gaming the market or exploiting inefficiencies, but does not evidence this as an existing issue or give estimates of the extent to which NESO expects such issues to exist in the future. It is therefore difficult to assess what would be proportionate measures to address these risks. There are measures available under the Transmission Constraint Licence Conditions that could be taken to avoid these practices. The CBA in the Review of Electricity Markets Arrangements process was opaque, and the assumptions behind the CBA were not transparent. **Any CBA that follows from further consideration of NESO's proposals must be designed with full transparency and in consultation with industry**, and should be shared with industry in advance. NESO should consult on the scope, modelling approach, assumptions, sensitivities and treatment of interactions before undertaking analysis.

Addressing challenges arising from constraints through existing tools and strategic planning

The Call for Input identifies operability and cost challenges arising from increasing dispatch volumes, including higher levels of constraint-driven redispatch. However, there are measures available to NESO, and reforms under consideration through other workstreams to address this challenge, that were not considered in the Call for Input.

For example, the Call for Input does not discuss forward contracting of flexible assets to address constraints. Forward contracting is an existing measure available to NESO and would not cause significant disruption or require a long implementation timeline, unlike some of the proposed reforms. NESO should consider how it sees the work outlined in a recent LCP Delta report, which outlines how forward contracting can be used to reduce constraint costs, working with the Call for Input.

The NESO should consider how constraint-management measures under RNP address the operability and cost challenges highlighted in the Call for Input. The Call for Input document does not set out a long-term view of the level of constraints likely to be present in a future GB electricity system, or explain the degree to which current levels of constraints are expected to be transitory. When developing a cost-benefit analysis for the proposed reforms, NESO should distinguish between transitory constraints and structural, long-term levels of constraints having considered upcoming strategic programmes aimed at tackling underlying constraints.

NESO's strategic planning choices, delivered through the Strategic Spatial Energy Plan (SSEP), the Centralised Strategic Network Plan (CSNP) and the Regional Energy Strategic Plans (RESPs), will be a key determinant of future balancing volumes and constraints, alongside upcoming grid plans. Building on the role of RNP in reducing structural constraints, **NESO should set out how reforms to balancing, settlement, and dispatch arrangements will align with the future network configuration envisaged through the SSEP, CSNP and RESP**, rather than being designed solely around current system conditions. To enable meaningful industry engagement, NESO should provide greater clarity on what an efficient level of redispatch should look like in a future system where constraints are addressed via strategic planning decisions and RNP measures. This should then leave the expected residual balancing requirement once RNP reforms and planned network reinforcements have been delivered, including how this varies across different planning scenarios for NESO to consider proportionate proposals.

SR's proposed package of reforms under a self-dispatch framework

The self-dispatch framework continues to offer the most efficient allocation of risk between the NESO and market participants, supporting the lowest cost outcomes for consumers. We agree that incremental improvements are required, but these should build on, not replace, the strengths of the current framework. We do not believe reforms should be assessed in isolation but rather as a package.

In our response, we support lowering the Balancing Mechanism (BM) participation threshold to 10MW, with visibility down to 1MW and shortening Settlement Periods to 15 minutes.

We believe that the following package of reforms should be introduced under the current self-dispatch arrangements to achieve NESO's desired system outcomes and address the challenges identified in the call for input.

- **Lower BM participation threshold:** Lowering the BM threshold would improve system operability and reduce costs by giving NESO access to a wider pool of smaller assets for balancing actions, while also increasing visibility to better inform decisions across the system.
- **Shorter settlement periods combined with Gate closure closer to delivery (under the current portfolio bidding structure):** We believe shortening settlement periods to 15 minutes could increase system efficiency but would only work effectively if accompanied by trading opportunities closer to delivery. Instead of moving the trading deadline to Gate Closure, NESO should introduce a reform to move Gate Closure forward to 15 or 30 minutes, notably to align with EU reforms and support future integration.
- **Constraint management measures:** Constraint-management measures, to be set out in the RNP Delivery Plan, should form part of a coordinated package of reforms to improve system efficiency, including consideration of forward contracting and insights from recent industry work on reducing constraint costs. These measures should be proportionate and grounded in a clear cost-benefit assessment that distinguishes between transitory and enduring constraints, ensuring reforms are targeted at long-term system needs while avoiding unnecessary market disruption.
- **Greater use of forward contracting of flexible assets:** NESO should use, and where appropriate to develop, existing tools, such as Schedule 7 trades, Local Constraint Markets (LCMs) and the potential for constraint management markets identified through the Constraint Collaboration Project. This would enable NESO to take earlier, more efficient action to manage constraints within the current self-dispatch model. Evidence highlighted in our response suggests these approaches can deliver net consumer benefits and should be explored further as a lower-risk alternative to more complex dispatch reforms.
- **Self-dispatch model:** This continues to offer the most efficient allocation of risk between the NESO and market participants. We agree that incremental improvements are needed, but these should build on, not replace, the strengths of the current framework. Dispatch arrangements do far more than support balancing, but are a core part of the commercial framework that underpins investment in GB, so any major reform will risk existing and new investment. SR firmly opposes a move to more centralised dispatch models (central and hybrid), and believes NESO should optimise the current self-dispatch framework in combination with other proportionate reforms. The Review of Electricity Markets Arrangements (REMA) assessed these wider impacts and concluded that moving to more centralised-dispatch is not appropriate due to concerns over deliverability, investor confidence and value for money. It also found that a move away from self-dispatch would create major

complications for cross-border trading, given our obligations under the UK-EU Trade and Cooperation Agreement, as well as negotiations and the direction of greater alignment with EU.

- **Deemed CfD:** A Deemed-generation CfD has the potential to deliver material benefits for consumers by lowering costs and supporting more efficient system operation. A Deemed-generation model could also support whole-system savings by improving operational incentives. Under the current CfD, generators can be disincentivised from fully participating in ancillary services and balancing markets, particularly when following system operator instructions could increase exposure to unrecoverable curtailment risk. A deemed approach removes this distortion, enabling renewable assets to offer more flexibility and respond more readily to system needs. This could reduce constraint management costs and reliance on higher-cost balancing actions, both of which are ultimately borne by consumers.

Scottish Renewables would welcome the opportunity to engage further with NESO on this agenda and to support ongoing development through constructive dialogue and the sharing of sector expertise.

Yours sincerely,

Poppy Bottomley

Economics and Markets Policy Officer

Scottish Renewables

Annex A - Consultation Questions

Reform principles

1. ***Reform principles and inherent trade offs:*** *Do the stated balancing and dispatch reform principles identified in Section 2.2 provide a coherent and achievable framework under a national pricing, self-dispatch market design?*

Please consider:

- *Whether the aims conflict (e.g. transparency vs liquidity, clear handover vs flexibility).*
- *Which aims should take priority, or where trade-offs arise. Please provide your prioritisation of aims.*
- *Whether any additional aims, or changes to existing aims are required to ensure reforms support the future system needs.*

The Call for Input identifies relevant challenges, but does not quantify their materiality, which makes it difficult to assess whether the proposals are proportionate or targeted at consumer value, potentially to the detriment of market participants. Demonstratable consumer value should also be a clear criterion against which any reforms are assessed, alongside the preservation of efficient generation investment.

We believe that there should be greater consideration of how the proposed reforms interact with each other, and how implementing certain reforms could affect the justification for others. For example, if there are more assets in the Balancing Mechanism (BM) as a result of a lower BM threshold, the benefit of the other proposed reforms will be significantly reduced if they are addressing the same underlying issues. Similarly, introducing reforms such as changes to Physical Notifications and unit-level bidding would make it harder for smaller assets to enter the Balancing Mechanism, thereby reducing the impact of lowering the Balancing Mechanism threshold. The interaction between the reforms and their potential to work together to achieve the primary objectives should be considered in the Cost-Benefit Analysis (CBA). The CBA should assess the reforms consecutively (starting with lowering the mandatory BM threshold) to determine whether introducing specific reforms would make it harder or less impactful to implement the other proposed reforms and achieve the primary objectives.

Furthermore, we do not support a strict interpretation of the principle that calls for a clear handover of balancing responsibility. While we agree that misaligned incentives and unclear timing interfaces can create operational issues, a rigid separation between market participants and NESO is unnecessary and could reduce the flexibility needed to act in consumers' interests. NESO should retain the ability to act proactively when this reduces risk or cost. If NESO requires additional data to improve its decision making, it should make a clear and proportionate case for accessing that information rather than relying on a hard boundary between its role and the responsibilities of the market. As an illustrative example, a more suitable principle could be "proportionate and well aligned balancing roles for market participants and the system operator that support efficient and reliable system operation"

The industry would benefit from more information from NESO on what its view is on the role of balancing in a future system, given that the proposed balancing reforms seek to primarily address challenges in the current system.

Reforms should be compatible with neighbouring EU TSOs and potential re-entry into the European Internal Energy Market (IEM) to enable coordinated balancing on both sides via two-way interconnectors.

2. *On a scale of 1–5, how confident are you that the balancing and dispatch reform principles set out in Section 2.2 (efficient operational signals, clear handover of balancing responsibility, secure and efficient operation of the system) are a suitable framework for reform under a national pricing, self-dispatch market design?*

3

Challenges to address

3. ***System challenges and causal drivers**: To what extent do you believe each of the challenges defined in Section 2.3 contribute to current and future redispatch volumes and costs?*

In your response, please comment on:

- *Which challenges you consider structural drivers versus secondary symptoms*
- *Whether any challenges are over- or under-emphasised relative to the others*
- *Evidence from your operations, experience, knowledge of the market, and empirical or anecdotal evidence that supports alternative interpretations of redispatch growth*

We agree with NESO's assertion that the challenges relating to operability from increasing redispatch and insufficient visibility need to be addressed. However, NESO has not provided evidence that the other two identified challenges (overlap between the wholesale market and balancing, and distorted wholesale price signals and incentives to exacerbate system constraints) are material problems, making it difficult for industry to support the proposed reforms aimed at addressing them, as it is unclear that they would be proportionate interventions. There also needs to be clarity on how the system challenges and causal drivers are enduring or the result of a system in transition.

Redispatch volumes are primarily driven by a combination of demand uncertainty, the historic lack of coordinated long-term network development, and certain design features of the current pay-as-produced CfD framework. However, these issues are already being tackled through a wide set of reforms led by Ofgem, DESNZ and NESO. Initiatives such as the SSEP, which introduces a more strategic and spatial approach to future network build, together with further measures expected through the DESNZ RNP Delivery Plan and other ongoing regulatory reforms, are directly targeting the underlying causes of redispatch. As these interventions take effect, the majority of the current drivers of redispatch volumes are expected to diminish, leaving only a more limited residual level of redispatch to be managed.

NESO identifies a set of challenges but does not quantify their materiality, which makes it difficult to assess whether the proposals are proportionate or potentially to the detriment of market participants. Consider only a subset to be material issues that should be addressed through reforms i.e., the operability and cost impacts associated with increasing redispatch, although SR considers that much of this is already being addressed via ongoing strategic programmes. NESO's strategic planning, through the SSEP, CSNP, and RESP, will be crucial in determining future balancing volumes and

constraints, alongside upcoming grid plans. Building on RNP's role in reducing structural constraints, NESO should clarify how reforms to balancing, settlement, and dispatch will align with the future network configurations outlined in these plans, rather than focusing solely on current system conditions. Recent analysis from LCP Delta highlights mitigations, particularly the benefits of forward contracting of flexible capacity outside of the BM, to address expensive redispatch actions. To support industry engagement, NESO should clearly define what an efficient level of redispatch would look like in a future system where constraints are managed through strategic planning and RNP measures. This will help identify the remaining balancing requirements after RNP reforms and network reinforcements are implemented, including how these vary across different scenarios, enabling NESO to propose proportionate solutions.

SR recognises the challenge of limited visibility of smaller assets and notes that lowering the BM threshold can help address this issue. This approach also tackles other stated challenges, effectively resolving most of the NESO's concerns. Using shorter SPs, with moving gate closure closer to delivery, can offer additional advantages such as better market positioning and more effective residual or corrective balancing by the market before NESO intervention.

4. *On a scale of 1-5, how impactful do you consider the operability and cost challenge from increasing redispatch to be for the GB system over the next 5-10 years?*

2

5. *On a scale of 1-5, how impactful do you consider the challenge of insufficient visibility of and access to balancing resources (particularly distributed and flexible assets) to be for secure and efficient system operation?*

4

6. *On a scale of 1-5, how impactful do you consider the challenge of misalignment and overlap between the wholesale market and balancing (including overlapping timeframes and conflicting signals) to be for market functioning and NESO's role as residual balancer?*

2

7. *On a scale of 1-5, how impactful do you consider the challenge of distorted wholesale price signals and incentives to exacerbate system constraints (including opportunities for strategic positioning around congestion) to be for investment and consumer outcomes?*

2

Effectiveness of the Balancing Reform Package

8. ***Impact of redispatch volumes, actions, costs**: Do you agree with the interactions and dependencies in the reform package defined in Section 3 to manage redispatch volumes, actions, and costs, do you see any gaps?*

In your response, please comment on:

- *The volume, timing, cost, and predictability of redispatch actions.*
- *NESO's ability to act as a residual balancer, rather than a de facto central scheduler?*
- *Interactions with other reforms, as P462 or other RNP reforms, that could amplify or diminish their impact on redispatch.*

Please distinguish between expected impacts in the early transition period and the enduring state.

Since the implementation of new electricity trading arrangements (NETA), the electricity system has evolved significantly, with much higher penetrations of intermittent renewable generation. A natural consequence of this transition is that redispatch volumes are increasing. It is therefore important that NESO, working with Ofgem and DESNZ, clarifies what an efficient level of redispatch should look like in a future system where constraints gradually reduce and where strategic planning decisions and Reformed National Pricing (RNP) measures will materially influence redispatch volumes. This should be a prerequisite to understanding what residual volumes remain and to allow targeted measures to be designed to ensure consumer value. Greater transparency over the drivers and purpose of redispatch would improve our ability to assess the effectiveness of the proposed reforms.

Upcoming grid plans and initiatives such as the SSEP and CSNP, which introduce a more strategic and spatial approach to future network build, together with further measures expected through the DESNZ RNP Delivery Plan and other ongoing regulatory reforms, are directly targeting the underlying causes of redispatch. As these interventions take effect, most of the current drivers of redispatch volumes are expected to reduce, and it is this residual level of redispatch which should be considered.

In relation to the operability and cost challenges linked to rising redispatch volumes, the underlying drivers largely stem from demand uncertainty, the historic absence of coordinated network build and certain features of the current pay-as-produced CfD design. Wider reforms across NESO, DESNZ and Ofgem, including the SSEP, which introduces a more coordinated and centralised approach to long-term network development and further measures expected in the DESNZ RNP Delivery Plan, are already beginning to address these structural issues.

The residual redispatch challenge is best managed through earlier and more targeted action by NESO to address constraints within the existing self-dispatch framework, making fuller use of the tools already available.

NESO's legacy systems and processes were not designed for a system with high levels of intermittent generation and therefore limit the efficiency with which these residual actions can be taken. However, NESO is already developing new operational tools that can significantly improve the management of this remaining redispatch volume. The Open Balancing Platform (OBP) will support automated and optimised dispatch of smaller aggregated units, taking account of constraints, which will reduce skip rates. The Platform for Energy Forecasting (PEF) will give NESO better insight into when and where balancing actions may be required. Combined with NESO's growing operational understanding of when and where network constraints arise, NESO can manage the remaining redispatch by acting before gate closure and at lower cost. This approach is more cost-effective than relying almost entirely on the Balancing Mechanism.

NESO already has tools that allow early intervention within the existing self-dispatch model. Greater use of Schedule 7 trades at the day-ahead stage can support more efficient constraint management. NESO can also explore the potential for constraint management markets identified through the

Constraint Collaboration Project. Using these tools could deliver many of NESO's objectives without the complexity and risk of wider dispatch reform.

The self-dispatch framework continues to offer the most efficient allocation of risk between the NESO and market participants, supporting the lowest cost outcomes for consumers. We agree that incremental improvements are needed, but these should build on, not replace, the strengths of the current framework.

Dispatch arrangements do far more than support balancing. They are a core part of the commercial framework that underpins generation investment. REMA assessed these wider impacts and concluded that moving to more centralised-dispatch is not appropriate due to concerns over deliverability, investor confidence, and value for money. It also found that a move away from self-dispatch would create major complications for cross-border trading, given our obligations under the UK-EU Trade and Cooperation Agreement.

NESO should not revisit a model that government has already discounted and that does not address the fundamental policy drivers of the observed outcomes.

A key concern is the interaction of matching traded positions with P462. Given interactions with the current pay-as-produced CfD design, requiring FPNs to match traded positions would effectively create a step change in the bidding incentives between the day-ahead market (DA) and the intraday market (IDM), along with the associated problems to liquidity, volatility, and unpredictability across DA and IDM markets. It would change the market incentives, distort bidding and add extra risk on CfD generators by making negative prices more likely. This BM reform would therefore undermine one of the key benefits of P462, which otherwise has the potential to mitigate these issues. Matching traded positions would incentivise CfD generators to sell at deeply negative prices in the IDM to ensure a traded position given this reform would prohibit wind going long into the BM to recover subsidy payments. This bidding incentive could have detrimental impacts on DA outcomes and liquidity and price volatility, therefore increasing risk on CfD generators.

It should be noted that if there is an indication to avoid wind from having an incentive to go long into the BM, in a way that avoids causing DA-IDM price volatility and distortions, then that would be much better achieved through introducing a deemed CfD model that delivers broader operability, system and consumer benefits (or 'Capability based CfD' as it is referred to in European markets). Note that recent EU Commission guidance proposes the use of these CfD models.

9. ***Market behaviour and strategic response**: How do you expect market participants' behaviour to change in response to the balancing reform package defined in Section 3?*

Please reflect on:

- *Changes in trading, scheduling, and risk-management strategies*
- *Potential new optimisation, arbitrage, or strategic behaviours that could emerge*
- *Which design features are most important to mitigate unintended outcomes NESO's ability to act as a residual balancer, rather than a de facto scheduler?*

We believe the proposals as a package would introduce distortions, greater risk, and lead to unintended consequences. However, as we set out in our response, we believe select proposals and alternatives, coupled with a broader strategy to deliver an Optimised self-dispatch framework can deliver system benefits and address the perceived challenges in a more effective and proportionate way.

Under the proposed package, we expect that risk will need to be managed earlier by market participants, and PN accuracy for wind could lead to greater genuine error and impact trading strategies. Market participants will optimise up to the last point permitted by the rules.

Please see our responses to the questions relating to the proposals submitted by NESO, in which we detail the expected impacts and consequences

10. ***Distributional and competitive impacts**: What distributional impacts do you expect across different participant types and technologies as a result of the full balancing reform package implementation defined in Section 3?*

Please consider:

- *Impacts on generators (by technology), suppliers, storage, aggregators, DSOs, interconnectors, and consumers.*
- *How this change would affect your business operations (operational practices, trading strategies, and risk management).*
- *Whether impacts are temporary (transition-related) or structural for the market operation.*
- *Where targeted transitional measures may be justified, and where they could create longer-term distortions*

This package of reforms risks introducing significant uncertainty, which will undermine investor confidence and the delivery of the Clean Power 2030 mission. The CBA will need to demonstrate value to consumers, retaining investor confidence in GB, as the cost of implementation will ultimately be passed through. There needs to be more transparency about interconnectors to better understand their impacts.

11. *On a scale of 1-5, how confident are you that the balancing reform package as described in Section 3 will materially improve operational efficiency and support NESO in managing the four challenges identified in Section 2.3?*

2

Reform 1 Lower Mandatory Balancing Mechanism Threshold

12. ***Cost, benefits and implementation impacts**: What implementation and ongoing costs should NESO consider associated with lowering the mandatory BM threshold reform, and what operational benefits or opportunities do you expect?*

Please comment on:

- *Implementation timelines and associated costs, including feasibility of phased rollout, retrospective application and target BM threshold.*
- *Which asset types or business models face the most material implementation and operational cost impacts, and where the reform may generate net benefits across your portfolio.*

- *How the reform would change your cost exposure when providing or using flexibility services*

Interactions with DSO flexibility arrangements or flexible connection agreements that may increase or decrease costs or benefits.

SR supports this proposal.

SR agrees with retrospective application. However, we would highlight the importance of ensuring that implementation timelines are realistic and clearly communicated in advance. This includes applying to assets referred to in the CFI as pre-2019, as this will capture a greater proportion of embedded capacity and subsequent benefits. Care should be taken here both with regard to the minimum threshold and the approach to implementation, so as to not unintentionally compromise the commercial case for smaller assets. This should include the proportionate balance between mandatory participation vs visibility, with consideration of capacity and technology type. We note in our response to Q13 that this proposal should follow a phased approach to implementation.

Careful consideration is required on the threshold levels given barriers and participation costs for smaller market participants; further clarity is required on the composition of the ~33 GW of distributed assets (i.e., proportion above vs below 10 MW) and implications to license exempt generation <5MW.

Support NESO proposed approach of setting a threshold at higher level (e.g., 10MW) with visibility of assets down to 1MW to avoid burdensome requirements on smaller assets. This is most applicable to smaller assets where these changes are more material to the business case.

Enhanced visibility is expected to deliver the largest benefits of the proposals outlined in the CfI by increasing transparency and significantly reducing unnecessary imbalance-driven actions.

NESO's own Dispatch Strategic Review identifies Distributed Energy Resource Integration as a priority, noting that improved visibility would reduce balancing and system costs through better forecasting, increased competition and lower reserve requirements, while also reducing skip rates and generating further consumer value.

This proposal also delivers a positive impact with regard to the other stated challenge of operability and cost challenge from increasing redispatch, by providing NESO with access to smaller assets for balancing actions and with the greater visibility of smaller assets, better informing balancing actions taken by NESO elsewhere.

This proposal would increase competition in the provision of flexibility and could help to reduce constraint costs by increasing competition of BMUs and including more smaller-scale assets that are not linked to ROs, for example, and thus can offer lower prices. This also allows an additional revenue stream for those smaller assets. LCP Delta analysis has demonstrated the scale of potential consumer benefit, with modelling showing over £0.5 billion in reduced constraint costs in 2035, with benefits increasing over time as smaller assets grow in scale.

We believe that this proposal provides greater visibility of the market for traders to be more agile and agree with NESO's view that this proposal would significantly reduce NIV chasing.

It is also worth noting that the industry engagement with code modification GC0166 (which aims to improve operational planning for the dispatch of electricity storage devices) highlights the industry's continued interest in improving visibility in the Balancing Mechanism, as well as GC0117.

We do not believe it will be commercially advantageous for generators to place assets below 10MW into the BM. We support the proposed 10MW threshold, with visibility of assets over 1MW.

There is a risk of conflict between BM dispatch and distribution network constraints, as well as overlap with DSO flexibility markets. Close coordination between NESO and DNOs will be essential to manage interactions with distribution-level flexibility services and avoid conflicting operational instructions when smaller assets participate in the BM.

13. ***Proportionality and implementation**: What barriers or challenges might smaller participants encounter with lowering the BM threshold? What steps could be taken to manage impacts, while ensuring the stated objectives of enhanced visibility and access are achieved?*

Please comment on:

- *Proportionality of compliance requirements*
- *The role of aggregators or alternative access routes*
- *Transitional arrangements/incentives to support parties in meeting BM obligations*
- *Any specific risks to competition or market access that we should consider*

A phased approach to implementation would be most suitable, working down from the largest assets to the smallest in incremental phases, which provides enough notice for assets to make the physical, organisational and contractual changes.

The benefits of such an approach would allow NESO to work out/set the most cost-effective capacity threshold that delivers the most benefit whilst avoiding any unintended material cost implications on smaller assets.

For older assets, the costs and administrative burden that this would introduce could encourage early decommissioning, which is more likely to occur in areas where assets may never be called on to engage in Balancing Mechanism actions and therefore would be unable to recover the costs of the equipment required to register as a BMU.

We are supportive of NESO reviewing, and where required, simplifying BM access requirements and registration for smaller assets whilst ensuring a level playing field in BM competition with other assets to avoid unintended consequences and preserving effective competition. In that context, aggregation and alternative access route could play an important role in reducing barriers to entry for smaller assets.

To limit any adverse impacts of introducing this reform, we believe that the industry should be provided with sufficient notice of this change being implemented, and the threshold reduction should not be an immediate decrease to 10MW. NESO could consider lowering the threshold gradually over an agreed timeline, progressively decreasing it to 10MW. Alternatively, a timeline could be produced that sets a date by which all assets with a capacity of 10MW or more must be in the Balancing Mechanism. A gradual approach would support older assets, which would likely be off the system by the backstop, which is essential, as older assets may not be financially or technically able to upgrade and would be forced to decommission early.

14. *On a scale of 1-5, how confident are you that lowering the mandatory BM participation threshold will significantly improve visibility and access to balancing resources, while remaining proportionate in terms of costs and obligations?*

4, given that the route to implementation, which is currently unknown, is key to achieving these benefits.

Reform 2 Aligning Market Trading Deadline with Gate Closure

15. ***Risk allocation and market functioning**: How would aligning the market trading deadline with gate closure reallocate forecast, imbalance, and operational risk between market participants and NESO?*

Please consider:

- *Impacts on trading liquidity and intraday risk management*
- *Current use of post-gate-closure trading*
- *Effects on different technologies and business models*
- *Whether the reform strengthens or weakens the clarity of balancing responsibility*

SR opposes this proposal.

SR recommends that NESO consider an alternative proposal of Gate Closure to delivery, with options of either 15 or 30 minutes before delivery. This would better align with ongoing EU reforms, improve FPN accuracy, put greater balancing responsibility on parties, and maintain NESO's ability to take pre-Gate Closure actions where these are determined to be efficient.

There is insufficient evidence that this proposal delivers meaningful efficiency gains; NESO must demonstrate the scale and drivers of the problem and its materiality.

The impact of this proposal could be limited if BM participation threshold is lowered, as that would reduce NIV-chasing behaviour from low-visibility assets

Reverting to pre-P342 arrangements risks hindering future EU market integration, and the decrease in time to trade out positions. This change would significantly reduce liquidity in the intraday markets during the final hour before real-time, when price discovery is most valuable for short-notice flexibility, weakening short-term price signals. Whilst P342 was designed for a system dominated by base load generation, not the decentralised one we are transitioning towards, reforms should be forward-looking and designed based on future system needs.

Removing the ability to trade after Gate Closure leaves participants with limited scope to mitigate this risk. Even with improved PN accuracy, market participants cannot fully control or eliminate exposure to these residual errors. This weakens balancing responsibility as it removes the ability for parties to trade out their position and self-balance yet leaves them with the risk of not doing so (greater imbalance risk). This removes a degree of corrective trading that could worsen the aggregate imbalance position of NESO.

The proposal would therefore weaken, rather than strengthen, clarity of balancing responsibility. It removes a key self-balancing mechanism while leaving participants exposed to greater imbalance risk, despite NESO being better placed to manage residual forecast error given its system-wide data, forecasting capabilities and operational role.

With the information available, it is difficult to comment on each of the considerations listed above, and a robust CBA will be required to assess the potential impacts on these areas. However, we would anticipate that it seems likely that generators would be exposed to a higher imbalance volume with a more volatile system price.

The impact of shifting forecast error risk from NESO to market participants should be carefully assessed, particularly given that removing the ability to trade after Gate Closure, leaves participants with limited scope to mitigate this risk. Even with improved PN accuracy, market participants cannot fully control or eliminate exposure to these residual errors. Forecasts for wind, solar and demand will always contain irreducible uncertainty due to weather variability, embedded generation behaviour and increasingly price responsive consumers.

NESO should instead prioritise reforms that preserve intraday liquidity and remain compatible with European market design given ongoing negotiations and future alignment.

16. ***Implementation timelines, costs and transition considerations**: What implementation and ongoing costs should NESO consider associated with aligning the market trading deadline with gate closure?*

Please comment on:

- *Implementation timelines and costs of adapting trading systems and internal processes to an earlier deadline.*
- *Cross border or contractual factors that may increase cost or extend implementation timelines.*
- *Any ongoing cost implications of the change.*

Aligning the trading deadline with Gate Closure would increase costs for market participants and ultimately for consumers. Reverting to an approach similar to pre-P342 arrangements risks undermining the progress made toward future EU market integration and could reduce opportunities for intraday trading, weakening alignment with wider European market design. Additionally, we do not expect the implementation timeline comparison with P342 to be realistic.

Greater imbalance risk for wind generators will lead to higher risk premiums being built into long-term contracts such as Contracts for Difference, increasing strike prices and therefore passing higher costs on to consumers. Increased imbalance exposure also drives up trading-related costs, including the need for more extensive hedging and higher collateral requirements, which can further feed into CfD bids as well as Power Purchase Agreements (e.g. Offtakers may require additional risk provisions). The burden would fall particularly heavily on smaller market participants, who would face proportionately higher costs due to the need for IT system upgrades, improved forecasting tools, more sophisticated operational processes and strengthened risk management capabilities.

17. *On a scale of 1-5, how confident are you that aligning the market trading deadline with Gate Closure will improve clarity of balancing responsibility and reduce inefficient overlap between market trading and NESO balancing actions?*

1

Reform 3 Physical Notifications Matching Traded Positions

18. ***Costs, benefits and implementation feasibility of FPN to match traded positions***
What implementation and ongoing costs should NESO consider associated with implementing FPNs to match traded positions?

Please comment on:

- *Implementation and ongoing costs, including system changes, forecasting processes, and compliance requirements.*
- *Differences in cost and implementation timelines between portfolio level and unit level approaches.*
- *How differing technologies within a portfolio may affect the complexity, cost, and practicality of implementing the reform.*

SR opposes this proposal.

This proposal would restrict participants' ability to manage imbalance risk, increasing costs for suppliers, non-physical traders, and renewable generators unable to self-balance.

Traders would be constrained by unit limits, unable to sell below X/MW, and required to consider combined capacity. This reduces optimisation flexibility and increases imbalance exposure.

With tighter constraints and higher imbalance costs, we anticipate traders facing restrictions in offering RtM volumes or contract prices. This could lead to deteriorated contract conditions for generators due to the restrictions placed on traders, which could increase fees on assets which in turn could flow into higher CfD prices.

In both scenarios, portfolio and unit-level, this proposal would be damaging to generators.

The root cause of the issue appears to be NIV-chasing, not PN accuracy. Current system imbalance is not well correlated with wind forecast error because NIV-chasing distorts the signal. Lowering the mandatory BM participation threshold would reduce NIV-chasing, resulting in a more systematic imbalance signal that is better correlated with wind error and therefore easier for NESO to manage. This proposal does not appear to offer clear incremental benefit.

This reform has a high risk of unintended consequences. For example, if there are multiple offtakers, one party may be responsible for submitting Final Physical Notifications, and the offtakers will not

know what other offtakers have traded. Adapting to the proposed reform would mean restructuring the way PPAs are designed and the structure of offtaking.

Portfolio positions may be made up of long and short positions for individual assets, which means portfolios would need to retrade out long and short conditions, essentially trading with itself, to adapt to this reform.

A key concern is the interaction of matching traded positions with P462. Given interactions with the current pay-as-produced CfD design, requiring FPNs to match traded positions would effectively create a step change in the bidding incentives between the day-ahead market (DA) and the intraday market (IDM), along with the associated problems to liquidity, volatility, and unpredictability across DA and IDM markets. It would change the market incentives, distort bidding and add extra risk on CfD generators by making negative prices more likely. This BM reform would therefore undermine one of the key benefits of P462, which otherwise has the potential to mitigate these issues. Matching traded positions would incentivise CfD generators to sell at deeply negative prices in the IDM to ensure a traded position given this reform would prohibit wind going long into the BM to recover subsidy payments. This bidding incentive could have detrimental impacts on DA outcomes and liquidity and price volatility, therefore increasing risk on CfD generators.

It should be noted that if there is an indication to avoid wind from having an incentive to go long into the BM, in a way that avoids causing DA-IDM price volatility and distortions, then that would be much better achieved through introducing a deemed CfD model that delivers broader operability, system and consumer benefits (or 'Capability based CfD' as it is referred to in European markets). Note that recent EU Commission guidance proposes the use of these CfD models, also known as 'Capability-based CfDs'.

19. ***Risks, tolerances and exemptions***
What risks or unintended consequences could arise from the different scenarios proposed for FPN to match traded positions under portfolio bidding or unit bidding, and how should tolerances or exemptions be designed?

Please comment on:

- *Technology-specific and contract structure differences*
- *Potential gaming or risk-shifting behaviours*
- *Governance and enforcement considerations during transition*
- *Whether obligations should differ between aggregated portfolios and disaggregated unit-level positions*

Restricting trading to physical positions would undermine market liquidity, making it harder for NESO to balance the system.

Portfolio trading allows more hedging and risk mitigation strategies that facilitate technology diversification. This proposal would undermine many market business models that support renewable portfolios. As a result, many market-based business models that support renewable energy portfolios would be undermined. This would create large increases in risk premia for projects, particularly wind projects, in matching Physical Notifications to traded positions. The ability for variation is a key part of wind trading risk and the nature of the intermittency of the technology.

The proposal creates operational and contractual complications that would need to be worked through, including how it would interact with agreed practices during site commissioning/testing and

how it would work for sites with multiple offtakers where the PN-submitting party may have limited visibility of individual trading positions.

Introduces complications with regards to the current pay-as-produced CfD design, it would increase the frequency and volatility of negative prices rather than resolving the underlying issue, increasing risk and ultimately driving up strike prices.

Strict Final Physical Notification thresholds already exist following NESO's work in recent years on "Good Industry Practice", and some generators have experienced challenges with some assets that struggle to remain within these thresholds. Markets such as Italy where this FPN mechanism is in place are not subject to the same accuracy requirements, which would make the scheme much more challenging to adhere to.

20. ***On a scale of 1–5, how confident are you that requiring FPN to match traded positions will improve forecasting accuracy, transparency, and NESO's operational confidence, without creating disproportionate implementation or compliance risks?***
(1 = Not confident; 5 = Very confident)

1

Reform 4 Unit Level Bidding

21. ***Value of unit-level granularity***
What benefits and risks do you associate with introducing unit-level bidding and nominations in the wholesale market, including the potential requirement to submit these at Day-Ahead and Intra-Day stages?

Please address and specify when referring to Option 1 or Option 2:

- *How this change could support alignment between physical notifications and final traded positions*
- *Impacts on visibility pre-gate closure, market monitoring, and deterrence of inefficient, strategic behaviours*
- *Potential effects on liquidity, price formation, and participant risk exposure.*
- *Differences between physical (Option 1) and financial (Option 2) approaches, including operational complexity and portfolio aggregation challenge (e.g. breaking down aggregated positions into individual unit bids, managing compliance across diverse assets).*

SR does not support this proposal or the alternatives.

Both Option 1 and Option 2 deliver no clear system or consumer benefit, and the reform appears to create a pathway towards central dispatch or unit-level balancing and control, which is inappropriate and disproportionate, especially given DESNZ's decision ruling out central dispatch.

The proposal does not address NESO's stated challenge of incentives to exacerbate constraints. Strong deterrents already exist through REMIT and the TCLC. If the intention is improved monitoring, unit-level bidding imposes unnecessary data and systems burdens when Ofgem already holds powers to request detailed information.

The reform would reduce market liquidity, in addition to imposing significant financial and IT burdens on both participants and NESO. Implementing unit-level bidding would require extensive system upgrades, introduce disproportionate complexity and create additional risk of operational errors.

We would not support NESO taking on the role of a gross market pool operator. This would represent a major expansion of which would raise both governance and conflict concerns.

NESO's suggestion that public unit-level data would level the playing field is unconvincing. The single imbalance price already provides a level playing field across participants.

We have strong concerns about the impact of this proposal on generators. Currently, generators typically submit volume at the portfolio level, so removing this ability would cause significant challenges. Ofgem has regulatory powers to address perverse behaviours, and the Transmission Constraints License Conditions (TCLC) prevent gaming, making the rationale for this reform unclear. NESO has asserted that the TCLC and available market measures are insufficient, but the reasons why NESO believes this to be the case are not explained in the CfI. If regulation is indeed insufficient, appropriate regulation should be introduced before considering market reforms that would require significant upheaval, such as a move to unit level bidding.

Unit level bidding would make it harder for smaller assets to trade, as it puts a significant resource and administrative burden on them. It appears that the primary reason for introducing this option is to enable Reform 3, which would not be a sufficient justification for the significant impact it will have on the market.

Unit level bidding would reduce market liquidity as it would exclude balancing settlement code (BSC) counterparties that operate as non-physical traders without supply positions and may incentivise perverse market behaviours. Additionally, the proposal could remove portfolio optimisation, increase costs and create significant operational and IT burdens for participants and NESO.

Unit-level bidding does not materially improve alignment between physical notifications and traded positions. Imposing a uniform matching requirement across such portfolios would introduce significant complexity, imbalance, and compliance risk. Costs and feasibility challenges would be materially greater under unit-level approaches than under portfolio-level implementation. Notwithstanding the substantial data and governance requirements for both market participants and NESO. Unit-level requirements would remove efficient portfolio balancing and corrective trading via the market, forcing disaggregation of positions across individual assets and technologies, materially increasing complexity and error risk.

Portfolio trading can be cheaper as the risk is spread evenly across the units. Under unit-level bidding, it is harder to manage risks, and this reform would create large increases in risk premia for projects, especially wind projects.

The proposal would create unintended consequences if combined with a requirement to match traded positions to FPNs. Where two assets under common ownership hold offsetting long and short positions, FPN to traded position compliance could require simultaneous buy and sell trades between those assets. This would risk resembling wash trading behaviour under REMIT.

22. ***Cost, proportionate granularity and implementation timelines***
What implementation and ongoing costs should NESO consider associated with implementing unit level bidding? What level of unit granularity would be practical and proportionate to deliver meaningful system benefits?

Please address and specify when referring to Option 1 or Option 2:

- *Implementation and ongoing costs, including IT, data, and compliance requirements associated with different unit level approaches.*
- *Practicality and proportionality of different levels of granularity (the extent to which positions are broken down purely to BMU level or aggregated by GSP group), and where the balance lies between system value and implementation burden.*
- *Implementation timelines and key dependencies, including interactions with cross border market coupling and the provision of ancillary services.*

SR does not consider that any proposed level of unit-level granularity is proportionate to the system benefits claimed. Breaking positions down to BMU level removes the efficiency of portfolio netting and exposes forecast and operational risk at individual assets, while providing only marginal additional information to NESO over existing portfolio-level arrangements.

The reform would reduce market liquidity, in addition to imposing significant financial and IT burdens on both participants and NESO. Implementing unit-level bidding would require extensive system upgrades, introduce disproportionate complexity and create additional risk of operational errors.

Setting up a gross pool market operators would take several years and would involve a significant amount of grid and Balancing Settlement Code (BSC) change, and impede NESO's ability to make changes in the short term.

There are tools available to NESO that can reduce costs for consumers in the existing market. For example, if NESO knows there will be constraints, it can subcontract prior to gate closure. NESO already has tools that allow early intervention within the existing self-dispatch model. Greater use of Schedule 7 trades at the day-ahead stage can support more efficient constraint management. NESO can also explore the potential for constraint management markets identified through the Constraint Collaboration Project. Using these tools could deliver many of NESO's objectives without the complexity and risk of wider dispatch reform.

We appreciate that pre-contracting ahead of Gate Closure can raise a concern about demonstrating value for money and whether there is sufficient liquidity for effective competition. If required, Ofgem could consider whether further powers, licence modifications or clearer reference level pricing are necessary to support these outcomes. In addition, NESO could explore accelerated pathfinder type projects for price discovery and development of measures.

23. ***On a scale of 1–5, how confident are you that unit level bidding (option 1 physical) will materially enhance transparency, scheduling, and market monitoring, relative to its***

complexity and transition costs?
(1 = Not confident; 5 = Very confident)

1

24. ***On a scale of 1–5, how confident are you that unit level bidding (option 2 financial) will materially enhance transparency, scheduling, and market monitoring, relative to its complexity and transition costs?***
(1 = Not confident; 5 = Very confident)

1

Reform 5 Shorter Settlement Period

25. ***Temporal efficiency and system outcomes***
How effective would shorter SPs (e.g., 5 or 15 minutes) be in addressing temporal inefficiency, imbalance volatility, and the use of fast-acting flexibility?

Please consider:

- *Whether settlement granularity should move in step with other market timelines (e.g., gate closure, trading deadlines)*
- *Operational and commercial impacts on your organisation*
- *Interactions with imbalance pricing and balancing actions*
- *Which market participant cohorts would benefit most from shorter SPs, and how could this inform staged implementation?*

SR supports the concept of shortening settlement periods to sharpen temporal signals and increase system efficiency. Shorter SPs sharpen price signals only work effectively if accompanied by trading opportunities closer to delivery. In this context, the proposal to move the trading deadline back to Gate Closure would be counterproductive. The appropriate alternative to moving the trading deadline back to Gate Closure is to move Gate Closure forward to 15 or 30 minutes. This enables submission of more accurate PNs, imbalance to be managed and corrected through market trading closer to real time, and therefore reducing residual imbalance and reliance on BM actions.

We believe that 15 minute settlement periods should be the target as this aligns with neighbouring European markets and would not be a barrier to future participation in the IEM.

Shorter SPs increase sensitivity to short-term variability, placing additional demands on forecasting accuracy and control frameworks, especially for intermittent generation. However, it must be noted that portfolio-level bidding will play an important risk-management role, allowing forecast errors to be managed effectively, reducing risk and enabling more effective system balancing. Combined with

Gate Closure closer to delivery, this enables more accurate PNs and reduces residual imbalance exposure for wind portfolios.

Exposing risk at unit level under shorter settlement periods would amplify imbalance volatility by concentrating irreducible forecast error at individual assets, increasing costs without improving controllability. Shorter SPs sharpen price signals but only work effectively if accompanied by trading opportunities closer to delivery. The appropriate alternative to moving the trading deadline back to Gate Closure is to move Gate Closure forward to 15 or 30 minutes.

Impacts on wind imbalance costs require detailed assessment via a comprehensive CBA. It should examine how the correlation between wind forecast error and NIV behaves under shorter settlement periods and whether this increases imbalance exposure for wind generators.

26. ***Cost, deliverability and implementation timelines for shorter SPs***
What are the principal implementation and ongoing cost drivers in delivering shorter settlement periods (5 or 15 minutes), and how can these be mitigated to ensure a smooth transition?

Please comment on, identifying any differences between 5 and 15 minutes:

- *Implementation and ongoing cost drivers, including system upgrades, metering changes, data and forecasting requirements, and impacts on internal operational processes.*
- *Practical and logistical challenges of metering upgrades or installations, and supplier system readiness.*
- *Implementation timelines and feasibility of phased vs. single step migration, including key dependencies (e.g. digitalisation progress, readiness of trading and settlement systems, metering upgrades).*
- *Transitional arrangements—such as shadow settlement or staged go live—that could support a stable migration.*

SR supports introducing a shorter settlement period, subject to a positive Cost-Benefit Analysis (CBA).

We believe that 15-minute settlement periods should be implemented rather than 5 minutes, as this would support alignment with EU markets. The rationale for targeting 5-minute settlement periods is unclear unless there is a significant consumer benefit established in a CBA. A robust CBA would be necessary prior to implementing any reform, as previous analysis indicates potential consumer detriment associated with 15-minute settlement periods.

Moving to a shorter settlement period would be a significant undertaking for NESO. A CBA should be realistic about what this reform would achieve and the time it will take to implement. The sequencing of proposals to be implemented should be considered, as well as how they will work together to address the challenges identified by NESO in the Call for Input.

Whilst we support this reform and the alignment with the EU that it would provide, consideration must be given to the renegotiation, where applicable, of existing contracts such as PPAs.

27. ***On a scale of 1–5, how confident are you that shorter SPs (e.g. 5 or 15 minutes) will materially improve temporal efficiency and use of fast acting flexibility, given current and planned system, data, and metering capabilities?***
(1 = Not confident; 5 = Very confident)

4, however, this depends on CBA and its combination with other reforms, such as gate closure closer to delivery.

Reform Package Cost-Benefit Analysis and Evaluation Framework

28. ***To what extent do you agree with the proposed CBA methodology and evaluation framework, and are there additional factors NESO should consider?***

Please focus your response on:

- *Whether you agree with the overall CBA approach and methodology, and whether any important factors are missing.*
- *Expected operational or market behaviour impacts (e.g. forecasting, trading strategies, operational planning) that should be reflected in the CBA.*
- *Key risks or uncertainties (e.g., liquidity impacts, forecasting uncertainty, operational risks) that should be captured in sensitivity analysis.*
- *How your organisation typically estimates implementation costs (e.g. CAPEX vs OPEX, system upgrade cycles), and any practical challenges in providing robust cost estimates for the balancing reform package.*
- *Any distributional or competition impacts that should be included to distinguish system wide benefits from simple cost transfers.*
- *Which post implementation metrics or indicators would be most meaningful to assess success.*

Any CBA that follows from further consideration of these or other options must be designed with full transparency and in consultation with industry. The CBA should be clear about how reform impacts transitional and enduring system change and be measured against re-dispatch levels that are appropriate for a decentralised renewables-led system. To ensure full transparency and effective industry engagement, NESO should consult on the scope, modelling approach, assumptions, sensitivities and treatment of interactions before undertaking analysis. Any CBA should first assess the benefits of lowering the BM threshold, and only then consider whether the other proposals deliver any net material incremental consumer value. As mentioned in previous points, NESO should test moving gate closure closer to delivery, and then assess it in combination with 15-minute settlement periods as part of the CBA.

It is also crucial that the impact on investment is assessed as one of the metrics mentioned in the CfI.

The CBA must capture whole system impacts across multiple scenarios. It should reflect the current network build, accelerated network investment and different paths for renewable deployment and assess how constraint management measures under Reformed National Pricing interact with the operability and cost challenge. This should also include considerations of upcoming Strategic Plans (SSEP, CSNP etc) and their impact.

Reform Package Implementation Roadmap

29. ***To what extent do you agree with the proposed approach to developing the implementation roadmap, and what practical considerations should NESO take into account?***

    In your response, please comment on:

    - *Whether you agree with the overall approach to sequencing and phasing reforms, and whether any important elements are missing.*
    - *Practical insights on implementation timelines and organisational readiness, including internal lead times, required system changes, and interactions with other industry programmes.*
    - *Key dependencies and risks NESO should account for (e.g. digitalisation constraints, system readiness, regulatory interactions, potential bottlenecks across the current market change pipeline).*
    - *Transitional arrangements that may ease implementation, such as phased migration, shadow operation, or alternative access routes for smaller participants.*
    - *Any evidence or experience (e.g. data availability, expected operational impacts, lessons from previous programmes) that would materially improve the practicality or proportionality of the roadmap.*

SR supports a phased approach. This should be done in close collaboration with all delivery partners, market participants and other workstreams.

Implementation timescales for NESO system changes should be grounded in realistic benchmarks from recent NESO projects—for example, the OBP, which has been in development since 2021/22, and the Single Markets Platform, initiated in 2021.

We agree with the suggestion for other practical changes such as BM registration, as this will help deliver SR's supportive proposal of lowering the BM threshold.

Dispatch Reform

30. ***Objectives and Design Principles***
    What should be the primary objectives and guiding principles for investigating any future dispatch reform in the GB electricity market?

Please address:

- *How dispatch reform could improve system efficiency, transparency, and cost-effectiveness.*
- *The role of market signals versus centralised instructions in achieving these objectives.*
- *Key considerations for maintaining competition and liquidity under new dispatch arrangements.*

SR remains strongly opposed to any move towards more centralised dispatch models.

We support earlier action by NESO to manage constraints by optimising the current self-dispatch framework.

DESNZ has also concluded that central dispatch should not be taken forward. In the REMA Autumn 2024 update, DESNZ cited concerns relating to deliverability, investor confidence and value for money. NESO should explain how these concerns have been resolved or why they consider them no longer relevant. NESO should not revisit a model that the government has already discounted, and that does not address the fundamental policy drivers of the observed outcomes.

Redispatch volumes are primarily driven by a combination of demand uncertainty, the historic lack of coordinated long-term network development, and certain design features of the current pay-as-produced CfD framework. However, these issues are already being tackled through a wide set of reforms led by Ofgem, DESNZ and NESO. Initiatives such as the SSEP and CSNP, which introduce a more strategic and spatial approach to future network build, together with further measures expected through the DESNZ RNP Delivery Plan and other ongoing regulatory reforms, are directly targeting the underlying structural causes of redispatch. As these interventions take effect, the majority of the current drivers of redispatch volumes are expected to diminish, leaving only a more limited residual level of redispatch to be managed. This should then leave the expected residual balancing requirement once RNP reforms and planned network reinforcements have been delivered, including how this varies across different planning scenarios, for NESO to consider proportionate proposals.

The self-dispatch framework continues to offer the most efficient allocation of risk between the NESO and market participants, supporting the lowest cost outcomes for consumers. We agree that incremental improvements are needed, but these should build on, not replace, the strengths of the current framework.

SR supports earlier action by NESO to manage constraints under the current self-dispatch framework. NESO already has tools that allow early intervention within the existing self-dispatch model. Greater use of Schedule 7 trades at the day-ahead stage can support more efficient constraint management. NESO can also explore the potential for constraint management markets identified through the Constraint Collaboration Project. Using these tools could deliver many of NESO's objectives without the complexity and risk of wider dispatch reform. The Baringa net consumer benefit study conducted for NESO found +ve net consumer benefit through use of constraint management markets, as did a recent LCP Delta study – this alone is sufficient to explore the proposal further

Dispatch arrangements do far more than support balancing. They are a core part of the commercial framework that underpins generation investment. Dispatch arrangements determine a generator's ability to turn capacity into revenue and directly impacts volume risk and how predictable that risk is for investors. If a project cannot reliably generate, its revenue becomes uncertain. That uncertainty results in a higher cost of capital. REMA assessed these wider impacts and concluded that moving to

more centralised dispatch is not appropriate due to concerns about deliverability, investor confidence, and value for money. It also found that a move away from self-dispatch would create major complications for cross-border trading, given our obligations under the UK-EU Trade and Cooperation Agreement, as well as negotiations on alignment with EU markets.

The proposals to lower the Balancing Mechanism mandatory participation threshold and to introduce shorter settlement periods, combined with gate closure closer to delivery, will materially address the pertinent issues and deliver consumer value. The remaining aspect of the constraints-related incentive is more appropriately addressed through targeted measures rather than broader market-wide dispatch reforms.

We appreciate that pre-contracting ahead of Gate Closure can raise a concern about demonstrating value for money and whether there is sufficient liquidity for effective competition. If required, Ofgem could consider whether further powers, licence modifications or clearer reference level pricing are necessary to support these outcomes. NESO could explore accelerated pathfinder type projects for price discovery and development of measures.

Ofgem stated in its Response to the CMA's Provisional Findings (2015) that the wholesale electricity market did not exhibit significant market-power concerns and that the existing self-dispatch model was fit for purpose, with no clear advantages in alternative market designs. NESO should articulate what has changed since 2015 to justify reconsidering centralised models, given that the conditions identified at the time appear to remain valid.

The 2024 Frontier report ("Assessing the impacts of implementing central dispatch in GB") provides evidence that incremental reforms to the current arrangements can deliver the same outcomes as central dispatch. It shows that any apparent benefits attributed to central dispatch could be achieved equally well through targeted improvements to the existing system.

31. ***Market and Operational Impacts***
What impacts—positive or negative—could dispatch reform have on market participants and system operation?

Please comment on:

- *Dynamics and interactions between market participants and system operation, as illustrated in the diagrams.*
- *Effects on trading strategies, risk management, and portfolio optimisation.*
- *Implications for different participant types (generators, suppliers, aggregators, storage, DSOs, interconnectors).*
- *Potential interactions with other reforms (e.g., unit bidding, shorter SPs).*
- *Implementation and ongoing cost implications, including system upgrades, process changes, and operational readiness for participants.*

If the concern NESO seeks to address through reform to dispatch arrangements relates to BESS, there are more proportionate and targeted solutions that would be more appropriate than imposing universal, high-burden requirements on all participants.

32. ***Implementation Pathways and Risks***
What implementation pathways and risk mitigations should NESO consider for dispatch reform?

Please address:

- *Feasibility of phased or incremental approaches.*
- *Data, system, and governance requirements.*
- *Transitional arrangements to minimize disruption and ensure proportionality.*
- *Potential implementation timelines and associated costs, including required system changes and operational readiness.*

More generally, industry has had very limited opportunity to review or challenge the assumptions and methodologies used in the FTI analysis, which makes it difficult to fully assess the credibility of the conclusions. We would welcome communication from NESO to industry on the extent to which the FTI modelling is being considered, and open a forum / allow industry time to consider and provide feedback and challenge on this analysis. We appreciate that NESO conducts supporting analysis externally; however, in the absence of transparency and opportunity for industry to engage throughout this analysis, it brings into question the credibility of this modelling.

We recognise that NESO invited industry input at the end of 2024, but note that in December 2024 as part of their summary of responses NESO noted “We will continue to seek stakeholder input and provide updates to industry as this work progresses.” As above, we would welcome communications from NESO on this analysis and to what extent industry can feedback on conclusions, noting limited engagement with industry post 2024.

FTI’s assumption that offer uplifts apply under self-dispatch but not under central dispatch is likely to significantly overstate the benefits of central scheduling. The modelling provides limited transparency on how uplifts are derived, yet they appear to drive a large share of the estimated benefits. Additionally, in the analysis of the impact of central dispatch on interconnectors, the assumption of perfect information about interconnectors' day-ahead trades does not currently exist. If NESO modelling used interconnector trading with the same level of foresight in central dispatch as in self-dispatch, the benefits of central dispatch would be significantly reduced and worse for the market than self-dispatch. These asymmetric assumptions bias the comparison in favour of central scheduling and significantly undermine confidence in the robustness of the benefits case.

Schedule 7A of the Grid Trade Master Agreement (GTMA) allows NESO to take earlier actions and avoid having to take more costly actions via the BM.

In principle, we would support NESO taking earlier action to balance the system. SR has supported the introduction of constraint management markets in past engagement under the Review of Electricity Market Arrangements (REMA).

As noted in our cover letter, we advocate for a series of reforms to enhance the current system within the existing self-dispatch model. This framework remains the most effective way to allocate risk between the NESO and market participants, ensuring the lowest costs for consumers. While we recognise that incremental improvements are necessary, they should enhance the existing strengths rather than replace them. Reforms should be considered as part of a comprehensive package rather than in isolation. We support lowering the BM threshold and shorter SPs, however shorter SPs should be accompanied by moving gate closure forward. These reforms will deliver significant system benefits and can align with reforms being brought forward through the Reformed National Pricing workstream and with existing measures NESO and Ofgem have at their disposal.

33. ***On a scale of 1–5, do you agree that further dispatch reform on top of the proposed balancing reforms will be needed to meet the future operability and redispatch cost challenges described in Section 2.3 and Section 5?***
(1 = Strongly disagree; 5 = Strongly agree)

1