



Making a positive difference  
for energy consumers

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CC: EMR Delivery Body, all other interested  
stakeholders

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Date: 14 April 2023

Dear colleagues,

## **Decision on revisions proposed by Capacity Market Delivery Body to Relevant Balancing Services Guidelines**

The Electricity System Operator ("ESO") in their role as the Delivery Body ("DB"),<sup>1</sup> consulted on changes to the Relevant Balancing Services ("RBS") Guidelines between 2 February 2023 and 2 March 2023.<sup>2</sup> We<sup>3</sup> received a report from the DB on 9 March 2023 following their consultation, in line with the requirements set out in Schedule 4 of the Capacity Market ("CM") rules. Their submission to us<sup>4</sup> included a version of the RBS Guidelines document indicating the final proposed changes.<sup>5</sup>

An Ofgem decision on 5 July 2021 changed the CM Rules,<sup>6</sup> removing the list of RBS and the Non-Balancing Mechanism Adjustment Formulae definitions for "Contracted\_Output" and

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<sup>1</sup> The DB refers to the national system operator, as defined in The Electricity Capacity Regulations 2014. See <https://www.legislation.gov.uk/ukxi/2014/2043/part/1>

<sup>2</sup> The full consultation can be found at: [https://www.emrdeliverybody.com/Capacity%20Markets%20Document%20Library/Relevant%20Balancing%20Services%20Guidelines\\_%20For%20Official%20Consultation%202023.pdf](https://www.emrdeliverybody.com/Capacity%20Markets%20Document%20Library/Relevant%20Balancing%20Services%20Guidelines_%20For%20Official%20Consultation%202023.pdf)

<sup>3</sup> The terms "we", "us", "our", "Ofgem" and "the Authority" are used interchangeably throughout this document, referring to the Gas and Electricity Markets Authority. Ofgem is the Office of the Authority.

<sup>4</sup> The DB's report, including responses to the consultation can be found at: [https://www.emrdeliverybody.com/Capacity%20Markets%20Document%20Library/RBS%20Guidelines%20Report%20to%20Authority%20\\_March%202023.pdf](https://www.emrdeliverybody.com/Capacity%20Markets%20Document%20Library/RBS%20Guidelines%20Report%20to%20Authority%20_March%202023.pdf)

<sup>5</sup> The tracked changes for the RBS Guidelines document can be found at: <https://www.emrdeliverybody.com/Capacity%20Markets%20Document%20Library/Relevant%20Balancing%20Services%20Guidelines%20v2.0%20effective%20from%2013%20April%202023%20-%20tracked%20changes%20for%20report.pdf>

<sup>6</sup> Our 5 July 2021 decision can be found here: <https://www.ofgem.gov.uk/publications/decision-amendments-capacity-market-rules>

“Declared\_Availability” from Schedule 4. These elements are now published in a separate document, the RBS Guidelines. Responsibility for maintaining and publishing the RBS Guidelines rests with the DB.

This letter sets out the decision by the Authority to approve the changes to the RBS Guidelines proposed by the DB and the steps that must be taken.

## **Background**

The Capacity Market is designed to ensure that there is sufficient reliable capacity available to cope with severe system stress, reinforcing long term security of electricity supply. During a System Stress Event, a Capacity Provider must deliver the Adjusted Load Following Capacity Obligation (“ALFCO”) of its Capacity Committed Capacity Market Unit (“CMU”). ALFCO is calculated using the formula set out under clause 8.5.2 of the CM Rules.<sup>7</sup> The Load Following Capacity Obligation of that Capacity Committed CMU in a Settlement Period must be reduced to account for the aggregate provision and successful delivery by each Generating Unit or an Interconnector CMU (in its capacity as a BM Unit) of Balancing Services to the System Operator as set out under rule 8.5.4 of the CM Rules. Therefore, RBS which are eligible for an adjustment if there is a System Stress Event must be defined.

Previously, the list of RBS which are to be considered within the ALFCO was defined under Schedule 4 of the CM Rules. With the RBS Guidelines now a separate document, the Delivery Body can conduct reviews of them without having to consult on the entire CM Rules. In accordance with Schedule 4 of the Capacity Market rules, the DB has conducted a review of the RBS Guidelines. The focus for this review is:

- addition of a new service to the list of RBS, the Local Constraint Market (“LCM”);<sup>8</sup>
- addition of an existing service to the list of RBS, the Constraint Management Intertrip Service (“CMIS”);<sup>9</sup>
- removal of Frequency Control by Demand Management;
- version control and minor housekeeping changes;
- amendments to existing RBS (Short Term Operating Reserve (“STOR”) and Firm Frequency Response); and
- addition of LCM to the Non-BM Adjustment Formulae.

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<sup>7</sup> The full Capacity Market rules can be found at:

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/1098848/capacity-market-rules-informal-consolidated-version-august-2022.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1098848/capacity-market-rules-informal-consolidated-version-august-2022.pdf)

<sup>8</sup> Further details on the ESO’s LCM can be found at: <https://www.nationalgrideso.com/industry-information/balancing-services/local-constraint-market>

<sup>9</sup> Further information on CMIS (previously named Constraint Management Pathfinder) can be found here: <https://www.nationalgrideso.com/industry-information/balancing-services/pathfinders/noa-constraint-management-pathfinder#EC5-Constraint-Management-Intertrip-Service>

The DB originally also proposed to include Balancing Reserve ("BR") to the RBS Guidelines. The Authority rejected<sup>10</sup> the ESO's proposal to have BR Service Terms and BR Procurement Rules form part of the terms and conditions related to balancing pursuant to Article 18 of the Electricity Balancing Guidelines Regulation.<sup>11,12</sup> Therefore, this element of the RBS Guidelines review was removed from the DB's final proposal. For clarity, if there are future developments resulting in the introduction of this service, the DB would be required to reconsult on its inclusion as a relevant balancing service should they still identify that as appropriate. The exclusion of BR in their final report to us is the only major difference from the proforma sent to stakeholders for consultation.

### **Decision rationale**

In making our decision, we assessed the DB's submission of proposed changes to the RBS Guidelines against the requirements under Schedule 4 of the CM Rules, as well as in line with our statutory duties. We considered stakeholder feedback where relevant and engaged with the ESO to further understand these proposals.

### **Stakeholder responses**

Stakeholders responded positively to the proposed changes. We note that some stakeholder feedback became centred on the inclusion of Balancing Reserve in the RBS Guidelines, but we have not considered this in our assessment as the service was rejected by the Authority following the RBS Guidelines consultation and the DB therefore did not include those proposals in its final submission to us.

Two responses focussed on interconnectors, raising concerns that the RBS Guidelines did not include any services provided by interconnectors to the ESO. The DB highlighted rule 8.5.1(ba) is an exemption for interconnectors from the requirement of a Capacity Provider to deliver their ALFCO during a Capacity Market Stress Event *"in any Settlement Period during which the CMU is affected by a measure taken by the System Operator which has the effect of reducing the Net Output of that CMU to an amount lower than the Interconnector Scheduled Transfer"*.

Both responses which included remarks about interconnectors indicated that they would prefer specific interconnector services to be included as RBS. We note that the DB stated in

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<sup>10</sup> Our 8 March decision can be found at: <https://www.ofgem.gov.uk/publications/decision-reject-amendment-terms-and-conditions-related-balancing-relation-proposed-balancing-reserve-service>

<sup>11</sup> The Electricity Balancing Guidelines Regulation is EU 2017/2195 and can be accessed at: <https://www.legislation.gov.uk/eur/2017/2195>

<sup>12</sup> The Electricity Balancing Guidelines is adopted into UK Law by SI 2019 No. 532 which can be accessed at: <https://www.legislation.gov.uk/uksi/2019/532/contents/made>

their reply to consultation responses that, under the current drafting of the CM Rules, adding these services to the RBS list would not impact the calculation performed in 8.5.2(a).

The Authority agrees with the DB that any requests to change the CM Rules are outside the scope of the RBSG review process. As such, the Authority notes this stakeholder feedback and will consider whether the CM Rules need further clarity. We would expect the DB to revisit this issue if it later proves appropriate. The Authority is aware of the ongoing concerns raised by Interconnectors on this<sup>13</sup> and encourages stakeholders to propose an adjustment to the CM Rules through the Capacity Market Advisory Group<sup>14</sup> if they believe a change is required.

None of the stakeholders who responded to the consultation objected to any of the proposed changes.

### Key changes to the RBS Guidelines

#### *RBS list*

The Authority considers that the proposed changes to the list of RBS supports the economic efficiency of the system and is in the interest of consumers by supporting a functional CM.

The LCM is designed as an interim solution to help manage high and rising costs at the England / Scotland boundary and gives the ESO a potentially cheaper option to manage this boundary. Another service introduced by the ESO to help manage costs over this boundary is the CMIS. Adding these services to the RBS list will facilitate them as constraint management options, providing generators within the schemes with the assurance that being activate in them during a CM Stress Event would not cause a default against their CM obligations.

As Frequency Control by Demand Management is no longer procured by the ESO, we agree with its removal from the RBS Guidelines, aiding clarity.

We agree that the housekeeping changes proposed by the DB help to keep the RBS Guidelines clear and relevant.

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<sup>13</sup> We note that stakeholders have raised this issue in the past. See:

<https://www.ofgem.gov.uk/sites/default/files/2021-07/Decision%20on%20Amendments%20to%20the%20Capacity%20Market%20Rules.pdf>

<sup>14</sup> Details on this process can be found at: <https://www.ofgem.gov.uk/sites/default/files/2022-05/Guidance%20-%20The%20Change%20Process%20for%20the%20Capacity%20Market%20Rules.pdf>

## *Non-BM Adjustment Formulae*

The DB has proposed to add LCM to the list of RBS and has provided the relevant definitions for "Declared\_Availability" and "Contracted\_Output". Both definitions have also been updated for STOR and Firm Frequency Response. We consider these to be minor changes which clarify the definitions for some elements of the formulae.<sup>15</sup>

There was no stakeholder feedback against this aspect of the proposed changes to the RBS Guidelines. The Authority agrees with the proposed changes as they update and clarify this part of the RBS Guidelines.

### **Authority decision and next steps**

In line with our powers, and having consulted with the relevant parties, as laid out in Schedule 4 of the CM Rules, we hereby:

- approve these changes to the Relevant Balancing Services Guidelines.

The DB should publish this updated version of the RBS Guidelines within 7 working days of this decision, with changes live from the date of publication of the revised version. The DB should continue to consult on the services which are to be classed as RBS at an appropriate frequency or as ESO's procurement of services changes, in line with the process set out in Schedule 4 of the CM Rules, keeping the RBS Guidelines a relevant document that aids transparency and efficiency of markets.

Yours sincerely,

**James Hill**

**Senior Policy Manager – Electricity System Operation**

*For and on behalf of the Gas and Electricity Markets Authority*

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<sup>15</sup> For example, under "Contracted\_Output" for STOR, the figure for "Rsj" is now located in Schedule 2 'Energy Utilisation Payment' of the STOR Service Terms.