

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

Email: NESORegulation@ofgem.gov.uk

Date: 25 June 2025

Dear colleagues,

Decision to not use our powers of direction in relation to NESO's ad hoc May 2025 Condition C9 submission

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

- the addition of Quick Reserve, reflecting the intended launch of the non-Balancing Mechanism ("non-BMU") aspect of that service later this year;
- the addition of Slow Reserve, reflecting the intended launch of the service later this year; and
- updates to the text for Dynamic Response services, reflecting the reform in applying ABSVD to Non-BMUs.

The Authority's decision

Our¹ decision is to not use our powers of direction under Condition C9.24.

We received a submission from NESO on 28 May 2025, following [formal consultation](#) conducted by NESO between 7 March and 7 April 2025. This timeline follows the requirements set out in our 5 March 2025 [Direction to NESO adjusting statutory timelines for C9](#).

In assessing the proposed revisions submitted by NESO, we considered the positions shared by industry respondents during the formal consultation, as well as NESO's replies to the consultation feedback. Furthermore, we have assessed NESO's concurrent submissions to make amendments to the terms and conditions related to balancing required by Article 18 of Commission Regulation (EU) 2017/2195 establishing a guideline on electricity balancing² relating to Quick Reserve and the Dynamic Response services holistically with this Condition C9 submission.³ We have summarised our conclusions below.

1. Revisions to the PGS

NESO has proposed the addition of text in relation to the planned service launch of Slow Reserve, as well as updated intentions in relation to Quick Reserve. We agree that the changes proposed by NESO to the PGS improve clarity and accurately update the relevant sections of text to reflect NESO's intentions.

We note that a couple of consultation responses suggested amendments to the proposed text. Where relevant, NESO have taken this feedback on board and improved original proposals to account for this. This primarily relates to a comment about Ofgem's derogation relating to Demand Flexibility Service and its transition to a year-round service. We consider that the text as updated provides additional clarity to industry on NESO's intentions for procurement of balancing services.

2. Revisions to the ABSVD

For clarity, the changes proposed to the ABSVD enable the change in our approval of NESO's proposal to amend the terms and conditions related to balancing for Dynamic

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 As amended by the Electricity Network Codes and Guidelines (Markets and Trading) (Amendment) (EU Exit) Regulations 2019

³ Note that our decision on NESO's proposal to amend the terms and conditions related to balancing for Dynamic Response services is published alongside this decision. Our decision on NESO's proposal to amend the terms and conditions related to balancing for Quick Reserve is expected to be published in July 2025, and this C9 decision does not fetter the discretion of the Authority with respect to that forthcoming decision. We are content that there is no dependency on this decision from the forthcoming Quick Reserve decision, except for the date of effect.

Response services. We are publishing our decision on that proposal simultaneous to this Condition C9 decision.

We consider the proposed changes to the ABSVD are appropriate, enabling the ABSVD calculation to be applied for non-BM participants in the following services, where applicable:

- Quick Reserve
- Slow Reserve
- Dynamic Containment, Dynamic Moderation and Dynamic Regulation

Our support for the addition of Slow Reserve to the ABSVD is based on information we have received as part of the Condition C9 submission. We are aware that NESO has just concluded a consultation on the service design of Slow Reserve, and NESO should consider whether further revision of the ABSVD is required resulting from feedback to that consultation.

Consultation responses noted that the processing of volumes for this purpose differs across services, with Dynamic Response services using Expected Volumes and other services using Delivered Volumes (as expressed in the “Non-BM ABSVD Applied” table of Part C of the ABSVD). NESO has explained the reasoning for this difference, and the methodology for use of these volumes within the ABSVD calculation is expressed clearly within Part C of the ABSVD. Therefore, we agree with NESO’s approach to volume data to be used in ABSVD calculations and the way in which the statement explains this. We note that consultation responses were in favour of these proposed changes.

Furthermore, we are conscious that the ongoing [Balancing and Settlement Code Issue Group 114](#) (IG114) may have an impact on the ABSVD in future. NESO have stated that the methodology will be updated in line with the outcomes of IG114, as required. We consider that NESO’s proposed revisions are accurate for processes as currently undertaken.

3. Revisions to the BPS

NESO have proposed the addition of text relating to Slow Reserve. We support the revisions put forward by NESO in relation to the BPS.

We note a response from one consultation respondent about the use of the phrase ‘feasible economic’ in relation to Net Transfer Capacity (“NTC”) actions. NESO have responded to this point, identifying that the best route to review the use of NTC is through [NESO’s Innovation Project](#). We agree that there is scope to continue reviewing this, and that NESO

should subsequently propose an update to the wording in the BPS if required following the outcome of that innovation project and / or other ongoing NTC engagement.

Furthermore, as outlined in our March 2025 Condition C9 decision, we still expect NESO to conduct a full and thorough review of the BPS by the next annual update of that C9 statement, ensuring that the BPS explains how NESO meets the obligations outlined under Condition C9.8.

4. Revisions to the SMAF

We consider the proposed revisions to the SMAF bring clarity and relevance to the statement. This includes the housekeeping updates to amend dates, web links and references.

5. Revisions to the BSAD

NESO have proposed the addition of text relating to non-BM Quick Reserve and non-BM Slow Reserve, alongside general updates to formatting, spelling and grammar. We consider the revisions proposed here bring clarity and relevance to the statement.

Effective date of revisions

We are yet to issue a decision on NESO's proposals for amendments to the terms and conditions related to balancing for its Quick Reserve service. NESO has informed us that its intention is to have the effective date for the amended condition C9 Statements ("C9 Revisions") to align with go-live date 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 the C9 Revisions come into effect, particularly given the uncertainty that remains prior to our decision on Quick Reserve proposals. Therefore:

- if the Authority approves the proposed amendments to Quick Reserve, the C9 Revisions will come into effect in line with the Quick Reserve Phase 2 amendment to the terms and conditions for balancing.⁴ 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 C9 Revisions 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 C9 Revisions to be at the end of July 2025, but in any case, no later than September 2025.

⁴ We understand this would be from the first service delivery window of Quick Reserve Phase 2, 23:00 following first contract award.

We note that we expect the effective date for the amended terms and conditions related to balancing for Dynamic Response services to align with the effective date for the C9 Revisions.

Next steps

NESO should publish and follow the methodologies with these revisions in line with the effective dates expressed above.

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
For and on behalf of the Gas and Electricity Markets Authority