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for energy consumers

To: All interested stakeholders

Email: James.Hill@ofgem.gov.uk

Date: 1 July 2026

Dear colleagues,

Decision to approve proposed Dynamic Response Services amendments to the Terms and Conditions related to Balancing Effective 1 January 2027

On 1 May 2026, 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, as amended by the Electricity Network Codes and Guidelines (Markets and Trading) (Amendment) (EU Exit) Regulations 2019 ("the EBGL").

The proposal sought to update the Response Services Service Terms and Response Service Procurement Rules (together forming the "Response Services Service Documentation" for NESO's Dynamic Response Services – Dynamic Containment ("DC"), Dynamic Moderation ("DM") and Dynamic Regulation ("DR")). In NESO's consultation, it proposed ten amendments in total, of which two were withdrawn for its final submission to us. In this letter we address three of the amendments proposed in the final submission, all with implementation dates of 1 January 2027.

This letter sets out our decision to approve the Service Documentation, as mapped, that forms part of the T&C required by Article 18 of EBGL, replacing any previous versions that formed part of the T&C. For clarity, our decision to approve is effective from 1 January 2027.

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.

Background

In accordance with Article 18 of the EBGL, the Transmission System Operator^{2,3} was required to develop a proposal regarding the T&C for balancing service providers (“BSPs”) and balance responsible parties (“BRPs”). On 8 October 2019,⁴ we published our decision to confirm, upon satisfaction of certain conditions, that the T&C proposed were the T&C required 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”). NESO has submitted a proposal to amend the T&C.

The Dynamic Response Services 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 50.0Hz.

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. The DC low frequency service went live in October 2020, followed by the launch of the DC high frequency service in October 2021.

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, 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 closer to operational limits. DM and DR were launched in March 2022.

NESO has proposed to update the Service Documentation (which maps onto the T&C) for these Dynamic Response Services following a period of consultation that ran from 20 November 2025 to 19 December 2025.⁵

For clarity, this letter only considered proposed amendments which the Authority has decided to approve, and which are due to be implemented from 1 January 2027. Using NESO’s numbering from its submission, the relevant amendments are:

2. Requirement for Operational Baselines and Operational Data for the Assessment Period

² See footnote 3 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>

³ Following its transition from National Grid Electricity System Operator to NESO on 1 October 2024, NESO is the body responsible for maintaining the T&C.

⁴ 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>

⁵ Further information on NESO’s consultation can be found at: [Dynamic Response Consultation Document.pdf](#)

4. Introduction of a new penalty for incorrect use of the disarming flag in Performance Monitoring Data
7. Ability to publish provider penalty data.

We have published separate decision letters alongside this decision to address the remaining proposed amendments.

Rationale for our decision

We have reviewed NESO's submission against the requirements of the EBGL, the wider objectives of the Electricity Regulation⁶ 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 to the consultation from industry stakeholders. The responses from industry were generally in favour of the proposed amendments, though respondents raised points which NESO has addressed as part of its submission to us. We have set out our main views which contributed to our decisions below.

Proposal 2. – Requirement for Operational Baselines and Operational Data for the Assessment Period

NESO has proposed amendments to require providers to submit both operational metering and operational baseline data. This proposal means units will need to submit this data even outside of contracted periods. We understand participants will need to achieve a certain level of compliance (80%) over an Assessment Period⁷ in order to remain active within daily auctions.

This amendment mainly affects non-Balancing Mechanism Units ("non-BMU"), as Balancing Mechanism Units ("BMU") already submit this data in accordance with the Grid Code. NESO stated that these amendments will improve Distributed Energy Resource ("DER") visibility resulting in reduced forecasting errors and improved control room situational awareness. NESO considers this would contribute to significant consumer savings.

Stakeholders were predominantly supportive of this amendment, although some raised concerns and a smaller number opposed it.

⁶ 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/ukxi/2020/1006/introduction/made>

⁷ Assessment Period refers to the period of up to 28 EFA days immediately prior to an auction.

Some concerns were raised around compliance with this rule, though NESO explained that while baselines need to be submitted in line with industry best practice, the T&C do not include provisions for enforcing of adherence to submitted baselines outside of contracted periods. Further concerns focused on the proportionality and relevance of this amendment for Dynamic Response Service providers. NESO set out that the non-BM participants involved in Dynamic Response Services are likely to have a disproportionate impact on system operability due to their maturity, and that this levels the playing field between BM and non-BM participants within the Dynamic Response Services market.

We agree with NESO that these amendments to its Dynamic Response Services could create significant consumer value. We understand that the provision of this data may increase the cost and complexity of engaging in these services for some providers, though we do not understand this to be a significant impact. On balance we consider that potential benefits comfortably outweigh potential costs, and that it is fair and reasonable to ask market participants for this data in order to operate within these markets. We expect NESO to continue to monitor liquidity and participant activity within these markets and to consider further amendment if this balance is different than forecast.

Considering the above rationale, we have decided to approve NESO's proposal for a requirement for operational baselines and operational data.

Proposal 4. – Introduction of a new penalty for incorrect use of the disarming flag in Performance Monitoring Data

NESO has made amendments to introduce an additional penalty that will result in deemed unavailability for the settlement period where a provider incorrectly uses the disarming flag in its Performance Monitoring Data where they have not received a corresponding disarming instruction. An incorrect flag will affect the accuracy of performance data and reduces confidence in performance monitoring which could create unfairness between providers. NESO explained that this amendment will ensure providers are appropriately penalised when the incorrect flag is used. We agree with NESO's proposal, noting that all respondents to the consultation supported this amendment.

We have therefore decided to approve NESO's proposal to introduce an additional penalty for incorrect use of the disarming flag in Performance Monitoring Data.

Proposal 7. – Ability to publish provider penalty data

NESO has added a clause to the Service Documentation that allows NESO to publish provider default data. NESO explained that this amendment can help improve transparency related to sanctions applied to providers. We agree that NESO's proposal may support

reinforcement of performance within the market and is a proportionate step to ensuring transparency.

Stakeholders broadly supported this amendment although there were some concerns raised. These mainly centred around accuracy, fairness, commercial sensitivity and investment impacts. We note NESO has clarified these concerns in its submission. We agree with NESO's comments and are satisfied that this amendment will improve transparency and encourage better market behaviour.

Decision

Based on the above rationale, the Authority hereby:

- approves that the proposed amendments to the Dynamic Response Service Documentation as mapped form part of the T&C required by Article 18 of the EBGL.

For clarity, this approval only applies to proposals 2, 4 and 7, and is effective from 1 January 2027 to allow industry participants and NESO sufficient time to prepare for and implement the amendments.

Next steps

We encourage NESO to publish the approved amendments to the Dynamic Response Service Terms and Procurement Rules, together with the updated Article 18 mapping, from 1 January 2027.

In addition, we note commitment made by NESO in response to stakeholder feedback, including to build dashboards for publishing information on the submission of Operational Baselines and Operational Metering. While this commitment does not form a condition of our approval, Ofgem expects NESO to deliver on it as well as to continue to monitor the service generally for possible improvements. We will monitor delivery through ongoing regulatory oversight.

If you have any queries regarding the information contained in the letter, please contact Zong Yan (zong.yan@ofgem.gov.uk) in the first instance.

Yours sincerely,

James Hill

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