

To: All interested parties

Email: NESORegulation@ofgem.gov.uk

Date: 1 October 2025

Dear colleagues,

Decision on Balancing Reserve service in relation to an update to the Terms and Conditions related to balancing

On 1 August 2025, we¹ received a proposal from the National Energy System Operator (NESO) to update 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).

The proposal relates to modifying the existing T&C with respect to the Balancing Reserve ("BR") service.

This letter sets out our decision to approve the proposal to update the T&C to reflect updates to the BR Service Terms and BR Procurement Rules, as well as our decision rationale and any necessary next steps that should be taken.

Background

In accordance with Article 18 of the EBGL, the Transmission System Operator was required to develop a proposal regarding the terms and conditions (T&C) for Balancing Service Providers (BSPs) and Balance Responsible Parties (BRPs). On 8 October 2019,² 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.

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 (GEMA). Ofgem is the office of the Authority.

² 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>

BR is part of NESO's evolving suite of balancing and service products that underpin the system security and economic efficiency of the electrical network. NESO uses BR to correct real-time energy imbalances between generation and demand.

On 16 May 2025 NESO commenced a consultation with industry on amendments to the BR service. Primarily, the consultation was on changes to the BR Service Terms and BR Procurement Rules to facilitate co-optimisation of the BR auctions with the day-ahead auctions for Quick Reserve (QR), Dynamic Response (DR) and Slow Reserve (SR).³

Following the close of the consultation on 16 June 2025, NESO submitted its proposal for amended terms and conditions to us on 1 August 2025. NESO's consultation highlighted the change to the proposed T&C. To aid with the visibility of the T&C, NESO also provided an updated mapping document.

The key changes that NESO proposed to update to various sections of the T&C:

1. changing the Auction timing from 08:15 to 14:00 local time (UK) and to co-optimize procurement with the day ahead auctions for QR, SR and DR;
2. changing the BR dispatch flexibility rules:
 - a) allowing units dispatching from a 0MW Final Physical Notification (FPN) to provide 25MW of indivisible capacity, therefore allowing a SEL and/or SIL of up to 25MW; and
 - b) allowing units to set a Minimum Non-Zero Time (MNZT) of up to 5 minutes;
3. mirroring the excessive pricing clauses in QR that will allow NESO to deem units unavailable if their utilisation prices are excessively high or low; and
4. mirroring the contract transfer clauses in QR where in case of a contract transfer, assignment of all rights and obligations including payment will be made to the secondary provider.

We have considered these are four independent proposed changes to the T&C. We have reviewed the proposed modifications and have decided to approve all four proposed changes. This letter sets out the rationale for our decision.

Our rationale

We have reviewed the updated BR service documents (consisting of the BR Service Terms and BR Procurement Rules) submitted to us in line with the requirements of the EBGL, the

³ Co-optimisation with SR will only take place later, following NESO implementation of SR. We have approved NESO's proposal to introduce SR alongside this decision. For the avoidance of doubt, Short Term Operating Reserve (which SR will replace) will not be co-optimised and its auction timing is unaffected by this decision.

wider principles of the Electricity Regulation,⁴ and our statutory duties and obligations. In order to facilitate this, we engaged with NESO to better understand its proposals in a number of areas. The key aspects contributing to our decisions are set out below:

Auction timing and co-optimisation

NESO's proposal is to move BR procurement from 08:15 to 14:00 to co-optimize with QR, SR (once live) and DR markets. There was significant industry support for the change, with a majority of consultation respondents agreeing. One consultation response disagreed with the change, however, citing that BR should instead be procured in parallel with other wholesale energy markets.

NESO undertook an assessment to consider aligning the BR auction timing to enable co-optimisation of BR with its other Dynamic Response and Reserve services on its Enduring Auction Capability (EAC) platform. NESO provided us with evidence to justify its proposal to move the auction timing from 08:15 to 14:00 to co-optimize with QR, SR and DR. NESO's modelling and analysis showed that there are inefficiencies with the current fragmented auction approach. NESO performed statistical modelling of different auction timing and co-optimisation options. This analysis showed that there could be considerable economic efficiency of moving BR procurement to 14:00 and co-optimising across services. NESO compared the benefits of the later co-optimised auction against the potential higher liquidity available specific within BR should that market run ahead of wholesale energy markets. Its conclusion was that the later auction can bring greater whole market benefits.

Based on the above we agree with NESO that moving the BR auction timing to 14:00 and co-optimising BR with QR, SR (when live) and DR can drive operational and economic efficiencies. NESO should continue to monitor the effectiveness of this change, post-implementation.

Dispatch flexibility rules

NESO has proposed amendments to the MNZT (moving from 1 minute to 5 minutes) and the indivisible volume (moving from 1MW to 25MW) when dispatching a unit from a 0MW FPN. NESO considers that these changes can allow additional volume into the service (increasing competitive pricing pressure and ensuring NESO can meet its service requirements more frequently) without unduly impacting operability.

⁴ 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>

NESO submitted evidence of a review they undertook of these dispatch flexibility rules. Its analysis and auction simulation showed how changes to the MNZT and indivisible volume impacted the total cost to end consumers. NESO proposes that 25MW indivisible volume and 5 minutes MNZT balanced procurement cost savings (from increased liquidity) against operational challenges and the costs of having less flexible dispatch options available. We consider that the evidence provided by NESO supports this proposal. However, we note that the proposal is based on forecasts of market behaviour and outcomes, and so expect NESO to keep these parameters under review, in concert with BR participants and potential providers, ensuring that outturn performance matches expectations.

We note that there was general support for these proposals in consultation responses, although some respondents requested further clarification. We are content that NESO provided this through its replies.

Based on the above rationale we agree with NESO's proposals to amend the dispatch flexibility rules.

Addition of excessive pricing clause

NESO has proposed changes to help assure that reserve capacity procured via the day-ahead auction can be dispatched in real time and that NESO is not affected by providers' making themselves commercially unavailable (through setting of excessively high/low utilisation prices). NESO has mirrored the clause used in QR, which has already been approved by the Authority.⁵ NESO state that this approach should improve BR performance, but also provides greater provider experience by aligning the terms of co-optimised services. NESO clarified that it is not exclusively high/low prices which would trigger NESO actions under this clause, rather if it is determined that the sole or primary purpose of the bid that has been submitted is to discourage NESO from issuing an instruction.

We agree with NESO that these changes can help to improve outcomes for end-consumers and that providers should honour the spirit of balancing capacity contracts (that is, in part, that the balancing service provider has agreed to submit bids for a corresponding volume of balancing energy to NESO for the duration of the contract). We note that consultation responses broadly supported these proposals in BR. Therefore, we agree with NESO's proposal to include this clause.

⁵ The approved decision can be found here: [Decision to approve an amendment to the Terms and Conditions related to Balancing in relation to Phase 1 of the proposed Quick Reserve service](#)

Aligning contract transfer clauses with QR

NESO has mirrored the contract transfer process from QR, which have already been approved by the Authority. This change ensures that where there is a contract transfer, in addition to assignment of all rights and obligations being transferred to the secondary provider, so too will payment. NESO expressed that while the extant rules worked fine (also note by one industry respondent to the consultation), it makes sense to have similar rules across the reserve markets (especially where procurement is co-optimised), and thus alignment with QR terms is beneficial to providers. We note general support for this philosophy from industry stakeholders.

We agree with NESO's proposal for this change and encourage NESO to continue to ensure that rules are consistent where this can improve provider experience and reduce market friction.

Consequential changes

We note that in response to stakeholder feedback, NESO amended the definition of "Response Time" in the BR Service Terms to better align this term with Slow Reserve and Quick Reserve definitions. We consider this an appropriate change in response to stakeholder feedback, and that it will support smoother participant experience across services. We are pleased to see NESO being responsive to consultation feedback of this nature. There are also new cross-references in the QR Procurement Rules and DR Procurement Rules to refer to BR.

We also note that in order to implement the BR proposal, NESO have identified that consequential changes are required to the definition of "Market Welfare" in the procurement rules for QR and DR services, to ensure that the co-optimisation anticipated by the BR proposal can be achieved.

We note that the inclusion of SR in the revised definition of "Market Welfare" was dependent on us approving NESO's SR proposal, which we are also approving alongside this decision. However, NESO has informed us that the operational launch of SR will follow that of BR, and that the co-optimisation across all four products will only be achieved once SR has also gone live, which we expect to take place in the first quarter of 2026.

We expect NESO to communicate the go-live dates for BR, SR and any consequential changes to the Procurement Rules for QR, DR and BR (including any iterative updates required to the definition of "Market Welfare") are very clearly communicated to industry to ensure any changes are well-publicised for the co-optimisation to work efficiently.

Our decision

Given the above, we hereby:

- approve NESO's four proposed amendments to the Balancing Reserve provisions that form part of the T&C required by Article 18 of the EBGL, and
- approve the consequential amendments to the Quick Reserve Procurement Rules and Dynamic Response Procurement Rules that form part of the T&C required by Article 18 of the EBGL.

Next steps

We expect NESO to publish the updated BR Service Terms and Procurement Rules alongside an updated Article 18 mapping document, as soon as practicable following this decision. NESO should communicate clearly to industry when the new terms take effect, though we understand that this is expected to occur in October 2025.

We expect NESO to monitor liquidity and benefits of the changes to co-optimised auction taking place at 14:00 day-ahead.

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

Yours sincerely,

James Hill

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