

To: All interested stakeholders

Email: NESOPerformance@ofgem.gov.uk

Date: 25 June 2025

Dear colleagues,

Decision to approve National Energy System Operator's proposed amendments to the Terms and Conditions related to Balancing for Dynamic Response Services.

On 25 April 2025, we¹ received a proposal from National Energy System Operator (NESO) 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), as amended by the [Electricity Network Codes and Guidelines \(Markets and Trading\) \(Amendment\) \(EU Exit\) Regulations 2019](#).

The proposal looks to update the 'Response Services Service Terms' (Service Terms), which forms part of the T&C for each of the Dynamic Response services – Dynamic Containment (DC), Dynamic Moderation (DM) and Dynamic Regulation (DR).

This letter sets out our decision to approve that these documents form part of the T&C required by Article 18 of EBGL, replacing any previous versions that formed part of the T&C for each service as of the effective date.²

Background

In accordance with Article 18 of the EBGL, the Transmission System Operator³ was required to develop a [proposal regarding the T&C](#) for balancing service providers (BSPs) and balance responsible parties (BRPs). On 8 October 2019, we published [our decision](#) to confirm, upon satisfaction of certain conditions, that the T&C proposed by the ESO are the T&C required

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 Please note our comments below on the effective date of these changes.

³ Following its transition from NGESO to NESO on 1 October 2024, NESO is the body responsible for maintaining the T&C.

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 response products are opt-in services for BSPs to receive payment from NESO 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. 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,⁴ 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 toward operational limits.

The proposal

NESO have proposed to update the Service Terms for the three Dynamic Response services following a period of consultation that ran from 7 March to 7 April 2025.

NESO'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 visibility of the T&C, NESO have also provided an updated mapping document.

NESO have proposed a series of changes to the 'ABSVD' section of the Service Terms, all in relation to one key proposal that will enable the application of the Applicable Balancing Services Volume Data Methodology (ABSVD) calculation to non-Balancing Mechanism Units (non-BMUs).

We have reviewed the Service Terms proposed by NESO 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 NESO to better understand the rationale for the proposal.

In making our decision, we have considered the responses from industry stakeholders to the consultation. Responses were generally in favour of the proposed changes, though respondents raised points that NESO have addressed as part of their submission to us and we considered these in making our decision.

⁴ The operational frequency range is a $\pm 0.2\text{Hz}$ around 50.0Hz.

Our assessment

We approve NESO's proposal to apply ABSVD to non-BMUs, noting that the Condition C9 decision we are publishing simultaneous to this decision assesses the suitability of updates to the ABSVD methodology itself. This approval comes into effect as described in the section below.

The change to the Service Terms means Service Providers are obliged to provide the information that will enable calculations to be performed in accordance with the ABSVD statement, which subsequently enables NESO to submit energy volumes to work out imbalance positions for non-BMUs, as they would for BMUs.

NESO explained that this change creates a more level playing field across the different market participants in the Dynamic Response services, where previously non-BMUs were not processed for ABSVD and this could present a distortion in how BMUs and non-BMUs participate across the high and low services. NESO highlight that the benefit of addressing the existing market distortion is to increase competition across the low and high Dynamic Response services. It can also aid in having consistent market rules in future, as NESO intends to apply ABSVD to non-BMUs in other NESO services.

Several consultation respondents shared feedback with NESO on proposed wording, as well as questions on how this change might work for Virtual Lead Parties (VLPs). NESO have updated the wording as suggested and clarified the impact this change will have on VLPs.

NESO acknowledge that this approach addresses an existing market distortion but may result in a small impact to some non-BMU providers who aggregate units. These providers make up a small percentage of Dynamic Response service market participants and thus we understand the impact of this to be small, especially compared with the benefit of addressing the primary market distortion. We understand that NESO has already opened dialogue with potentially affected parties to minimise impact, and we expect NESO to continue to work with these providers (and future providers of similar type) to fully address this.

Considering the above rationale, we conclude that NESO's proposal meets the requirements of Article 18 of the EBGL Regulation. Therefore, we confirm that the updated Service Terms as mapped by NESO forms part of the T&C pursuant to Article 18 of the EBGL Regulation.

Effective date of amendments

We are yet to issue a decision on NESO proposals for amendments to its Quick Reserve service. NESO informed us that its intention is for revisions proposed to Dynamic Response service documentation (and thus the T&C) to align with go-live of Quick Reserve Phase 2

(should the Authority approve those amendments). We agree that this is an optimal approach. However, it is important to ensure that industry is clear on the date at which changes to the T&C come into effect, particularly given the uncertainty that remains prior to our decision on Quick Reserve proposals.

Therefore, our decision is that:

- if the Authority approves the proposed amendments to Quick Reserve, the T&C amendments for Dynamic Response services will come into effect in line with the Quick Reserve Phase 2 amendment to the terms and conditions for balancing.⁵ NESO will communicate this date to industry, but we expect it would be at the end of July 2025.
- if the Authority does not approve the proposed amendments to Quick Reserve by 11 July 2025, the T&C amendments for Dynamic Response services will come into effect in line with NESO announcement of the change. If this is the case, we expect NESO's announcement regarding the effective date for the T&C amendments for Dynamic Response services to be at the end of July 2025, but in any case, no later than September 2025.

We note that we expect the effective date for the revisions to the condition C9 licence statements to align with the effective date for the amended T&C for Dynamic Response services.

Next steps

We encourage NESO to publish the revised documents in line with the above effective from dates and to communicate clearly with industry about rule changes and expected market participation behaviour.

We encourage NESO to continue to engage on improvements to application of ABSVD such as through IG114, proposing updates to industry rules (including the T&C) where relevant if changes are identified.

If you have any queries regarding the information contained in the letter, please contact the NESO Regulation team (NESORegulation@Ofgem.gov.uk) in the first instance.

⁵ We understand this would be from contracts award for the first service delivery window that coincides with Quick Reserve Phase 2; 23:00 following first contract award.

Yours sincerely,

James Hill
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For and on behalf of the Gas and Electricity Markets Authority