



Making a positive difference
for energy consumers

To: All interested stakeholders

Email: esoperformance@ofgem.gov.uk

Date: 10 February 2023

Dear colleagues,

Decision on Dynamic Regulation, Dynamic Moderation and Dynamic Containment in relation to an update to the Terms and Conditions related to Balancing

On 12 December 2022, we¹ received a proposal from the Electricity System Operator (“ESO”) to make amendments to the terms and conditions related to balancing (“T&C”) required by Article 18 of Commission Regulation (EU) 2017/2195 establishing a guideline on electricity balancing (“EBGL”),² as amended by the Electricity Network Codes and Guidelines (Markets and Trading) (Amendment) (EU Exit) Regulations 2019.³

The proposal relates to an update to the T&C to consolidate the separate terms and conditions applicable to each of the dynamic Frequency Containment Reserve (“FCR”) products — Dynamic Containment (“DC”), Dynamic Moderation (“DM”), and Dynamic Regulation (“DR”) — and to make some updates to those consolidated terms and conditions. This consolidation will produce a single set of Procurement Rules and Service Terms to replace existing documentation — Auction Rules, Service Terms, Testing Rules and Guidance Document — which currently apply to each of the dynamic FCR products.

This letter sets out our decision to approve that the consolidation of the provisions, with proposed amendments, form part of the T&C required by Article 18 of EBGL, replacing the previous documents that formed part of the T&C for each service independently from 1 April 2023.

Background

In accordance with Article 18 of the EBGL Regulation, the ESO was required to develop a proposal regarding the T&C for balancing service providers (“BSPs”) and balance responsible parties (“BRPs”). On 8 October 2019,⁴ we published our decision to confirm,

¹ The terms “we”, “us”, “our”, “Ofgem” and “the Authority” are used interchangeably in this document and refer to the Gas and Electricity Markets Authority. Ofgem is the office of the Authority.

² Commission Regulation (EU) 2017/2195 of 23 November 2017 establishing a guideline on electricity balancing (EBGL). EBGL came into force on 18 December 2018. Accessible at: <https://eur-lex.europa.eu/eli/reg/2017/2195/oj>

³ The UK SI amendment of the EBGL:

https://assets.publishing.service.gov.uk/media/5c17d6b440f0b60c8d601a2c/ENC_Markets_and_Trading_SI.pdf

⁴ Our 8 October 2019 decision is accessible at: <https://www.ofgem.gov.uk/publications/decision-transmission-system-operators-proposal-terms-and-conditions-related-balancing>

upon satisfaction of certain conditions, that the T&C proposed by the ESO are the T&C required by Article 18 of the EBGL Regulation. On 25 June 2020, all the necessary conditions were met, and the proposed T&C came into force in Great Britain ("GB").

The dynamic FCR products are opt-in services for BSPs to receive payment from the ESO for the provision of balancing capacity, and to deliver balancing energy, acting quickly to help maintain system frequency around the target value of 50Hz.

DC is a fast-acting, post-fault service designed to arrest frequency in large-loss, low-inertia scenarios, delivering energy proportional to the change in frequency within $\pm 0.5\text{Hz}$ of the target value in the event of a sudden demand or generation loss.⁵ The DC low frequency ("DCL") product went live in October 2020, followed by the launch of the DC high frequency service ("DCH") in October 2021.

DM and DR are pre-fault services wherein providers make automatic adjustments in generation (or demand). DR provides a constant power response across the operational frequency range, reaching full delivery at a $\pm 0.2\text{Hz}$ frequency deviation.⁶ DM responds between $\pm 0.1\text{Hz}$ and $\pm 0.2\text{Hz}$, providing additional power to stabilise frequency as it moves closer to operational limits.⁷ DM and DR were launched in March 2022.

We understand that all three dynamic FCR services will come to play an increasingly important role in ensuring system operability, bringing efficiency savings in procurement as they replace existing legacy services, such as Firm Frequency Response ("FFR") and Mandatory Frequency Response ("MFR").

The ESO first submitted its proposal to update the T&C to consolidate the terms and conditions for the three dynamic services on 12 December 2022, following a period of consultation on these changes which concluded on 28 October 2022.⁸ The ESO's consultation encompassed the proposed Service Terms, which describe the requirements for the provision of each of the services, and the Procurement Rules, which describe the eligibility rules for participation in the services. To aid with visibility of the T&C the ESO has also provided an updated mapping document.

Decision

We have reviewed the service documents (consisting of the Service Terms and Procurement Rules) proposed by the ESO to be recognised as part of the consolidated T&C and submitted to us in line with the requirements of the EBGL, the wider objectives of the Electricity Regulation, and our statutory duties and obligations. We have also engaged with the ESO to better understand its proposals in some areas, as well as the progress it has made towards the development of these services.

In addition to the consolidation of the separate terms and conditions into a single T&C, the proposal sets out the ESO's intention to:

⁵ More information on DC is accessible at: <https://www.nationalgrideso.com/industry-information/balancing-services/frequency-response-services/dynamic-containment>

⁶ More information on DR is accessible at: <https://www.nationalgrideso.com/industry-information/balancing-services/frequency-response-services/dynamic-regulation>

⁷ More information on DM is accessible at: <https://www.nationalgrideso.com/industry-information/balancing-services/Frequency-Response-Services/Dynamic-Moderation>

⁸ The ESO's consultation ran from 28 September to 28 October 2022. Details are available at: <https://www.nationalgrideso.com/calendar/ebg-article-18-response-consultation-terms-and-conditions>

- 1) reintroduce Grid Supply Point ("GSP") Group aggregation for DC;⁹
- 2) amend the performance monitoring grace period for switching between different contracts to 2s from 1s for DC and DM; and
- 3) move to K factor separation for delivery of "high" and "low" services.

In making our decision we have considered the responses to the consultation from industry stakeholders. Feedback was favourable towards the consolidation and the proposed changes to the documentation, although stakeholders sought further clarification regarding the treatment of performance monitoring grace periods and K factor separation for high and low services, including requesting updated tools to test the new approach. The ESO responded to these questions appropriately and made changes to the T&C to reflect stakeholder comments.

We note that the ESO has committed to provide an updated, comprehensive guidance document to support new and existing market participants and enhance understanding of state of energy management. We expect this to be shared prior to the service go-live.

The Authority welcomes the reintroduction of GSP Group aggregation for DC to align with the other two services as a positive step towards increasing the participation of small-scale assets and demand-side flexibility within ESO's balancing services.

In light of the above, we believe that the ESO's proposal meets the requirements of Article 18 of the EBGL Regulation. We therefore approve the proposed amendments to the provisions that form part of the T&C, effective from 1 April 2023.

Next Steps

We welcome the proposed changes to the documentation for the dynamic FCR products as a step forward in their development. Part of the ESO's drive behind this is to make access to relevant information easier for providers, which we support. Therefore, we encourage the ESO to publish the documents that make part of these T&C as soon as practical, including any associated guidance documentation. Our expectation is that the ESO gives providers sufficient view of new information ahead of updates starting, but with sufficient clarity about the T&C in place. There is, however, clear industry desire for further developments, and we urge the ESO to continue to work with industry to ensure that these services deliver greatest value.

We welcome the introduction by the ESO of an annual service development cycle for their frequency response services, which we expect to facilitate improved stakeholder engagement and experience in the lead up to product launch. We expect the ESO to continuously review the economic efficiency of their auctions for balancing services, to ensure that they are being procured at best value for consumers. We understand that the ESO is already progressing some efficiency improvements to this effect, and they should keep industry appraised of proposed changes.

Furthermore, the ESO should ensure that market participants receive the best possible information to support involvement in these markets, including the progress of work towards the lifting volume caps for these services.

⁹ A transitional arrangement was put in place for a period of 12 months starting from the go-live of the DC product where GSP Group aggregation of eligible assets to a Response Unit was permitted at GSP Group level. From October 2021, aggregation was limited to Eligible Assets at GSP level only.

We understand that the ESO has also made progress towards the development of non-standard baselining for assets without dedicated meters, which would reduce barriers to market entry, as well as an assessment of the efficiency of increasing ramp rate limits for participating providers beyond the current five percent requirement.

We will monitor the information provided to industry and the transparency of results from go-live of the new auction.

We expect the ESO to publish the new consolidated Service Terms and Procurement Guidelines, as well as an updated mapping of the T&C as soon as possible.

If you have any queries regarding the information contained in this letter, please contact James Hill (James.Hill@Ofgem.gov.uk).

Yours faithfully,

James Hill

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For and on behalf of the Gas and Electricity Markets Authority