

To: All interested parties

Email: James.Hill@ofgem.gov.uk

Date: 20 May 2025

Dear colleagues,

Decision to approve revision of NESO's GB Pricing Methodology

On 20 May 2022, we¹ issued a [decision to approve](#) the [GB Pricing Methodology](#) ("PM") in accordance with Article 6(4) of [Regulation \(EU\) 2019/943](#), as amended by [The Electricity and Gas \(Internal Markets and Network Codes\) \(Amendment etc.\) \(EU Exit\) Regulations 2020](#) (the "Electricity Regulation").

Paragraph 4.3 of the current PM requires National Energy System Operator ("NESO") to conduct a review of the PM at least every 3 years. NESO conducted such a review and submitted to the Authority on 22 April 2025 for approval of the outcome of its review. NESO's review indicated that the current PM is still fit for purpose and proposed minor amendments to ensure continued relevance and accuracy.

This letter sets out our decision to approve the outcome of the review of the PM by NESO and outlines the necessary next steps.

Background

The PM was developed pursuant to and approved by the Authority under Article 6(4) of the Electricity Regulation, which states that "the settlement of balancing energy for standard balancing products and specific balancing products shall be based on marginal pricing (pay-as-cleared)".²

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 Standard products are products which are uniform across the EU trading area. Specific products are locally defined and locally activated, defined for GB as being "different to Standard Products".

Following the UK's exit from the European Union, amendments³ to the [Electricity Balancing Guideline](#) ("EBGL") legislation mean that all GB balancing products are now deemed to be specific, being "different from standard products". As such, under the retained legislation all GB balancing products would have to use marginal pricing for settlement of balancing energy, unless subject to an assessment under the PM that indicates an alternative pricing mechanism would be preferable or where the Authority provides derogations from the requirement of Article 6(4) of the Electricity Regulation.

The intention of the current PM is to provide for an ongoing and transparent methodology for the pricing mechanism used for the settlement of balancing energy for all in-scope balancing products. In addition, this avoids substantial work in NESO seeking a series of specific derogations from the requirements at Article 6(4) or undertaking product redesign, without reducing transparency or accountability. Without the PM in place, NESO would need to seek derogations from the Authority under Article 6(14) of the Electricity Regulation in order to settle balancing energy on any basis other than marginal pricing. To request a derogation from this requirement, NESO would need to provide analysis of why marginal pricing is less efficient than the proposed settlement approach and include the information required under Article 6(14) of the Electricity Regulation – the PM includes the same informational requirements within the assessment proforma. The PM includes a requirement that it is to be reviewed every 3 years to ensure it remains fit for purpose.⁴

NESO has conducted a review of the PM and submitted proposed amendments to us in accordance with paragraph 4.3 of the current PM. NESO consulted on its review of the PM between 21 March 2025 and 4 April 2025.

The main changes proposed by NESO are:

1. Housekeeping changes
2. Changes to product classification terminology
3. Amendments to product list
4. Separating the assessment process for first time assessment of new products and ongoing reassessment of existing products.

³ For further information on the EBGL amendments refer to our previous [decision letter](#). The UK SI amendment of the EBGL is UK SI 2019 No. 532 which can be found at: <https://www.legislation.gov.uk/ukSI/2019/532/contents/made>

⁴ NESO should keep Appendix B to the Methodology, "Product List", up to date at all times, for example by adding in any new products which are introduced between PM reviews, or updating the dates of next product review, as relevant.

Decision rationale

We have reviewed NESO's submission following review of the GB PM against the requirements of the EBGL (as amended in UK law), the Electricity Regulation and our statutory duties and obligations. We have also engaged with NESO to better understand their review of the PM. When assessing NESO's review, we considered whether the PM can provide, in accordance with Article 6(4), "analysis demonstrating that an alternative pricing method is more efficient" than settlement based on marginal pricing (pay-as-cleared).

The PM enables NESO to be compliant with Article 6(4) under the retained Electricity Regulation. The PM avoids the need for NESO to seek multiple derogations, which would be time consuming and less transparent to industry, or for NESO to undertake redesign of products to achieve compliance with marginal pricing requirements. NESO further contends that redesign of products which are due to be phased out would be inefficient, with time and investment better focussed on new and enduring products and hence has not proposed to review the pricing of products which are due to be phased out. We agree that this approach will be in the best interest of consumers as, not only will this ensure the most efficient pricing mechanism is in place for each product, it will also allow NESO to focus on the continued development of enduring products. These services are necessary to achieve economical operation of the Net Zero electricity system and therefore delays in their development would be detrimental.

In making our decision, we also took into consideration the engagement with, and the response to consultation (coming from one industry stakeholder). This response to the consultation was positive, supporting the review of the PM.

NESO has proposed housekeeping changes to keep the document up to date, such as updating references of "ESO" to "NESO", and "PP"⁵ to "PM". We agree with the house keeping changes that NESO have made and believe this is the correct approach, ensuring the document remains clear and relevant.

NESO also proposed changing the naming convention of product names for continued relevance. They proposed changing the classifications from "legacy" and "new" products to "enduring" and "phased/phasing out" products.⁶ We agree with NESO's proposal to change the naming convention of the services within Appendix B ("Product List") of the PM. We consider that this adds clarity to the reasoning behind certain products being in or out of

⁵ In NESO's original submission, it referred to the Pricing Methodology as a Pricing Proposal, but as it is now established as the GB Pricing Methodology, NESO has updated the wording to reflect this.

⁶ Products were previously classed as Legacy or New. Legacy products were products that were active prior to the approval of the methodology. However, now all balancing products will be classed as enduring or phased/phasing out as per Appendix B of the PM. Products classified as phased/phasing out will remain out of scope of the PM.

scope and updates the list to reflect the market developments since the original PM was proposed.

NESO has also made amendments to Appendix B to make it clearer and more informative. We agree with the changes NESO has made to bring further clarity and transparency to the product list. NESO has also assessed the product list to keep it up to date. We agree with this assessment, and note that NESO should continue to ensure the accuracy of this Appendix as NESO conducts reviews of its products.

NESO proposed separating out the assessment process for first time assessment of new products and ongoing reassessment of existing products to enhance clarity of processes. We agree that this approach furthers the clarity of the two processes and ensures that all parties are clear when and how information will be made available.

Overall, we consider that NESO's GB PM continues to meet the requirements of Article 6(4) and Article 6(14) of the Electricity Regulation (as amended). The PM will enable NESO to continue to comply with current legislation and to use the same process in the future to determine whether marginal pricing or the use of an alternative pricing mechanism is more economically efficient and so provides clarity to market participants and ultimately benefits GB consumers.

Our decision

We therefore:

- approve the review of the GB Pricing Methodology for settlement of balancing energy.

Next steps

We expect NESO to publish the updated GB Pricing Methodology (Version 2.0) to its website as soon as practicable. The updated PM becomes effective as of the date of this decision letter. We expect NESO to review the methodology regularly (at least every three years), in line with the requirements of paragraph 4.3 of the PM. We expect NESO to continue to assess the pricing mechanism of its products in line with the Product List at Appendix B of the PM.

If you have any questions about the contents of this letter, please contact Zong Yan (Zong.Yan@ofgem.gov.uk) or James Hill (James.Hill@ofgem.gov.uk)

Yours sincerely,

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