Public

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Balancing Reserve Terms and conditions - Release 1

Dear James,

In accordance with Commission Regulation (EU) 2017/2195 of 23 November 2017 as converted into assimilated EU law and amended (EBR), NESO is proposing to update its terms and conditions relating to Balancing by modifying existing terms and conditions with respect to its Balancing Reserve (BR) product.

On 16 May 2025 we commenced a consultation with industry on these modifications, specifically to the BR Service Terms and BR Procurement Rules principally to facilitate co-optimisation of the BR auctions with the day-ahead auctions for Quick Reserve (QR) and Dynamic Response (DR) services (and also the new Slow Reserve (SR) product, if implemented), but also to make some additional changes to the contract documentation.

In accordance with the EBR, NESO has now concluded its consultation on these documents, and its proposal for amended terms and conditions are now submitted to the Authority for approval.

These modifications are being presented to Ofgem in four discrete parts, so that they may be considered by Ofgem as separate 'submissions' such that they can be reviewed and hence approved in isolation.

These parts are:

1. A change to the Auction timing from 08:15 am to 14:00 local time (UK) and co-optimisation with the day ahead auctions for Quick Reserve (QR) and Dynamic Response (DR) (and also the new Slow Reserve (SR) product, if by then approved).
2. The following changes to the Dispatch Flexibility Rules:
    a. allowing units dispatching from a 0 FPN to provide 25MW of indivisible capacity, therefore allowing a SEL and/or SIL of up to 25MW
    b. allowing units dispatching from a 0 FPN to set a MNZT of up to 5 minutes
3. A mirroring of the excessive pricing clauses in QR that will allow NESO to deem units unavailable if their utilisation prices are excessively high.
4. A mirroring of 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

If approved by Ofgem, the updated BR Service Terms and BR Procurement Rules will be effective from a date designated by NESO.

As noted above, a part of these updated BR Procurement Rules is a proposal to extend product co-optimisation across the current day ahead auction platform so as to include BR alongside QR, DR and SR, resulting in a single, simultaneous, co-optimised auction.

Co-optimisation across these products requires a uniform definition of market welfare in each of the different product Procurement Rules. NESO is therefore also proposing a consequential change to the Procurement Rules for each of QR, DR and SR, to sit alongside the equivalent definition included in the updated BR Procurement Rules. However, the change to the SR Procurement Rules is dependent upon that service having first been approved and brought into effect for co-optimisation with QR and DR, which is being proposed as a part of the suite of changes which were the subject of the separate SR consultation also commenced on 16 May 2025 and now concluded.

The proposed updated BR Service Terms and BR Procurement Rules accompany this letter.

A summary of the changes proposed to each document is included in Annex 1 to this letter (in the form circulated as part of the consultation documentation), and this has been supplemented by some additional changes which are proposed to be made following responses from industry during the consultation process.

This submission document also includes all non-confidential industry responses and NESO's view for each of these, a full record of all feedback received, and our responses have been included in this submission pack to Ofgem. We will also respond individually to each consultation respondent.

Also set out in this letter, at Annex 2 to this letter (and in the form circulated as part of the consultation documentation), are the consequential changes to the Procurement Rules for each of QR, DR and SR, to sit alongside the equivalent definition included in the proposed BR Procurement Rules.

Finally, contained at Annex 3 to this letter (in the form circulated as part of the consultation documentation) is a table showing how we believe the terms and conditions (and corresponding parts of the GB codes), as proposed to be amended, map across to the terms and conditions related to Balancing, described by Article 18 of EBR.

In accordance with the EBR, we now invite Ofgem to approve these new modifications to the BR Service Terms and BR Procurement Rules, as well as the consequential changes to the Procurement Rules for each of QR, DR and SR.

Yours sincerely

Jon Wisdom

Head of Market Change Delivery

Public

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Introduction

The Balancing Reserve Service Terms and Balancing Reserve Procurement Rules make up the terms and conditions for our Balancing Reserve Service.

Since the introduction of the Balancing Reserve Service in March 2024 we have engaged extensively with current and prospective market participants, through our Reserve webinars, the NESO Operational Transparency Forum (OTF), one to one meetings and several requests for input.

We received 11 responses to this consultation which have been carefully considered in our final proposals outlined in this document.

Accordingly, we are now proposing amendments to our Balancing Reserve Service Terms and Procurement Rules, additionally consequential changes to Quick Reserve, Slow Reserve and Dynamic Response Procurement Rules.

This submission document also includes a summary of all non-confidential industry responses and our view for each of these, a full record of all feedback received, and our responses have been included in our submission pack to Ofgem. We will also respond individually to each consultation respondent.

We intend that each of the proposed changes may be considered by Ofgem as separate 'submissions' such that they can be reviewed and hence approved in isolation as detailed in the Summary of Submissions below.

Summary of Submissions

Each submission is proposed independently:

1) We propose to change the Auction timing from 08:15 am to 14:00 local time (UK) and to co-optimise with the day ahead auctions for Quick Reserve (QR) and Dynamic Response (DR) (and also the new Slow Reserve (SR) product, if implemented).
2) We propose the following changes to the Dispatch Flexibility Rules:
    a) allowing units dispatching from a 0 FPN to provide 25MW of indivisible capacity, therefore allowing a SEL and/or SIL of up to 25MW
    b) allowing units to set a MNZT of up to 5 minutes
3) We propose to mirror the excessive pricing clauses in Quick Reserve that will allow NESO to deem units unavailable if their utilisation prices are excessively high.
4) We propose to mirror the contract transfer clauses in Quick Reserve where in case of a contract transfer, assignment of all rights and obligations including payment will be made to the secondary provider.

Slow Reserve (SR) Consultation

In parallel to this consultation, we are also submitting documents for a new Slow Reserve Balancing Service, part of which also seeks to co-optimise its auction alongside BR, QR, and DR.

Proposed Product Changes and Summary of Feedback Received

Auction timing and co-optimisation

What is the proposed change?

We propose to change the auction timing from 08:15 am to 14:00 local time (UK) and co-optimise BR with the day ahead auctions for QR and DR (and also the new SR product, if implemented).

As a consequence of the co-optimisation across Response and Reserve services, BR will lose the ability to split with opposite direction Response products, whilst Response and Reserve baskets are independent of each other. Only splitting across the same service in opposite directions will be possible. Work is ongoing across the Response and Reserve services to address the wider questions of Stacking and Splitting for these services.

Why are we proposing this change?

We have received feedback from our Balancing Reserve Call for Input (May-June 2024) that the current timing of the BR auction is sub-optimal as providers must submit their bids before the wholesale day-ahead market results are released at 9:50 am.

We undertook an assessment to consider the BR auction timing and the possibility of co-optimising BR with our other Dynamic Response and Reserve products on the Enduring Auction Capability (EAC) platform. Our assessment and industry feedback support our proposal to move BR procurement to the 14:00 UK time co-optimised auction.

We believe this change will deliver value for end consumers and make it easier and simpler for market participants to determine their sell order prices for BR. Alongside these benefits we expect that this change will reduce risk premia currently being included in BR sell orders and reduce complexity for market participants at an already busy time of trading. This move will also improve our ability to secure services which are most crucial to system operations during periods of market scarcity.

Consultation Response Overview

From the 11 respondents to the consultation ten welcomed the proposal to change the auction timing for Balancing Reserve along with the co-optimisation with other services. One provider noted this should improve efficiency and price formation by allowing participants to incorporate day-ahead market outcomes into their bids. Another felt that the co-optimised approach will reduce financial and reputational risk on providers, adding this change addresses the issue of bids in BR being submitted before the wholesale market results. As a result, they would expect this will reduce risk premiums in BR sell orders and improve procurement during market scarcity.

Wholesale Markets

One participant did not support the change and felt BR should be procured in parallel with other wholesale energy markets with participants deciding how to enter the various markets.

Response and Reserve Market Design

In additional comments around the auction timing, whilst welcoming the proposal one provider questioned the need for multiple distinct balancing products given the increasing alignment of the design and procurement processes. They noted the original justification for BR was to secure flexibility ahead of the day-ahead auction to ensure the control room had guaranteed headroom regardless of how the day-ahead market cleared. Adding, if BR is now being co-optimised with QR and DR in the same auction window, they believed it is unclear what unique role BR continues to serve. They questioned whether it would be more efficient to consolidate procurement into QR and SR and define NESO's system needs in terms of required capabilities – allowing the market to offer solutions, rather than maintaining separate product silos.

They felt this could reduce complexity, improve liquidity, and better reflect the direction of travel toward a more integrated balancing framework.

Service Splitting

One respondent noted the consequence of the co-optimisation across Response and Reserve services would be BR losing the ability to split with opposite direction Response products, since Response and Reserve baskets are independent of each other.

Regarding the splitting options, they raised the point that from a system perspective, prohibiting service splitting may reduce overall flexibility. For instance, if a unit is allowed to provide frequency response in the export direction and reserve activation in the import direction, NESO could use the same asset for multiple purposes i.e. control system frequency and resolve constraint and balancing the grid. Specifically, they raised the following questions.

1. Can NESO provide a rationale behind the restriction on splitting service capacity across Response and Reserve services?
2. Previous communications in Phase 2 Quick Reserve Service and Procurement Design (page 35 of 43 of this document Quick Reserve Phase 2 A18 supporting information) suggested splitting would be allowed in future (including with Response, Balancing Reserve, and Slow Reserve), with current limitations attributed to NESO's IT systems. Can NESO confirm if enabling this functionality is a priority and provide a timeline?

They welcomed this approach – and noted it seems like a sensible development.

NESO response

Wholesale Markets

Participants are still able to choose which markets to participate in, regardless of the change in auction timing. We did not propose parallel procurement with the wholesale energy markets because units need knowledge of the cleared volume in order to meet their contracted position.

Response and Reserve Market Design

Whilst we understand the drive for reduced complexity across NESO services, which is a key aim as we reform Reserve services, BR continues to have a different set of parameters for participation compared to Quick Reserve (QR) and Slow Reserve (SR). QR is intended to be fast acting manually activated reserve service that allows control room engineers to respond to unexpected, sudden changes in Generation/Demand (such as changes in wind or TV pick up). BR is a way of securing Regulating Reserve, typically slower in nature but still flexible and there to resolve either unexpected or expected imbalances between supply and demand. NESO's opinion is that Slow Reserve with less flexibility would not be able to resolve this need, and limiting the market to only QR capable units would result in less competition and higher costs. We will take the feedback on in terms of defining systems needs in terms of capabilities and consider it in future developments across the Reserve Services.

Service Splitting

We recognise the potential benefits of increased liquidity of the market, by allowing providers to split their capability into different services. In order to implement this capability additional work is required across a number of complex processes and systems. Operability, cost and value assessments are currently ongoing leading to service design and then implementation planning. Allocation of resource and investment to enable splitting of response and reserve is being progressed in the context of a backlog of other high impact changes to response and reserve services including the go live of NBM Quick Reserve, the new Slow Reserve service, Instructible Dynamic response and locational procurement of response and reserve. We expect to be able to share a timeline for implementation in early 2026.

Dispatch Flexibility Rules

What is the proposed change?

We propose the following changes to the Dispatch Flexibility Rules:

a. allowing units dispatching from a 0 FPN to provide up to 25MW of indivisible capacity, therefore allowing up to 25MW SEL and SIL.

b. allowing units to set their MNZT for up to 5 minutes.

We also intend to implement checks to ensure units can follow their submitted parameters when dispatched from, or through, zero.

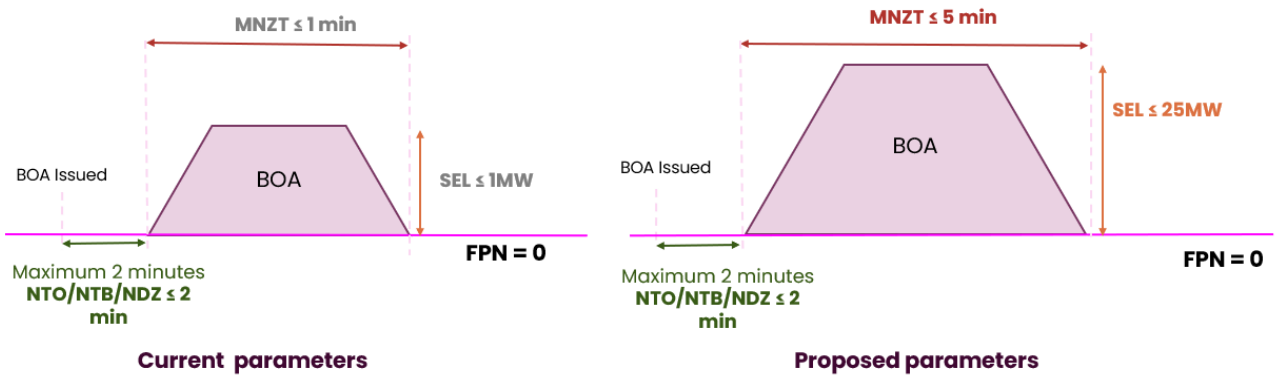

Figure 1 Example of changes for Dispatch Flexibility rules for a unit providing PBR from a FPN of 0MW

Why are we proposing this change?

Incremental MW rule

The existing BR rules require a BR provider to be able to be incrementally dispatched for every MW in their contracted range. This is enforced for units delivering BR from a 0MW FPN to have a Stable Export Limit (SEL) or Stable Import Limit (SIL) of 0MW or 1MW.

Following a detailed and comprehensive review of the dispatch flexibility rules, and engagement with industry, we are proposing to allow units to offer up to 25MW of "all of nothing" capability. This, in practice, would allow a BR unit to deliver the service from a 0MW FPN with a SEL/SIL of up to 25MW. For dispatches from a non-zero FPN there is no mechanism under the existing BM parameterisation to guarantee that dispatches will be made in 25MW increments.

We believe that this rule change will enable greater participation in the BR service from non-traditional providers of reserve capacity whilst still providing sufficient flexibility for BR capacity to be dispatched for precision energy balancing.

1-minute dispatch rule

The existing BR rules require a BR provider to be able to deliver dispatches as short as 1-minute in duration (not including notice periods and ramping time). This is enforced in practice by ensuring that the Minimum Non-Zero Time (MNZT) for units delivering BR from a 0MW FPN is no longer than 1-minute.

Following a detailed and comprehensive review of the dispatch flexibility rules and engagement with industry we are proposing to allow units to set their MNZT to up to 5 minutes. Our analysis shows that a longer MNZT is more detrimental to our ability to balance generation and consumption on the GB system than the size of "all-or-nothing" capacity. This is due to the volatility of energy imbalances which tend to increase or decrease in size rapidly. However, assuming that new competitively priced capacity can come forward to participate in BR following this change, allowing units to set their MNZT to 5 minutes when delivering the service from a 0MW FPN could deliver value for the end consumer compared to the existing rules.

Prior to this consultation, we sought input to ascertain whether additional units could participate in Balancing Reserve following a relaxation of the rules. Our findings provided sufficient evidence to support this conclusion.

For units which are not delivering Balancing Reserve from a 0MW FPN or through-zero – there are no restrictions on SEL/SIL and MNZT.

Consultation Response Overview

From the respondents 5 welcomed, at least in part the changes to dispatch flexibility rules, 5 provided no comments or noted no issues with the changes because they would not have any effect on their assets. One noted they do not have strong views on the proposed changes.

SEL (Stable Export Limit)

Several confidential respondents requested further clarification around SEL, one provider noted while these changes are aimed at increasing competition and removing barriers for new technologies, there is still a major barrier for participation of PSH units that also deliver a spin gen/ spin pump service for NESO. They noted these assets have a fast time to full delivery but will need to reach their SEL first in order to meet the requirements of rule 8.1.1 of the BR Service Terms. Adding this rule therefore imposes a restriction on their participation in BR when in spin mode.

While understanding NESO rationale for this rule, i.e. NESO should not have to dispatch and pay units to get to their SEL (with some units having a relatively high SEL). They noted that the SEL value might be precisely the required adjustment that NESO requires, and these assets should not be restricted on that basis. They believed this could lead to sub-optimal utilisation of these assets and may impact the overall cost-effectiveness of the service.

They encouraged NESO to consider how the rule can be amended to accommodate assets that can have 0MW output as their standard or common mode throughout the operational day.

Minimum Activation Period

Whilst supporting the proposal one provider raised the point that they believed an MNZT of less than or equal to five minutes was restrictive and discriminatory against many types of assets, which would thus reduce participation. The current service terms refer to a "minimum activation period" rather than to MNZT, which they believed is more appropriate.

Response Time

A provider noted Response Time is the time from the BOA issuance to the commencement of ramping, which is in line with the definition i.e. no greater than 2 minutes. However, in Schedule 2 under the Design Element column, Response Time is followed by "(to full delivery, including ramping)" which they noted is not correct for BR. They believed this may have been copied over from Slow Reserve terms; in which (as is also the case with STOR) Response Time includes the ramping times. They believed this crucial difference between the Reserve service parameters could cause issues and asked if is this intentional?

NESO Response

SEL (Stable Export Limit)

We can confirm that the proposed 25MW minimum dispatch requirement applies to instruction increments of up to 25MW for units providing the service from 0. It does not apply to units that are providing the service and already above SEL, which are expected to provide full flexibility. The 25 MW is the largest we will accommodate, but if a unit has a SEL of 5MW and wishes to provide the service from 0, then the minimum instruction of 5MW in that case is acceptable.

We carried out a thorough evaluation of these changes prior to consultation; the aim of these changes is to ensure the service is as flexible as possible for providers whilst still providing the Reserve capacity which meets criteria required for the System. Whilst there will be times when a larger adjustment is needed, our modelling found that as the minimum dispatch size increased, it was harder to meet the imbalance profile of typical days, increasing the cost of operating the system, and 25MW is currently the value we feel is optimal.

Minimum Activation Period

We have changed our terminology to be clearer and better aligned with Slow and Quick Reserve. We appreciate that some technology types may not be able to participate in the market, however our requirements reflect the needs of the system.

NESO carried out a thorough evaluation of these changes prior to consultation, and the changes proposed are not designed to allow specific technology types to participate in Balancing Reserve. The aim of these changes is to ensure the service is as flexible as possible for providers whilst still providing the Reserve capacity which meets criteria required for the System.

Response Time

We have made some changes to Schedule 2 following feedback to ensure it is better aligned with our other services and easier to understand.

Proposed changes to align with Quick Reserve

Excessive Pricing

What is the proposed change?

We propose to mirror the excessive pricing clauses in Quick Reserve that will allow NESO to deem units unavailable if their utilisation prices are excessively high.

Why are we proposing this change?

This change will ensure that Balancing Reserve capacity that is secured via the Day Ahead auction is able to be dispatched in real-time and is not commercially unavailable due to high utilisation prices. This change will improve outcomes for end-consumers by incentivising contracted BR providers to submit competitive utilisation prices and close a loophole which has allowed energy limited assets to avoid being dispatched whilst holding BR contracts to protect their state of energy.

Through our learning from BR and other Balancing Services we have identified instances where some energy limited assets have had insufficient energy to honour their full contracted period and have maintained market positions (such as discharging PNs) and increased their Bid-Offer prices during contracted periods such that their high prices make the units unlikely to be dispatched as they are economically out of merit, but continue to receive the capacity Availability Payments.

We believe that withholding the Availability Payment does not provide a sufficient sanction to deter this behaviour. Therefore, we propose introducing new terms that deal with excessively high or excessively low Bid-Offer prices and provide NESO, at its discretion, with a range of enforceable sanctions.

Consultation Response Overview

There was broad agreement for the principle that a mechanism for ensuring Reserve capacity contracted for availability at the day ahead stage is available and not priced excessively to avoid utilisation in the BM.

Definition of excessive pricing

From the responses 6 noted that terms such as ‘excessively high or low’ are subjective and may cause a lack of transparency, it was also suggested that any such behaviour should be dealt with through the Authority and existing licence conditions or regulations, and questions around what those regulatory powers entail.

NESO Response

Definition of excessive pricing

NESO acknowledges the absence of an industry standard or otherwise obvious definition of "excessive pricing". However, it is not the assessment that the price is 'excessive' that constitutes the trigger to invoke the contractual remedies (including making a referral to Ofgem) – rather, the trigger is that the pricing has as its sole or primary purpose been submitted to discourage NESO from issuing an instruction. NESO's judgment that prices are 'excessive' will be treated as evidence of that.

There is a step in the process whereby NESO shall request an explanation from the provider in reasonable detail of the rationale for such pricing, and on receipt of such explanation NESO will then make its judgement (acting reasonably) on the motivation behind the pricing. In seeking that explanation, NESO will be trying to assess if the prices are genuine in the sense of representing a real interest in being despatched or instead appear designed to do the opposite by influencing NESO to despatch someone else instead. We have also included the right to refer to Ofgem where we conclude, after the above step, that the price was in our opinion 'excessive'. There are further steps we can take (deregistration) but we would see these as very much a last resort, and hope that this could be avoided by us NESO working with providers to address any issues.

We believe a clause which links to motivation behind price setting, rather than solely focusing on the numerical value of those prices, is appropriate in these circumstances. It should also be noted that Ofgem has already approved this clause in QR Phase 1, and we believe that these rules should be applied consistently across our new Balancing Services unless we see any significant reason why a particular service should in fact be different.

The terms do not confer additional powers to Ofgem, from our perspective we wanted to ensure that we were explicit in that we might pass on details of such instances to the regulator. We cannot comment on what the regulator may choose to do in such a situation, but existing authority to investigate, request information and change licences could potentially be relevant here.

Contract transfer process

What is the proposed change?

We propose to mirror the contract transfer clauses in Quick Reserve where in the case of a contract transfer, assignment of all rights and obligations including payment to the secondary provider.

Why are we proposing this change?

Currently, when a BR contracted provider transfers a contract to a different unit (whether their own or operated by another provider) the BR contract revenue is still paid to the operator of the original contract holder, whilst performance is assessed related to the secondary provider. We propose to update the BR service terms to align with QR whereby, when there is a contract transfer, assignment of all rights and obligations including the payment and the performance are all made against the secondary provider.

Consultation Response Overview

From the 11 respondents, six welcomed the proposal to amend the contract transfer process with 4 providing no comment on these changes and one believing the current process worked well. One welcomed the inclusion and changes to the Contract Transfer Process as it reflects a broader effort to standardise terms across balancing services and noted where applicable the same principle should be applied to the upcoming Slow Reserve, and other auction products across the platform. Another adding, it seems like a sensible approach, as aligning it with other services provides consistency.

Use case and publishing Data

One Respondent asked if NESO expected this facility to be used mainly in case of the technical unavailability of a contracted unit and requested further clarification on where the Transfer Notices are published as the Service Terms state that Transfer Notices will be published on the Industry Information Website.

NESO Response

Current process functioning well

Whilst there have been no issues with the current contract transfer process, and this has been working for all parties we believe the principle of simplification and standardisation across the Reserve services, where possible, is important. With the introduction of new internal monitoring including settlement systems and processes within NESO the move to bring BR in line with other services allows for a much more streamlined and efficient process and importantly provides clarity and ease of use for providers who may participate in several NESO markets.

Use case and publishing Data

NESO has no requirements as to the circumstances around the need to use the contract transfer process, but yes, we believe the most likely scenario is where a provider is aware of a technical unavailability and wishes to transfer the BR contract to another qualifying unit. The clause in the BR service Terms refers to the publishing of the Contract Transfer template which can be found

here Contract Transfer template. In checking our response to this question we became aware that the current process for updating contract transfer notices had failed to load previous instances of contract transfer results, and we are therefore reviewing and updating that process to update previous instances of contract transfers and to ensure that future events are updated and notified in a timely manner. It is published here: Contract Transfer notices

Additional Consultation Feedback

Reserve Service simplification

A provider advised they were broadly supportive of the proposed changes and appreciated the effort to harmonise and modernise the balancing services framework. They encouraged NESO to consider whether the current product structure remains fit for purpose as co-optimisation increases. They felt a more holistic, capability-based approach could simplify participation and better reflect the evolving needs of the system.

Procurement Rules

One provider noted within the Procurement Rules Redline document, there are a few references which may be incorrect. For example: the "Deregistered" section at the foot of p19 states "in relation to (1) any Auction Product, means the cessation of an Auction Product's pre-qualification to that Auction Product" [they believed the 2nd of the 3 mentions of "Auction Product" should instead be "Auction Unit".] And within Schedule 1 – Defined Terms, the "SR Procurement Rules" section on p25 seems to contain an incorrect reference to a QR Procurement Rules document.

Splitting

One respondent asked if NESO could explain the decision taken in producing the splitting matrix. And asked why can every Dx product be stacked QR and SR in the same direction, but not BR?

Service Terms

One provider raised the following points regarding the BR Service Terms:

Clause 4 (record and Audits): their preference would be to provide NESO with an auditor's certificate.

Clause 14 (Third Party Claims): any claims brought by NESO should relate only to an "actual breach" and not an "alleged breach" otherwise this means that NESO could pass a claim on to them even in the event where the breach has not been established thereby making a calculation of potential loss impossible to quantify. As a result, they deemed this to be wholly unreasonable.

Service parameters terminology

A respondent noted the terminology concerning service parameters had become very confusing. For example, Response Time can mean different things in different service terms:

BR: Definition: Response Time – from issue of BOA to commencement of ramping.

Schedule 2: Response Time (to full delivery, including ramping) – not greater than 2 minutes from start time specified in BOA (for the avoidance of doubt which includes all ramping and notice periods)

SR: Definition: Response Time – the maximum period (commencing at the start time instructed by NESO) over which it is required to reach the volume instructed by the BOA or Instruction which period shall include all ramping and notice periods as specified in the applicable SR Service Parameters.

Schedule 2: Response Time (to full delivery, including ramping) – not greater than fifteen (15) minutes from start time specified in BOA or Instruction (for the avoidance of doubt which includes all ramping and notice periods). They noted the reference to Common Flexibility Service Terms and Conditions has been replaced by the reference to Flexibility Services Standard Agreement, however, Schedule 1 of the Service Terms does not contain a definition for the new reference.

NESO Response

Reserve Service simplification

We appreciate the feedback. We are working across our Reserve services to standardise and simplify where possible, however the differing parameters offered by the various services do provide important capabilities required by the system. We will take the feedback on in terms of defining systems needs in terms of capabilities and consider it in future developments across the Reserve Services.

Procurement Rules

We agree that these are errors during drafting of the documents and have amended in this submission to Ofgem accordingly.

Splitting

The current policy theoretically allows BR/QR/SR to be split with DC/DM/DR in opposite directions. However, due to IT restrictions, not all the combinations have been implemented. Currently, splitting BR and DX in opposite directions has been implemented (e.g., NBR and DCL) in the market. This is possible because BR and DX/QR/SR are currently auctioned separately at different times of the day. Their splitting is thus performed manually due to the auctions gap. Any changes on the splitting rules for other services will be made by implementing corresponding splitting algorithms in EAC and thus will be done automatically through auctions.

Service Terms

Clause 4: Our firm preference is to leave the provision unaltered. This clause in our view is balanced and sits in the ENA's flexibility services standard agreement which was developed after industry consultation. The clause is also applied unaltered to our other balancing services service terms. The rationale for incorporating the ENA's documentation with respect to these boilerplate provisions was to apply consistency of approach across the range of network services, as well as across our balancing services terms, for the benefit of both NESO and market participants.

Clause 16: All claims made against NESO will be related to an "alleged" breach in the first instance and will only become related to an "actual" breach if the claim is subsequently admitted or determined in the claimant's favour. The rationale for the clause is that all such claims, even if spurious or ill-founded, will require to be defended, and the indemnity in NESO's favour (in 14.2) is designed to ensure NESO is held harmless on the basis that the undertaking from the provider at the start of the clause (in 14.1) places the risk of any claim firmly with the provider. We have sought however to ensure that the clause is balanced, by allowing the provider conduct of any claim (in 14.3), and this clause allows the provider to contest any alleged claim if it considers it to be spurious etc. and generally prevents NESO from settling the claim without the provider's approval acting reasonably. This clause appears in all our other balancing services service terms, and we see no reason to change it.

Service parameters terminology

We appreciate the feedback. We have made some changes to Schedule 2 (detailed below in Annex 1) following feedback to ensure it is better aligned with our other services and easier to understand. The definition for the Flexibility Services Standard Agreement is now defined in the Balancing Service Glossary General Terms.

Annex 1 - summary of proposed changes

NESO are proposing changes to the Service Terms and Procurement Rules for Balancing Reserve, primarily to facilitate co-optimisation with Quick Reserve and Dynamic Reserve (and Slow Reserve if implemented) but also to make a small number of additional improvements and updates to the terms.

The following table sets out all the proposed changes to the existing Balancing Reserve Service Terms and Procurement Rules (ignoring cross referencing updates, changes in consequence of NESO's new name, and typographical or formatting changes).

Contract Section	Proposed Changes
Service Terms Clause 5.11	New sub-clause inserted to confer remedies for NESO if pricing in the BM is considered to be excessive (drafting based on equivalent clause in other service terms e.g. Quick Reserve). Consequential updates to the end of clause 5.14 to utilise new defined term "Deregistered" in Procurement Rules.
Service Terms Clause 8	Updates to the dispatch flexibility rules. Now allows submission of a SEL/SIL up to 25MW so as to create an exception to the 1MW increment dispatch volume rule. The minimum 1-minute duration rule is also now qualified by the ability for a provider to submit a MNZT of up to 5-minutes.
Service Terms Clause 23	Changes to contract transfer provisions to align with other services e.g. Quick Reserve, mainly so that transfers are of the entirety of rights and obligations associated with a BR Contract meaning NESO settles for service delivery with the transferee. Minor consequential changes elsewhere in text including deletion of clause at end of a number of provisions (e.g. 5.15, 6.3, 7.4, 9.3 and 10.2).
Service Terms Clause 29	Reference to arbitration body updated from Electricity Arbitration Association to London Court of International Arbitration.
Service Terms Clauses 17, 19, 20, 21, 22, 24, 25, 26, 27, 28. 29, 30, 31, 32, 33, 34 and 35	In line with other terms e.g. for Quick Reserve, references to ENA's standard flexibility terms changed to use latest terminology (Flexibility Services Standard Agreement) as defined in Balancing Service Glossary.
Service Terms Schedule 2	New Schedule to bring together BR service parameters previously included in a defined term.

Procurement Rules Clause 1.4	Housekeeping – removal of reference to Effective date (and associated defined term) as now historical.
Procurement Rules Clauses 1.3.3, 10, 13, 21, 22 and 23	In line with other terms e.g. for Quick Reserve, references to ENA's standard flexibility terms changed to use latest terminology (Flexibility Services Standard Agreement) as defined in Balancing Service Glossary.
Procurement Rules Clause 12.5	Deletion of reference to paragraph 21 of ENA service terms as not needed (in line with Quick Reserve procurement rules).
Procurement Rules Schedule 1 Definition "Auction Closing Time"	Changed to 1400 hours on D-1.
Procurement Rules Schedule 1 Definition "Auction Opening Time"	Reworded to align with Quick Reserve (D-15 where D is the Service Day).
Procurement Rules Definition "Auction Results Time"	Changed to 1430 hours on D-1.
Procurement Rules Definition "Deregistered"	New definition inserted to simplify drafting (per Quick Reserve terms).
Procurement Rules Definition "Ramp-Down Period"	Deleted as not used, and replaced by new definitions of "Run-Down Rate" and "Run-Up Rate".
Procurement Rules Definition "Market Welfare"	Updated to facilitate co-optimisation with Dynamic Response and Quick Reserve, and also with Slow Reserve if the new Slow Reserve terms have been approved at the time these changes to the BR procurement rules become effective.

ADDITIONAL CHANGES PROPOSED TO BE MADE IN RESPONSE TO INDUSTRY CONSULTATION	
Service Terms Front page	Deletion “BR” in heading
Service Terms para 7.1	Replace “Response Time” with “Notice Period” to align with schedule 2 and definitions
Service Terms para 7.3(a)	“sub-paragraph” changed to “paragraph”
Service Terms para 12.1	Delete stray bracket
Service Terms para 12.2	Cross reference changed from 12 to 12.1
Service Terms Sch 1 defn “BR Capacity”	Change “T” to “t” at start
Service Terms Sch 1	New definition “Notice Period” (as used in para 7.1 and Sch 2)
Service Terms Sch 1, defn “Response Time”	Updated to reflect changes to Sch 2 (ie time to commencement of ramping replaced by time to full instructed volume)
Service Terms Sch 2	Amended to clarify distinction between notice period and response time, and to include dynamic parameters for dispatch flexibility rules
Procurement Rules Sch 1 defn “Deregistered”	“Auction Product” replaced by “Auction Unit”
Procurement Rules Sch 1 defn “Market Welfare"	Replace lettering with numbering for each limb, and Insert “and” after limb (1)
Procurement Rules Sch 1 defn “SR Procurement Rules”	Corrected to refer to Slow not Quick
Procurement Rules Sch 1 defn “SR Products”	Changed to “SR Auction Products” and put in alphabetical order

Annex 2 - Consequential changes for Quick Reserve, Dynamic Response and Slow Reserve

Co-optimisation across auction products requires a uniform definition of market welfare in each of the different procurement rules for each product, and so as part of this latest update to the terms and conditions related to Balancing, to sit alongside the proposed updated Balancing Reserve Procurement Rules, NESO is proposing a consequential change to the Market Welfare definition in the procurement rules for each of Quick Reserve (QR), Dynamic Response (DR) and Slow Reserve (SR).

This change to the SR Procurement Rules is dependent upon SR first being approved by Ofgem and implemented with an SR Go-Live Date so as to co-optimise with DR and QR, and this is being proposed as a part of the suite of changes which are the subject of a separate consultation process. Subject to those changes being approved by Ofgem, full co-optimisation across all four products will then be effective from the date the BR updates take effect

However, if SR has not been approved and implemented in this way by the time the BR updates are effective, then BR will be co-optimised with QR and DR only, and full co-optimisation across all four products will only take place if and when the changes to SR are approved by Ofgem and brought into effect.

The definition in the proposed updated BR Procurement Rules is shown below:

the aggregate of: -

(1) the sum of the **Order Surpluses** with respect to all **Buy Orders** and **Sell Orders** in a **Service Day**, and
(2) the 'Market Welfare' for that **Service Day** as defined in the **Response Procurement Rules** but with respect only to limb (1) and the **Response Auction Products** and
(3) the 'Market Welfare' for that **Service Day** as defined in the **QR Procurement Rules** but with respect only to limb (1) and the **QR Auction Products**, and
(4) only if the **Authority** shall have approved the **SR Procurement Rules** prior to the **Effective Date**, the 'Market Welfare' as defined in the **SR Procurement Rules** but with respect only to limb (1) and the **SR Auction Products**;

The following table outlines how the existing Procurement Rules for each of the below balancing services will be amended, as to allow co-optimisation across all products:

Service	Current definition "Market Welfare"	Proposed amendment	When effective
Quick Reserve	the aggregate of	The insertion after the end of the definition in the prevailing	BR Effective Date

Service	Current definition "Market Welfare"	Proposed amendment	When effective
	(1) the sum of the **Order Surpluses** with respect to all **Buy Orders** and **Sell Orders** in a **Service Day**, and (2) the 'Market Welfare' for that **Service Day** as defined in the **Response Procurement Rules** but with respect only to limb (1) and the **Response Auction Products**;	version of the Procurement Rules of: and (3)[or (4)][1] the 'Market Welfare' for that **Service Day** as defined in the **BR Procurement Rules** but with respect only to limb (1) and the **Balancing Reserve Auction Products**;	
Dynamic Response (DM/DR/DC)	the aggregate of (1) the sum of the **Order Surpluses** with respect to all **Buy Orders** and **Sell Orders** in a **Service Day,** and (2) the 'Market Welfare' for that **Service Day** as defined in the **QR Procurement Rules** but with respect only to limb (1) and the **Quick Reserve Auction Products**;	The insertion after the end of the definition in the prevailing version of the Procurement Rules of: and (3)[or (4)][1] the 'Market Welfare' for that **Service Day** as defined in the **BR Procurement Rules** but with respect only to limb (1) and the **Balancing Reserve Auction Products**;	BR Effective Date
Slow Reserve (only if already updated to co-optimise with Dynamic Response and Quick Reserve)	Note – the below assumes the changes the subject of the separate SR consultation have already been approved by Ofgem and implemented prior to the BR Effective Date: the aggregate of:- (1) the sum of the **Order Surpluses** with respect to all **Buy Orders** and **Sell Orders** in a **Service Day**, and	The insertion after the end of the definition in the prevailing version of the Procurement Rules of: and (4) the 'Market Welfare' for that **Service Day** as defined in the **BR Procurement Rules** but with respect only to limb (1) and the **Balancing Reserve Auction Products**;	BR Effective Date

[1] Note - either SR will have already have been added before the BR updates are effective (as a new (3)) as part of the SR consultation, in which case these current changes insert a new (4) for BR, or the SR consultation has not been approved and implemented with an SR Go-Live Date by the time the BR updates are effective in which case the current changes insert a new (3) for BR.

Service	Current definition "Market Welfare"	Proposed amendment	When effective
	(2) (the 'Market Welfare' for that **Service Day** as defined in the **Response Procurement Rules** but with respect only to limb (1) and the **Response Auction Products** and (3) the 'Market Welfare' for that **Service Day** as defined in the **QR Procurement Rules** but with respect only to limb (1) and the **QR Auction Products;**		

In addition, in each of the procurement rules for the above products, three new definitions (as used in the above proposed amendments) are added in schedule 1 in alphabetical order:

Defined Term	Definition
"**BR Procurement Rules**"	the prevailing document titled 'Balancing Reserve (BR) Procurement Rules' published by or on behalf of **NESO** from time to time governing the procurement of **Balancing Reserve**;
"**Balancing Reserve**"	as defined in the **BR Procurement Rules**;
"Balancing Reserve Auction Products"	the 'Balancing Reserve Products' as that term is defined in the **BR Procurement Rules**;

Annex 3 - EBR Article 18 mapping for the Balancing Reserve Terms and Conditions

This table cross references the terms and conditions related to balancing described in Article 18 of the Electricity Balancing Regulation against the corresponding parts of the GB codes and relevant contractual provisions, with particular reference to the updated Balancing Reserve Service. This cross referencing includes the terms and conditions for balancing service providers and the terms and conditions for balance responsible parties.

Nothing in this table shall prejudice or otherwise affect the operation of the GB codes and relevant contractual provisions, and in the event of any conflict or inconsistency between this table and Article 18 EBR the latter shall prevail.

Table 1

Article	**Text**	**Code or document**	**Section**
18.2	The terms and conditions pursuant to paragraph 1 shall also include the rules for suspension and restoration of market activities pursuant to Article 36 of Regulation (EU) 2017/2196 and rules for settlement in case of market suspension pursuant to Article 39 of Regulation (EU) 2017/2196 once approved in accordance with Article 4 of Regulation (EU) 2017/2196.	Grid Code	OC9.4
		BSC	G3, P1.6, P5, Q4.3.4, Q5.4, Q5A and T1.7
18.4	The terms and conditions for balancing service providers shall:	-	-

18.4.a	Define reasonable and justified requirements for the provisions of balancing services;	BR Procurement Rules & Service Terms	**BR Procurement Rules** 4 - Registration of Registered BR Participants 5 - Prequalification of BR Units 12 - Formation of BR Contracts 15 - Use of Designated Auction Platform **BR Service Terms** 5 - Service Availability 8 – Dispatch Flexibility Rules 9 – BR Availability Payments 10 – Energy Utilisation Payments 11 - Payment Procedure 15 - Provision of Other Services Schedule 2 – Service Parameters
		BSC	A, H3, H4.2, H4.7, H4.8, H5.5, H6, H10, J3.3, J3.6, J3.7 and J3.8
		CUSC	Section 4.1.3
		Grid Code	BC1, BC2, BC3 & BC4
18.4.b	Allow the aggregation of demand facilities, energy storage facilities and power generating facilities in a scheduling area to offer	BSC	K3.3, K8, S6.2, S6.3 and S11, S12, S13 and S14
		Grid Code	DRSC 4.2, BC1.4

	balancing services subject to conditions referred to in paragraph 5 (c);	BR Procurement Rules	**BR Procurement Rules** 4 - Registration of Registered BR Participants 5 – Pre-qualification of BR Units Schedule 2 – Registration and Pre-Qualification Procedure *[note: aggregation not applicable]*
18.4.c	Allow demand facility owners, third parties and owners of power generating facilities from conventional and renewable energy sources as well as owners of energy storage units to become balancing service providers;	BSC	K3.2, K3.3, K8
		BR Procurement Rules	**BR Procurement Rules** 4 - Registration of Registered BR Participants 5 – Prequalification of BR Units Schedule 2 – Registration and Pre-Qualification Procedure
18.4.d	Require that each balancing energy bid from a balancing service provider is assigned to one or more balance responsible parties to enable the calculation of an imbalance adjustment pursuant to Article 49.	BSC	T4, Q7.2, Q6.4
18.5	The terms and conditions for balancing service providers shall contain:	-	-

18.5.a	The rules for the qualification process to become a balancing service provider pursuant to Article 16;	BR Procurement Rules & Service Terms	**BR Procurement Rules** 4 - Registration of Registered BR Units 5 – Pre-qualification of BR Units Schedule 2 - Registration and Pre-Qualification Procedure **BR Service Terms** 15 - Provision of Other Services
		Grid Code	*BC5, BC4.4.2*
		CUSC	Section 4.1
		BSC	J3.3, J3.6, J3.7, J3.8, K3.2, K3.3 and K8
18.5.b	The rules, requirements and timescales for the procurement and transfer of balancing capacity pursuant to Articles 32 and 34;	BR Procurement Rules & Service Terms	**BR Procurement Rules** 7 - Buy Orders 8 - Sell Orders 9 - Market Clearing Rules 12 – Formation of BR Contracts **BR Service Terms** 6 - Service Instruction 7 - Service Delivery 15 - Provision of Other Services 23 - Transfer of BR Contracts

18.5.c	The rules and conditions for the aggregation of demand facilities, energy storage facilities and power generating facilities in a scheduling area to become a balancing service provider;	BR Procurement Rules & Service Terms	**BR Procurement Rules** 4 - Registration of Registered BR Units 5 – Pre-qualification of BR Units 20 - Site Export and Import Limits Schedule 2 - Registration and Pre-Qualification Procedure **BR Service Terms** 15 - Provision of Other Services
		BSC	K3.3 and K8
		Grid Code	BC1.4 and BC1.A.10
18.5.d	The requirements on data and information to be delivered to the connecting TSO and, where relevant, to the reserve connecting DSO during the prequalification process and operation of the balancing market;	BR Procurement Rules & Service Terms	**BR Procurement Rules** 4 - Registration of Registered BR Participants 5 – Pre-qualification of BR Units 11 - Daily Auction Reports 13 - Confidentiality 16 - Accuracy of information 17 - Intellectual Property Schedule 2 - Registration and Pre-qualification Procedure **BR Service Terms**

			21 - Records and Audits 24 - Confidentiality 25 - Intellectual Property Rights
		BSC	O
		Grid Code	DRC, *BC5 BC1.4,*
		CUSC	4.1.3.14 and 4.1.3.19
18.5.e	The rules and conditions for the assignment of each balancing energy bid from a balancing service provider to one or more balance responsible parties pursuant to paragraph 4 (d);	BSC	T4
		BR Procurement Rules & Service Terms	**BR Procurement Rules** 8 - Sell Orders 9 - Market Clearing Rules 12 - Formation of BR Contracts **BR Service Terms** 15 - Provision of Other Services 22 - Assignment 23 - Transfer of BR Contracts
18.5. f	The requirements on data and information to be delivered to the connecting TSO and, where relevant, to the reserve connecting DSO to evaluate the provisions of balancing services pursuant to Article 154(1), Article 154(8),	BR Procurement Rules	**BR Procurement Rules** 4 - Registration of Registered BR Participants 5 – Pre-qualification of BR Units

	Article 158(1)(e), Article 158(4)(b), Article 161(1)(f) and Article 161(4)(b) of Regulation (EU) 2017/1485;		11 - Daily Auction Reports 13 - Confidentiality 16 - Accuracy of Information 17 - Intellectual Property Schedule 2 - Registration and Pre-qualification Procedure
		Grid Code	BC1.4, BC1.A.10,
		CUSC	4.1.3.19
18.5. g	The definition of a location for each standard product and each specific product taking into account paragraph 5 (c);	Grid Code	BC1.4
18.5.h	The rules for the determination of the volume of balancing energy to be settled with the balancing service provider pursuant to Article 45;	BSC	T3
18.5. i	The rules for the settlement of balancing service providers defined pursuant to Chapters 2 and 5 of Title V;	BR Service Terms	**BR Service Terms** 5 - Service Availability 9 - BR Availability Payments 10 - Energy Utilisation Payments 11 - Payment Procedure Schedule 3 - BR Availability Payments Schedule 4 - Payment Provisions

		BSC	T1.14, T3 and U
		CUSC	4.1.3.9 and 4.1.3.9A
18.5. j	A maximum period for the finalisation of the settlement of balancing energy with a balancing service provider in accordance with Article 45, for any given imbalance settlement period;	BR Service Terms	**BR Service Terms** 9 - BR Availability Payments 10 - Energy Utilisation Payments 11 - Payment Procedure Schedule 3 - BR Availability Payments Schedule 4 - Payment Provisions
		BSC	U2.2
		CUSC	4.3.2.6
18.5. k	The consequences in case of non-compliance with the terms and conditions applicable to balancing service providers.	BR Procurement Rules & Service Terms	**BR Procurement Rules** 4 - Registration of Registered BR Participants 5 – Pre-qualification of BR Units Schedule 2 - Registration and Pre-Qualification Procedure **BR Service Terms** 15 - Provision of Other Services 17 - Termination of BR Contracts
		BSC	H3, Z7 and A5.2

		CUSC	4.1.3.9, 4.1.3.9A and 4.1.3.14
18.6	The terms and conditions for balance responsible parties shall contain:	-	-
18.6. a	The definition of balance responsibility for each connection in a way that avoids any gaps or overlaps in the balance responsibility of different market participants providing services to that connection;	BSC	K1.2, P3 and T4.5
18.6. b	The requirements for becoming a balance responsible party;	BSC	A, H3, H4.2, H4.7, H4.8, H5.5, H6, H10, J3.3, J3.6, J3.7, J3.8,, K2, K3.3 and K8
18.6.c	The requirement that all balance responsible parties shall be financially responsible for their imbalances, and that the imbalances shall be settled with the connecting TSO;	BSC	N2, N6, N8, N12, and T4,
18.6. d	The requirements on data and information to be delivered to the connecting TSO to calculate the imbalances;	BSC	O, Q3, Q5.3, Q5.6, Q6.2, Q6.3, Q6.4
		Grid Code	BC1.4.2,3,4, BC1 Appendix 1 BC2.5.1,
18.6. e	The rules for balance responsible parties to change their schedules prior to and after the intraday energy gate closure time pursuant to paragraphs 3 and 4 of Article 17;	BSC	P2
		Grid Code	BC1.4.3.4,
18.6.f	The rules for the settlement of balance responsible parties defined pursuant to Chapter 4 of Title V;	BSC	T4, U2

18.6.g	The delineation of an imbalance area pursuant to Article 54(2) and an imbalance price area;	-	*GB constitutes one imbalance area and imbalance price area and they are equal to the synchronous area*
18.6.h	A maximum period for the finalisation of the settlement of imbalances with balance responsible parties for any given imbalance settlement period pursuant to Article 54;	BSC	U2.2
18.6.i	The consequences in case of non-compliance with the terms and conditions applicable to balance responsible parties;	BSC	H3,Z7 and A5.2
18.6.j	An obligation for balance responsible parties to submit to the connecting TSO any modifications of the position;	BSC	P2
18.6.k	The settlement rules pursuant to Articles 52, 53, 54 and 55;	BSC	T4, U2
18.6.l	Where existing, the provisions for the exclusion of imbalances from the imbalance settlement when they are associated with the introduction of ramping restrictions for the alleviation of deterministic frequency deviations pursuant to Article 137(4) of Regulation (EU) 2017/1485.	Deterministic frequency deviation is a continental European concept and is not a characteristic of the GB system. Therefore, this requirement does not apply to GB.	N/A

Non- Mandatory Elements

Article	***Text***	***Comment***
18.7. a	-	Sub-paragraph 18.7.a was repealed pursuant to paragraph 18(6)(a) of Schedule 2 of the Electricity Network Codes and Guidelines (Markets and Trading) (Amendment) (EU Exit) Regulations 2019/532.
18.7. b	Where justified, a requirement for balancing service providers to offer the unused generation capacity or other balancing resources through balancing energy bids or integrated scheduling process bids in the balancing markets after day ahead market gate closure time, without prejudice to the possibility of balancing service providers to change their balancing energy bids prior to the balancing energy gate closure time or the integrated scheduling process gate closure time due to trading within intraday market;	NESO does not expect to require this from Balancing Service Providers, except where balancing capacity or energy has been contracted. Although in the BM defaulting rules apply if data is not updated, there is no legal requirement for parties to offer unused generation capacity or any other balancing resource.
18.7.c	-	Sub-paragraph 18.7.c was repealed pursuant to paragraph 18(6)(c) of Schedule 2 of the Electricity Network Codes and Guidelines (Markets and Trading) (Amendment) (EU Exit) Regulations 2019/532.
18.7. d	Specific requirements with regard to the position of balance responsible parties submitted after the day-ahead market timeframe to ensure that the sum of their internal and external commercial trade schedules equals the sum of the physical generation and consumption schedules, taking into account	NESO does not expect to require this from Balancing Service Providers. No BSC party is required to contract to match its Final Physical Notifications (FPNs).

	electrical losses compensation, where relevant;	
18.7. e	An exemption to publish information on offered prices of balancing energy or balancing capacity bids due to market abuse concerns pursuant to Article 12(4)	NESO does not expect to require this exemption. Such data is published on Insights Real-Time Information Service (IRIS).
18.7. f	an exemption to predetermine the price of the balancing energy bids from a balancing capacity contract pursuant to Article 16(6)	-
18.7. g	An application for the use of dual pricing for all imbalances containing the information set out in Article 52(2)(d)(i) and (ii).	NESO does not expect to apply for the use of dual pricing for all imbalances. A single imbalance price was adopted by the GB market in November 2015.