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CC: EMR Delivery Body, all other interested
stakeholders

Email: ESOPerformance@ofgem.gov.uk

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Dear colleagues,

**Decision on revisions proposed by Capacity Market Delivery Body to Relevant
Balancing Services Guidelines for 2024/25**

The Electricity System Operator ("ESO") in their role as the Delivery Body ("DB"),¹ consulted on changes to the Relevant Balancing Services ("RBS") Guidelines between 17 January 2024 and 14 February 2024.² We³ received a report from the DB on 23 February 2024 following their consultation, in line with the requirements set out in Schedule 4 of the Capacity Market ("CM") rules. Their submission to us⁴ included a version of the RBS Guidelines document indicating the final proposed changes.⁵

¹ 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>

² The full consultation can be found at: <https://www.emrdeliverybody.com/CM/Guidance.aspx>

³ 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.

⁴ The DB's report to us can be found at: <https://www.emrdeliverybody.com/Capacity%20Markets%20Document%20Library/RBS%20Guidelines%20Report%20to%20Authority%202024.pdf>

⁵ The tracked changes for the RBSG can be found at: <https://www.emrdeliverybody.com/Capacity%20Markets%20Document%20Library/Relevant%20Balancing%20Services%20Guidelines%20v3.0%20draft%20with%20tracked%20changes.pdf>

An Ofgem decision on 5 July 2021 changed the CM Rules,⁶ removing the list of RBS and the Non-Balancing Mechanism Adjustment Formulae definitions for “Contracted_Output” and “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.⁷ 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 of this review was:

- addition of the new Balancing Reserve (“BR”) service to the list of RBS;
- addition of the upcoming Quick Reserve (“QR”) service to the list of RBS; and
- general housekeeping and version control.

Authority decision and 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

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

⁷ The full Capacity Market rules can be found at: <https://www.gov.uk/government/publications/capacity-market-rules>

with our statutory duties. We considered stakeholder feedback where relevant and engaged with the ESO to further understand these proposals.

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 the changes to the RBS Guidelines brought forward by the DB.

We consider that the addition of BR to the list of Relevant Balancing Services is an appropriate inclusion. It brings clarity to participants that they are not subject to a penalty if called upon for a CM stress event.

We also consider that the DB's forward thinking to include QR is sensible and pragmatic. Its inclusion reinforces the ESO's intention to introduce QR this year. To be clear, QR is not live at the time of writing, and therefore its use as a service within the RBS Guidelines is subject to the Authority's regulatory decision of the product following its submission by ESO. Our decision to allow inclusion of QR as a Relevant Balancing Service is independent with respect to the Authority's decision of the service itself which will be assessed once the ESO has submitted its report against Article 18 of the Electricity Balancing Guidelines, due summer of 2024.

However, providing clarity to industry in relation to penalties around CM stress events is beneficial prior to the launch of this product, and we are on board with the decision to provide clarity before the launch of the QR product. We are satisfied that our decision does not introduce any inefficiency in the operation of the CM or CM Rules – prior to the launch of QR, no provider could have received an instruction to deliver QR and hence the calculations are unaffected and expected CM participant behaviour remains clear. Based on our understanding of the service, QR is the type of service which should be included as an RBS – should the ESO's intention for the service change, the ESO should seek to reevaluate its appropriateness for inclusion in the RBS Guidelines as soon as possible.

Finally, the housekeeping updates proposed will keep the RBSG relevant and up to date.

Stakeholder responses

There were no stakeholder responses to the formal consultation however we note that the early consultation which asked for feedback on the proposed changes including the additional services, received four responses. We note the informal consultation is a voluntary practice by the ESO which intends to engage industry ahead of the formal consultation procedure. Accordingly, we expect that responders to the informal consultation would communicate any developments in their views at the formal consultation. On that basis, we consider that sentiment had not changed between the early consultation and the

formal consultation, hence lack of formal responses. As such, we have assessed the four responses to the early consultation⁸ against the final report submitted to us.

Responses to the informal consultation unanimously supported the changes proposed by the DB.

Next steps

The DB should publish the updated version of the RBSG within seven 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. Any review should keep the RBS Guidelines a relevant document that aids transparency and efficiency of markets.

Yours sincerely,

James Hill

Principal Policy Expert – Electricity System Operation

⁸ The ESO ran an early/informal consultation between 8 December 2023 and 5 January 2024, available at: <https://www.emrdeliverybody.com/Capacity%20Markets%20Document%20Library/Annual%20C16%20and%20RBS%20Informal%20Consultation%202024-2025.pdf>