

All interested parties,
stakeholders in GB and beyond,
and other regulatory bodies

Email: ESOperformance@ofgem.gov.uk

Date: 10 February 2023

Dear colleagues,

Decision on Static Firm Frequency Response in relation to an amendment to the Terms and Conditions relating to Balancing

On 12 December 2022 we¹ received a proposal from the Electricity System Operator ("ESO") to make amendments to the national terms and conditions related to balancing ("T&C") required by Article 18 of Commission Regulation (EU) 2017/2195 establishing a guideline on electricity balancing² ("the EBGL Regulation"), as amended by the Electricity Network Codes and Guidelines (Markets and Trading) (Amendment) (EU Exit) Regulations 2019.³

The ESO has proposed to remove the procurement of Static Firm Frequency Response ("SFFR") from the existing Firm Frequency Response ("FFR") Standard Contract Terms ("SCTs") and to procure this product under a new framework. To aid with the proposal, the ESO has submitted an updated mapping document linking specific provisions of the new SFFR procurement terms to the T&C. The ESO submitted the new SFFR SCTs for our review, as well as the updated FFR SCTs following the removal of SFFR.

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. The EBGL Regulation came into force on 18 December 2017. Accessible at <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32017R2195>

³ The UK SI amendment of the EBGL Regulation is accessible at: https://assets.publishing.service.gov.uk/media/5c17d6b440f0b60c8d601a2c/ENC_Markets_and_Trading_SI.pdf

This letter sets out our decision to confirm that the new SFFR service conditions, as mapped by the ESO, form part of the T&C pursuant to Article 18 of the EBGL Regulation.

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, on 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 necessary conditions were met and the proposed T&C came into force in GB.

FFR, consisting of Dynamic FFR and SFFR, is a frequency response product for buying primary, secondary and high response.⁵ Prior to the ESO's request to procure SFFR under a new framework, SFFR was procured at the month-ahead stage. We note that under the new procurement terms SFFR will be procured at the day-ahead stage. The existing service terms for FFR remain fundamentally unchanged except for the removal of SFFR procurement from this framework and the relevant administrative changes this required.

We note that another frequency response product procured by the ESO, Dynamic Containment Low ("DC-L"), uses outturn volumes from SFFR auctions as input in its auctions. We understand that the ESO intends to run the day-ahead SFFR auctions prior to the DC-L day-ahead auctions to avoid any inefficiencies in the market. The timings of these markets will allow potential providers to participate in the SFFR market and also participate in the later dynamic response markets. We expect the ESO to review the timings of the SFFR auction in order to ensure no inefficiencies do arise from the timing of the SFFR auction.

As the new procurement framework for SFFR pre-determines the price of balancing energy at £0/MWh, in conjunction with this proposal, the ESO submitted a request for derogation from the provisions of Article 6(2) of Regulation (EU) 2019/943 (the "Electricity Regulation"),⁶ as amended by The Electricity and Gas (Internal Markets and Network Codes) (Amendment etc.) (EU Exit) Regulations 2020.⁷ We approved this request on 10 February 2023 and the ESO mapped it onto the T&C as required.

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

⁵ More detail on ESO's FFR services can be accessed here: <https://www.nationalgrideso.com/industry-information/balancing-services/frequency-response-services/firm-frequency-response-ffr>

⁶ Regulation (EU) 2019/943 of the European Parliament and of the Council of 5 June 2019 on the internal market for electricity, available here: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32019R0943>

⁷ The UK SI amendment of the Electricity Regulation is UK SI 2020 No. 1006 which can be found at: <https://www.legislation.gov.uk/ukSI/2020/1006/introduction/made>

The proposal for amending the T&C to remove SFFR from the existing FFR SCTs and procure SFFR under a new framework was consulted on by the ESO from 28 September 2022 to 28 October 2022,⁸ in line with the requirements of the EBGL Regulation. This consultation included the changes to the original FFR service terms as well as introducing the new SFFR service terms.

Decision

We have reviewed the SFFR service terms proposed by the ESO to be recognised as part of the T&C in line with the requirements of the EBGL Regulation, the wider objectives of the Electricity Regulation, and our statutory duties and obligations. Furthermore, we engaged with the ESO to better understand its proposals and considered the responses to the consultation undertaken by the ESO. We also reviewed the changes to the original FFR service terms as part of this review.

We are pleased to see the ESO bringing legacy products in-line with the requirements of the relevant legislation, and believe this is beneficial to market parties and for end consumers. We also note that stakeholder responses to the ESO's consultation were favourable to the proposed changes to SFFR.

In light of the above, we have determined that the ESO's proposal meets the requirements of the EBGL Regulation. We therefore approve the new SFFR service terms to form part of the T&C. In doing so, we also approve the amendments to the original FFR service terms.

Next Steps

We expect the ESO to publish the new SFFR service terms and the amended FFR service terms, as well as an updated Article 18 mapping document.

We understand that the ESO intends to begin procuring SFFR under the new service terms from 31 March 2023 (for first delivery on 1 April 2023). We expect the ESO to be clear if there are any delays to this date, and for them to provide high-quality communication to ensure clarity for market participants as to the applicable service terms for FFR products.

If you have any questions about the information contained within this letter, please contact Chris Statham (Christopher.statham@ofgem.gov.uk).

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-firm-frequency-response-ffr-terms-and-conditions>

Yours sincerely,

James Hill

Senior Policy Manager - Electricity System Operation

For and on behalf of the Gas and Electricity Markets Authority