

To: All interested stakeholders

Email: ESOperformance@ofgem.gov.uk

Date: 08 March 2024

Dear colleagues,

Decision to accept the Electricity System Operator's proposed amendment to the Terms and Conditions related to Balancing in relation to frequency response services.

On 17 January 2024, we¹ received a resubmitted 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 'New Response Services Service Terms' ("Service Terms") which forms part of the T&C for each of the dynamic Frequency Containment Reserve ("FCR") products – Dynamic Containment ("DC"), Dynamic Moderation ("DM") and Dynamic Regulation ("DR").

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

This letter sets out our decision to approve that the Service Terms forms part of the T&C required by Article 18 of EBGL, replacing any previous versions of this document that formed part of the T&C for each service effective immediately.

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, 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. 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. 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. DM and DR were launched in March 2022.⁵

The ESO first submitted its proposal to update the T&C for the three dynamic services on 22 September 2023 ("first submission"), following a period of consultation on these changes which concluded on 31 July 2023.⁶ On 22 November 2023, we rejected this submission due to errors with references in the mapping document and a lack of clarity

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

⁵ More information on DC, DM and DR is accessible at: <https://www.nationalgrideso.com/industry-information/balancing-services/frequency-response-services/new-dynamic-services-dcdmdr>

⁶ The ESOs consultation can be found at: <https://www.nationalgrideso.com/calendar/abr-article-18-consultation-response-release-2#:~:text=The%20consultation%20is%20open%20from,14%20June%20to%2014%20July>.

over the T&C.⁷ For clarity, we were generally supportive of the proposed changes to the design for the dynamic FCR products as a step forward in their development.

The ESO's consultation highlighted the changes to the proposed Service Terms, which describe the requirements for the provision of each of the services. To aid with the visibility of the T&C the ESO has also provided an updated mapping document.

The key changes that the ESO proposed to update to various sections of the Service Terms are:

- Amending text on baseline ramp rate control
- Reducing barriers for data derived metering
- Improving clarity on state of energy and availability
- Introducing connection indicators
- Updates to grace periods
- Updates to the re-arming/disarming process
- Introducing a de-registration clause

Decision rationale

We have reviewed the Service Terms proposed by the ESO to be part of the T&C and submitted to us in line with the requirements of the EBGL Regulation, 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 making our decision, we have considered the responses to the consultation from industry stakeholders. The responses from industry were generally favourable of the changes that the ESO proposed. The ESO responded to questions raised by respondents appropriately and held 1 to 1s where this added further benefit. Where the industry made suggestions or disagreed with proposals, the ESO took these on board, making amendments or removing sections.

For example, some respondents highlighted that the introduction of heartbeat submissions for Balancing Mechanism Units ("BMUs") would bring little benefit for the additional burden it added. This is due to ESO already having the information from BMUs required via their EDL connection. The ESO has since removed this addition from the Service Terms. Furthermore, the ESO has improved the wording in sections of the Service Terms following

⁷ Our rejection letter can be found at: <https://www.ofgem.gov.uk/sites/default/files/2023-11/Decision%20to%20reject%20the%20ESOs%20updates%20to%20T%26Cs%20related%20to%20balancing%20for%20frequency%20response%20services.pdf>

suggestions from respondents. This includes paragraph 5, where the ESO made changes to clause 5.2 of the Service Terms, bringing improved clarity on the state of energy management and availability.

We are content that the ESO has addressed the issues we noted in our rejection letter and that the referencing to the mapping document is now correct. Now that the ESO's submission clearly shows which elements of the Service Terms form parts of the T&C, we are satisfied that they have delivered clarity to industry.

Our decision

Considering our rationale above, we conclude 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.

Next steps

We welcome the proposed changes to the documentation for the dynamic FCR products as a step forward in their development. We acknowledge that the ESO have highlighted a few reviews that they are currently undertaking which aim to address some outstanding points raised by respondents. They have also committed to updating the current New Dynamic Response Services Guidance ("Guidance").⁸

This includes the ESO's ongoing review on ramp rates, where the ESO is aiming to gain a more holistic view on ramp rate restrictions. The ESO have added some flexibility to the Service Terms on ramp rates, highlighting that they can increase the maximum ramp rate for baselines from time to time. We expect that if the ESO decide to change the maximum ramp rate for baselines with the EBGL process, they must engage with industry and give a sufficient notice period. We expect that if this occurs the ESO will update their Guidance to reflect any changes.

The ESO also added text to the Service Terms noting that providers who persistently or materially breach their obligations would be de-registered. As a result, we anticipate that the ESO would engage with any provider who could be in breach and provide warnings where appropriate prior to de-registering. We're aware that this commitment has been shared in the published Guidance.

The ESO are also reviewing several other improvements to these services such as deadband preventing synchronous plants from participating in DR, aligning metering standards across all balancing services and introducing data derived metering. We trust

⁸ New Dynamic Response Services Guidance - <https://www.nationalgrideso.com/document/276606/download>

that the ESO will present any relevant findings from these reviews and make any necessary changes to the Service Terms as a result.

We encourage the ESO to publish the revised documents consulted on as soon as practical, including any associated guidance documentation.

If you have any queries regarding the information contained in this letter, please contact Matthew Fovargue (matthew.fovargue@ofgem.gov.uk)

Yours faithfully,

Luke McCartney

Senior Policy Lead – Electricity System Operator Regulation

For and on behalf of the Gas and Electricity Markets Authority