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To: All interested stakeholders

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Date: 1 July 2026

Dear colleagues,

**Decision to approve Dynamic Response Services proposed amendments to the Terms and Conditions related to Balancing Effective by 31 July 26**

On 1 May 2026, we<sup>1</sup> 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 In NESO's consultation, it proposed ten amendments in total, of which two were withdrawn for its final submission to us.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 due for implementation date by 31 July 2026.

This letter sets out our decision to approve that the Service Documentation, as mapped, 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 on publication of the new Service Documentation by NESO, which we expect to be no later than 31 July 2026.

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<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.

## Background

In accordance with Article 18 of the EBGL, the Transmission System Operator<sup>2,3</sup> was required to develop a proposal regarding the T&C for balancing service providers (“BSPs”) and balance responsible parties (“BRPs”). On 8 October 2019,<sup>4</sup> 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 following large frequency imbalances, 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 low frequency DC service went live in October 2020, followed by the launch of the high frequency DC service in October 2021.

DM and DR are pre-fault services wherein providers make automatic adjustments in generation (or demand). DR provides an automatic 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 have 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.<sup>5</sup>

For clarity, this letter only considered proposed amendments which the Authority has decided to approve, and which are due to be implemented by 31 July 2026. Using the numbering from NESO’s submission, the relevant amendments are:

3. Balancing Mechanism Unit (“BMU”) Final Physical Notification (“FPN”) flags set to false will result in deemed unavailability
8. Pre-approved baseline methodology required for stacking with other NESO services

<sup>2</sup> 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.

<sup>3</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>4</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>5</sup> Further information on NESO’s consultation can be found at: [Dynamic Response Consultation Document.pdf](#)

## 9. Amendments to schedule 3.

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 Regulation<sup>6</sup> 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 responses to the consultation from industry stakeholders. The responses from industry were generally in favour of the proposed amendments, though many respondents raised valid points which NESO replied to as part of its submission to us. We have set out below the main views which contributed to our decision.

#### Proposal 3. – BMU FPN flags set to false will result in deemed unavailability

NESO has proposed to add a clarification that when a BMU sets its FPN flag to FALSE it will be deemed unavailable for Dynamic Response Services. This amendment aims to ensure that BMU's are submitting the correct data and that the correct processes are followed to de-register / re-register a BMU where providers wish to switch between BMU and non-BMU status. We agree that NESO's proposal should encourage positive market behaviour.

Most stakeholders agreed with the amendment. One stakeholder disagreed, stating that if the BMU is submitting the relevant data then the FPN flag is irrelevant to the availability of the unit. NESO responded that if the unit has an FPN flag set to FALSE then it will not be submitting the correct data (as NESO would not be receiving a PN from the unit).

We agree with NESO's rationale, and therefore we have decided to approve NESO's proposal to deem units as unavailable for Dynamic Response if the FPN flag is set to FALSE.

#### Proposal 9. – Pre-approved baseline methodology required for stacking with other NESO services

NESO has updated the references in the Service Terms to reflect the updated Stacking Guidance which now not only includes stacking with the BM, but also the requirements for stacking Dynamic Response with other NESO services. NESO explained that this

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<sup>6</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>

amendment will ensure that providers are meeting the necessary requirements when stacking Dynamic Response with Stability Network Procurement Services.

Most stakeholders supported this amendment, with just one stakeholder disagreeing. NESO considered that the feedback raised by that stakeholder was on the guidance, and that it was out of scope of the proposed amendment. Whilst we agree with NESO, we expect NESO to further engage with stakeholders to ensure that the stacking guidance is clear and remains fit for purpose.

We agree that the T&C should be up to date with the updated stacking guidance. This will be crucial for market participants to easily navigate the rules and requirements when participating in Dynamic Response Services. We have therefore decided to approve NESO's proposal to update the Service Terms to reflect the updated Stacking Guidance.

#### Proposal 10 – Amendments to Schedule 3

NESO has proposed amendments to Schedule 3<sup>7</sup> to update the variable names used in some formulae to be consistent with those used in the rest of the Service Terms. Stakeholders generally agreed with this amendment. We consider that NESO's amendments remove inconsistencies and improve clarity within the schedule.

We have therefore decided to approve NESO's proposal to update Schedule 3.

#### Housekeeping amendments

NESO also suggested some housekeeping amendments. As noted by NESO in its submission, these housekeeping amendments are outside the scope of Article 18 and therefore do not require Authority approval. Stakeholder responses did not indicate concerns about these amendments. We are supportive of the continued effort to ensure that Service Documentation is clear and we believe this will support market engagement.

#### **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 applies only to proposals 3, 9 and 10, and is effective by 31 July 2026.

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<sup>7</sup> Schedule 3 – "Availability Payments" contains calculation methodologies for the Settlement Value for an Auction Product.

**Next steps**

We expect NESO to publish the updated Dynamic Response Service Terms and Procurement Rules, together with the updated Article 18 mapping, by 31 July 2026 and to make clear the specific date where these amendments take effect.

In addition, we note commitments made by NESO in response to stakeholder feedback. While these commitments do not form conditions of approval, Ofgem expects NESO to deliver on them 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](mailto:zong.yan@ofgem.gov.uk)) in the first instance.

Yours sincerely,

James Hill

**Principal Policy Expert – Electricity System Operation**