

To: All interested stakeholders

Email: NESORegulation@ofgem.gov.uk

Date: 4 July 2025

Dear colleagues,

## **Decision to approve amendments to the Terms and Conditions related to Balancing for Quick Reserve service phase 2**

We<sup>1</sup> received a proposal from National Energy System Operator ("NESO") to amend 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](#), as amended by the [Electricity Network Codes and Guidelines \(Markets and Trading\) \(Amendment\) \(EU Exit\) Regulations 2019](#) ("EBGL"). NESO's proposal to amend the T&C was to incorporate updated service documentation (the Quick Reserve Service Terms and Quick Reserve Procurement Rules) for the Quick Reserve ("QR") service. The update aimed to enable Phase 2 of service delivery: extending participation to non-Balancing Mechanism ("non-BM")<sup>2</sup> units.

Ofgem [approved](#) Phase 1 of the QR Service on 30 October 2024. Phase 1 aimed at achieving potential cost efficiencies in system balancing by allowing NESO to procure firm fast reserve capacity at day ahead from BM units. Phase 2 expands the pool of service providers by allowing participation of non-BM units. NESO evidenced that this could enable greater market participation and therefore increase competition in the service, with benefits to the GB consumer of price competition and improved system security.

Phase 2 amendments also include an Optional<sup>3</sup> aspect of the QR service. The Optional service allows non-BM providers (where they can meet the firm service parameters but have not secured a firm capacity contract for the same megawatts at the day-ahead stage) to submit non-firm availability and prices within-day, providing further real-time liquidity to the system operator.

---

<sup>1</sup> 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.

<sup>2</sup> Energy providers that supply balancing services to the grid but are not registered as formal Balancing Mechanism Units (BMUs).

<sup>3</sup> Parties who secure contracts at the day ahead capacity auction are considered "Firm" and are required under their balancing capacity contract to offer NESO a price and volume for balancing energy in real time. Optional providers are not under such obligation but may choose to offer NESO a price and volume of balancing energy, which NESO may accept. For BM units the BM, among other things, is the route to Optional provision of QR.

The Authority has decided to approve NESO's proposal to update the T&C to reflect relevant sections of the service documentation for non-BM QR.

## Background

In accordance with Article 18 of the EBGL, the Transmission System Operator<sup>4</sup> was required to develop a proposal regarding T&C for Balancing Service Providers ("BSPs") and Balance Responsible Parties ("BRPs").<sup>5</sup> On 8 October 2019,<sup>6</sup> we published our decision to confirm, upon satisfaction of certain conditions, that the T&C proposed are the T&C required by Article 18 of the EBGL. On 25 June 2020, all the necessary conditions were met, and the proposed T&C came into force in Great Britain ("GB").

To support efficient system balancing, NESO uses reserve services to address electricity supply and demand imbalances. QR, a fast-acting reserve service, has been designed to ensure that NESO can react to imbalances quickly to maintain frequency within operational limits ( $\pm 0.2\text{Hz}$ ).<sup>7</sup> This update to the service aims to save consumer costs through enhanced competition and increased market liquidity, drawing volume from less flexible and suitable alternative markets.

Currently, NESO procures fast reserve through the existing QR service (BM only) and Optional Fast Reserve ("OFR")<sup>8</sup> service and may also rely on capable BM units within the BM for further dispatch options. The Phase 2 proposal would extend QR to non-BM providers for the day-ahead auction for firm capacity and introduce a within-day Optional QR service for non-BM providers. NESO would plan to transition fast reserve volumes fully into QR, retiring OFR.<sup>9</sup>

NESO submitted a proposal to us on 25 April 2025 to amend the T&C to integrate mapped sections of the QR Phase 2 (firm and optional) documentation. NESO [consulted](#) on this proposal between 12 February and 14 March 2025, with a subsequent submission on 19 June 2025 to include additional requirements (to improve data transparency of non-BM participation in the service) following further industry feedback through consultation

---

<sup>4</sup> Following its transition from NGESO to NESO on 1 October 2024, NESO is the body responsible for maintaining the T&C.

<sup>5</sup> See footnote 2 and our decision of 14 September 2018 <https://www.ofgem.gov.uk/decision/decision-assignment-transmission-system-operator-obligations-under-guideline-electricity-balancing-regulation-within-gb>

<sup>6</sup> Our decision of 8 October 2019 is accessible here <https://www.ofgem.gov.uk/publications/decision-transmission-system-operators-proposal-terms-and-conditions-related-balancing>

<sup>7</sup> QR looks to secure upward and downward capacity, allowing NESO a source of reserve energy to deal with deviations either side of 50Hz.

<sup>8</sup> OFR is open to non-BM units only and does not secure balancing capacity at day-ahead, rather representing a within-day optional service.

<sup>9</sup> We understand that NESO intends to retire OFR in December 2025.

between 16 May and 16 June 2025. We have considered the original submission with this later amendment as a singular proposal to amend the T&C for the purposes of our decision.

### **Rationale for our decision**

We have reviewed NESO's proposed amendments to the T&C in line with the requirements of the EBGL, the wider principles of the Electricity Regulation,<sup>10</sup> and our statutory duties and obligations. We considered the service documentation (as mapped to the T&C) alongside further justification documents provided by NESO. We also engaged with NESO to better understand its proposals.

In reaching our decision, we considered feedback from industry stakeholders to NESO's consultation on the proposed changes. Overall, the response was positive, supporting the intention of expanding participation and unlocking access for additional provider types. We also support NESO's intent in this regard, and welcome steps from NESO to continue to reduce barriers to entry for all market participants while maintaining system security.

We set out the key factors in our decision below.

#### Increasing liquidity in Quick Reserve service

Allowing non-BM participants to secure balancing capacity contracts in the Firm day-ahead auctions increases the potential pool of participants and provide competitive pressure and technological innovation. This should result in capacity being secured at lowest cost, and therefore best value to the consumer.

By having an Optional within-day aspect to the service, NESO will have balancing energy available from beyond the pool of contracted QR providers and the BM. This introduces competitive pressure on energy costs. Further, where NESO sees an unforeseen increased reserve energy requirement after the day-ahead capacity auction has closed, Optional providers can offer energy above the secured capacity quantity. In the near-term, there will also be competition between QR, the BM and OFR until the phase out of OFR – this continued cross-market procurement will also see increased competitiveness while NESO transitions volumes into QR.

We consider that increasing volume within the service is positive and likely to bring consumer benefits. We note that there are non-BM providers active in OFR presently, and understand NESO expects most of this volume to transition into QR, giving confidence that

---

<sup>10</sup> Regulation (EU) 2019/943 of the European Parliament and of the Council of 5 June 2019 on the internal market for electricity, available here: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32019R0943> and is amended by UK SI 2020 No. 1006 which can be accessed at: <https://www.legislation.gov.uk/uksi/2020/1006/introduction/made>

there is likely to be increased competition within this market as a result of this proposal with further providers from across other NESO markets also potentially adding volume to QR as NESO co-optimises its procurement across services.

We also considered the impact of QR Phase 2 on the growth of participation in NESO's reserve markets, particularly from non-BM and non-traditional providers. We considered that this could set a signal for investment and development of capability, and this could support necessary growth in volumes, for example in support of government's Clean Power 2030 Action Plan.

### Service parameters

We considered that matching the service parameters for the non-BM QR service to those of the existing BM QR service is a sensible approach. This aligns service requirements and avoids complexities of different payment structures and competing interests in service dispatch. It also provides the same investment signal to potential BM and non-BM providers.

#### *Maximum Recovery Period for Firm service*

In our QR Phase 1 decision, we noted that the selection of 3 minutes for the Maximum Recovery Period parameter for QR had been shown by NESO to be the result of a techno-economic optimisation based on market liquidity versus the volume NESO would need to procure at different recovery periods. We agree that this was a necessary parameter to allow NESO to effectively conduct procurement of capacity.

We required NESO to update this analysis for their Phase 2 submission, reflecting any new market information and anything learned from Phase 1 service delivery, and in doing so keep the Maximum Recovery Period under review, amending if the analysis indicated it would be beneficial to do so. We received this updated analysis from NESO, alongside its position to maintain the 3-minute Maximum Recovery Period. Based on this analysis, we consider that NESO has selected the correct Maximum Recovery Period in line with consumers' interests.

#### *Maximum Recovery Period for Optional service*

NESO also proposed that providers would need to have a 3-minute recovery period in order to provide the Optional QR service. The original analysis (subsequently updated for Phase 2) did not indicate an optimal Maximum Recovery Period for the Optional service as it was based on the techno-economic assessment of balancing capacity holdings, and that does not automatically flow through into balancing energy dispatch.

However, we engaged with NESO further as to their rationale for needing to set a Maximum Recovery Period for the Optional service at all and as to the rationale for then setting it at 3 minutes (that is, consistent with the value required for capacity). We understood from respondents to NESO's consultation that relaxation of this parameter could allow for further market participation, enhancing the effects of increased competition on prices and potentially opening up the market to non-traditional providers.

NESO explained that when parties have different maximum recovery periods, this can lead to undesirable dispatch decision outcomes, for example, less flexible providers may end up being paid more (as more flexible providers are turned off first or less flexible assets need to be turned on first), removing the incentive on providers to be more flexible and provide maximum consumer value.

We considered whether it could be viewed as discriminatory for non-BM providers of Optional QR to need to meet this parameter given BM parties can provide QR 'optionally' through the BM without meeting it. We consider that non-BM providers of the Optional QR service are entering the market in order to provide that service, and NESO is opening up participation for the provision of a service that meets its fast reserve needs. The BM is different: participants within the BM are not there to specifically meet fast reserve needs, though NESO may call on them for this where providers' dynamic parameters allow. The purpose of Optional QR is not to replicate the BM, but to provide access to additional QR balancing energy. We agree with NESO that where a provider is looking to provide balancing energy to NESO in a broader fashion than registering to participate in the BM is likely the best way to do so<sup>11</sup>.

Finally, we consider that the selection of this parameter is not a direct barrier to entry for participants. We acknowledge that it could be a limitation, for example reducing the effective volume of an asset or requiring additional technological requirements. On balance however, avoiding NESO needing to make potentially inefficient balancing dispatch decisions and investing in bespoke IT upgrades is of greater benefit than the expected smaller impact of reducing the effective volume of an asset or requiring additional technological requirements.

We therefore consider NESO's selection of the Maximum Recovery Period of 3 minutes to be appropriate, both for the Firm and Optional service design.

---

<sup>11</sup> We understand this includes through the BM Wider Access route: [Balancing Mechanism Wider Access | National Energy System Operator](#)

As in our Phase 1 decision, we expect NESO to continue to keep this parameter under review – it does not represent a strict system limit – and if market conditions, provider capabilities and / or NESO’s predicted reserve requirements change such that 3 minutes no longer represents the techno-economic optimum, we would expect NESO to propose to change this parameter and consult with industry on the suitability of an alternative.

#### *Availability of non-BM data to industry*

During our review of NESO’s proposals, we became aware of a potential issue with regards to the information that would be made available to the market. This relates to information which non-BM providers would issue to NESO, but that would not be made available to the market in a timely manner.<sup>12</sup> In contrast, we understand that equivalent BM participant data is made available to the market.

Information we considered that would not be made available (but should be) under NESO’s original proposal includes utilisation price and volume data for Optional non-BM QR participants and utilisation price data for Firm non-BM QR participants.<sup>13</sup> The implication of not making this information available to market participants, particularly those trading in intraday electricity markets, is that they would face additional risk on trading outcomes (mainly due to the uncertainty of non-BM QR’s impact on cashout) because of these unknowns (of price and / or volume). We considered that under certain circumstances this could affect prices and liquidity in wholesale markets. Market participants also raised that NESO should publish the baseline data submitted by non-BM participants to further aid transparency, and we support this.

Through our further engagement NESO acknowledged this situation and established plans to address informational imbalances on an accelerated timeline, which we expect to be no later than September 2025. We recognise that NESO conducted consultation on potential contractual wording changes in a [Slow Reserve consultation](#)<sup>14</sup> and there was widespread industry support for publication of this data and the proposed addition to the Quick Reserve Service Terms. NESO therefore submitted an updated proposal for amendments to the T&C, including the original proposals from the 25 April 2025 submission and the contractual wording added to allow for publication of the above-mentioned data, mapped to the T&C.

We understand that the informational arrangements for non-BM providers of the existing OFR service are overall similar, with instances where QR is slightly worse and others where

---

<sup>12</sup> That is, sufficiently ahead of market close.

<sup>13</sup> Firm participant volume data will be made available through the published results of day-ahead balancing capacity auctions.

<sup>14</sup> This consultation ran from 16 May 2025 to 16 June 2025.

QR is slightly better. However, NESO proposes that the transition from OFR to QR has added benefits and so the net consumer position is better. We therefore consider that a short period where Phase 2 of the QR service is launched (we understand this to be end of July 2025) and the start of timely publication of data (by end of September 2025) would not introduce a significantly adverse impact on markets compared to the status quo,<sup>15</sup> but will allow NESO to start accessing the benefits of QR as early as possible, especially with a mind to the retirement of OFR later in the year.

In line with Articles 3.1(d) of the EBGL, we considered whether this proposal would facilitate the efficient and consistent functioning of day-ahead, intraday and balancing markets. In line with Article 3.1(e) of the EBGL we considered whether fostering the liquidity of balancing markets (here, particularly that of QR) under this proposal was compatible with the requirement to prevent undue market distortions. We concluded that any evidence QR would worsen the situation compared to the status quo was mitigated by the combination of the benefits QR Phase 2 would allow for and NESO's commitment to deliver an improvement (supported by the updated T&C submission) which would resolve this issue. We note that NESO has invested heavily in improving its IT capabilities, and its [Business Plan for April 2025 – March 2026](#) sets out ambitions of both ensuring fit-for-purpose markets and enhanced sector digitalisation and data sharing. Therefore, we expect that new services are developed in a way that improves on the status quo, particularly where these ambitions can be realised.

## **Decision**

Based the above, the Authority hereby:

- approves that the proposed amendments to the QR Service Terms and QR Procurement Rules as mapped form part of the T&C required by Article 18 of the EBGL.

## **Next Steps**

NESO should publish the updated QR service documentation and any other supporting information to assist non-BM providers onboarding in the QR service.

We understand that NESO intends to begin procuring QR from non-BM providers from the end of July 2025 and NESO will communicate this more accurately to market participants

---

<sup>15</sup> We understand that NESO's expectations are for non-BM volume to grow in QR (and across markets) over time, but that it is unlikely to see significant volumes from new providers over and above active OFR participants in the initial months of QR phase 2 operation.

and wider industry clearly, in a timely manner. The changes to the T&C become effective as of that date.<sup>16</sup>

We further note that we approved NESO's proposed [amendments to the T&C for changes related to the Applicable Balancing Services Volume Data \("ABSVD"\) treatment of non-BM providers in Dynamic Frequency Services](#) and revisions to the [C9 documents](#) (also including changes relevant to non-BM ABSVD treatment, which applies to Quick Reserve). These changes will become effective at the same time as the T&C amendments due to this approval of the Phase 2 QR proposals.

We expect NESO to continue to work with industry to ensure that information is provided to facilitate the efficient functioning of markets, including wholesale markets across all time frames. We expect delivery of improved transparency in the near term to be communicated to industry as soon as possible.

NESO should continue to monitor the suitability of the service parameters, particularly selection of the Maximum Recovery Period, ensuring that they continue to facilitate maximum consumer value.

If you have any queries regarding the information contained in this letter, please contact Shubh Mehta ([shubh.mehta@ofgem.gov.uk](mailto:shubh.mehta@ofgem.gov.uk)).

Yours sincerely,

**James Hill**

**Principal Policy Expert – Electricity System Operation**

**For and on behalf of the Gas and Electricity Markets Authority**

---

<sup>16</sup> That is, they will be effective for contracts awarded from the first window of delivery for QR Phase 2 contracted assets. The first delivery window is from 23:00 on the day of that contract award.