

Penny Garner / Company Secretary
National Energy System Operator
Faraday House
Gallows Hill
Warwick
CV34 6DA

Email: NESORegulation@ofgem.gov.uk

Date: 28 March 2025

Dear colleagues,

Decision to not use our powers of Direction in relation to NESO's annual review of the statements outlined in Condition C9

In accordance with Part H of Condition C9 of its Electricity System Operator Licence, National Energy System Operator ("NESO") has conducted a review of the five statements set out within that Condition. The Condition C9 licence Statements are:

- Procurement Guidelines Statement ("PGS");
- Applicable Balancing Services Volume Data Methodology Statement ("ABSVD");
- Balancing Principles Statement ("BPS");
- System Management Action Flagging Methodology Statement ("SMAF");
- Balancing Services Adjustment Data Methodology Statement ("BSAD").

NESO are proposing updates to all five statements, but the key changes proposed to these documents include:

- Amendment of the ABSVD statement to align with the Balancing Settlement Code
- Updates to the BPS, reflecting new licence obligations under Condition C9.8
- Updates to nomenclature to reflect transition to NESO, including changes from "C16" to "C9", the "ESO" to "NESO" and updates to reflect the licence transition from NGESO's Electricity Transmission licence to NESO's Independent System Operator and Planner licence
- Updates to various services, reflecting current procurement plans
- Housekeeping updates

The Authority's decision

Our decision is to not use our powers of Direction under condition C9.24 for any of the proposed revisions NESO has submitted.

In assessing the proposed revisions submitted by NESO, we considered the positions shared by industry respondents during the [formal consultation](#) conducted by NESO between 24 January and 21 February 2025, as well as NESO's replies to this consultation feedback. We have summarised our conclusions below.

1. Revisions to the PGS

We agree that the changes proposed by NESO to the PGS improve clarity and correctly update the relevant sections of text to reflect the present reality.

We note that NESO has Response Avoidance to the list of Commercial Ancillary Services they expect to procure going forwards. We understand that inclusion of this service in the PGS was suggested as part of the accompanying statement under Condition C9.22 of the Balancing Services Annual Report. We welcome NESO using that process to identify areas where it can add clarity to the forward-looking Condition C9 statements.

We note that one respondent raised feedback on the service design for Quick Reserve and Demand Flexibility Service. We agree with NESO that this is out of scope for this Condition C9 consultation. NESO have directed the respondent to get in touch through relevant channels and have committed to addressing this feedback in the appropriate forum.

2. Revisions to the ABSVD

We consider NESO's proposed changes to the ABSVD are appropriate. However, we do not think that the updates to the "BM ABSVD Applied" table results in enough clarity for industry, especially given the specificity of BM unit data to be submitted by NESO is being considered by [Balancing and Settlement Code Issue Group 114](#). Though we understand that the proposed drafting now reflects the practice NESO employs, we think there could be value in providing further clarity, such as by explicitly stating which Unit Types ABSVD applies to.

Furthermore, we expect NESO to continue to use engagement with Issue Group 114 to ensure that the best enduring approach is in place for application of ABSVD, and that all documentation aligns with the correct process on whether to adjust Suppliers' positions for BM Unit ABSVD submitted against Secondary BM Units. Once the Balancing and Settlement Code process has been clearly defined, NESO should consult on changes to align the ABSVD statement with the clarified BSC process if necessary.

3. Revisions to the BPS

We support the changes put forward by NESO in relation to the BPS. However, we consider that NESO should further demonstrate how the principles within the BPS have been consistent with NESO's statutory duties in accordance with Condition C9.8. We note that NESO have stated through a consultation response that this proposal is an initial update, and they will continue to refine the BPS to provide greater clarity to industry during subsequent reviews. We expect that NESO will have conducted a full and thorough review of the BPS by the next annual update to C9 statements, ensuring that the statement explains how it meets the obligations outlined under Condition C9.8.

4. Revisions to the SMAF

We consider that the changes proposed to the SMAF bring clarity and relevance to the statement. This includes the housekeeping updates to amend dates, web links and references, as well as the changes to the content itself.

5. Revisions to the BSAD

We consider that the changes proposed to the BSAD bring clarity and relevance to the statement. This includes the housekeeping updates to amend dates, web links and references, as well as the changes to the content itself.

Next steps

As stated in the report to the Authority, NESO's proposed changes are due to go live on 1 April 2025. We expect NESO to follow the outlined methodologies effective from that date.

Going forwards, we expect NESO to continue reviewing and updating the Condition C9 statements as required under its licence obligations to ensure clarity and transparency for market participants. This includes NESO's commitment to develop the BPS using further engagement with industry to ensure the principles are consistent with NESO's statutory duties under Condition C9.8.

If you have any questions or feedback on the contents of this letter, please contact the NESO Regulation team (NESORegulation@ofgem.gov.uk) in the first instance.

Yours sincerely,

James Hill

Principal Policy Expert – Electricity System Operation