ESO

Demand Flexibility Service July 2024 Consultation

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22 July 2024

Demand Flexibility Service

Dear Industry and Colleagues,

In accordance with Commission Regulation (EU) 2017/2195 of 23 November 2017 as converted into retained EU law (EBR), National Grid ESO is proposing to update its terms and conditions relating to balancing with respect to its Demand Flexibility Service (DFS).

The proposed updates have been applied to the Demand Flexibility Service Procurement Rules and Service Terms.

In accordance with EBR, the ESO is now consulting on these updates to those terms and conditions. The consultation will be undertaken from 22 July 2024 to 22 August 2024.

Please respond by 13:00 on 22 August 2024 using the proforma available on our website and submitting answers via the following MS Forms link:

https://forms.office.com/r/gfgyQjYu9k

Annexed to this document is a table showing how we believe the updated terms and conditions (and corresponding parts of the GB codes) map across to the terms and conditions related to balancing described by Article 18 of EBR.

If you have any queries regarding this proposal, please contact us at demandflexibility@nationalgrideso.com

Yours sincerely,

Jonathan Wisdom

Head of Market Change Delivery

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EBR Article 18 Consultation

Article 18 of Commission Regulation (EU) 2017/2195 of 23 November 2017 as converted into retained EU law (EBR) requires TSOs to develop terms and conditions for balancing service providers and sets out the requirements for terms and conditions for both balancing service providers and balance responsible parties. We publish a mapping document to show how we believe our contract terms, notably Service Terms and Procurement Rules but also other documentation such as Grid Code, map across to these requirements.

These terms and conditions are required by EBR to be approved by the regulatory authority after industry consultation, and the GB balancing terms and conditions as currently approved by Ofgem include contract terms related to our Demand Flexibility Service.

EBR provides a process for TSOs to propose amendments to approved terms and conditions, which is similarly subject to approval by the regulatory authority after industry consultation.

Accordingly, we are now proposing to consult on amendments to our Demand Flexibility Service contract terms, and this document begins our formal industry consultation. In accordance with EBR, we are required to consult for not less than one month and must consider the views of stakeholders prior to submission of our proposals to Ofgem for approval. We are required to provide sound justification for including (or excluding) consultation feedback alongside our submission.

Introduction

The Demand Flexibility Service (DFS) was introduced during the winter of 22/23 as part of our winter contingency toolkit. Its purpose was to act as an enhanced action, in addition to the normal electricity market, to be used to access additional megawatts (MW) during times of high national demand, particularly on peak winter days when the system could have been placed under stress.

In September 2023, our Winter Outlook Report highlighted slightly higher base case margins for the upcoming winter, but also identified risks and uncertainties in the global energy markets. As a prudent system operator, we prepared for various scenarios to ensure the safe operation of the system and minimise the impact on electricity customers in Great Britain. To provide additional tools to maintain system margin during peak demand, we announced the continuation of the Demand Flexibility Service (DFS) as an enhanced action for winter 23/24.

We believe that DFS can continue to play a crucial role in supporting system operations and providing additional margin during periods of high demand. We remain committed to improving and expanding the service to meet the growing needs of the energy market and ensure a reliable and secure electricity supply for Great Britain. Therefore, we will be evolving the DFS to a commercial merit-based margin tool that will continue to provide a route to market for flexibility.

ESO has undertaken a considerable amount of engagement across industry to help inform our thinking and capture areas important to stakeholders in the evolution of the service. Below outlines some of the key activities we have carried out as part of the work leading up to the Article 18 consultation process. Since the publication of the Initial Service Design Proposal recording, we have received reassuring feedback on the details of the proposal and therefore, the recording serves as a good insight into some of the reasoning and justification alongside our Winter 23/24 End of Year Report as to the changes proposed in this consultation process.

- Industry DFS Evolution questionnaire (*38 provider responses*)
- 50+ hours of follow up calls to expand on questionnaire feedback including all DNO’s.
- Winter 23/24 End of Year Report
- Initial Service Design Proposal recording published. (~*800 online views*)
- 3 live Q&A drop-in sessions. (*80+ attendees*)
- Further follow up provider calls/meetings to refine feedback and proposals.

Consultation process and how to respond.

In this document, we describe and explain the changes we are making. We have also published clean and tracked changed versions of the Demand Flexibility Service Procurement Rules and Service Terms which include the full proposed changes described in this consultation.

This consultation will be open until **13:00 on 22 August 2024**.

- DFS Service Terms (tracked changes)
- DFS Procurement Rules (tracked changes)

We ask respondents to submit their responses through Microsoft Forms to help us collate and compare responses efficiently and effectively.

https://forms.office.com/r/gfgyQjYu9k

Once the consultation is closed, we will consider all responses and subsequently submit to Ofgem our final proposals for changes to the DFS Service Terms and DFS Procurement Rules that reflect our consideration of all responses. Ofgem will have up to 2 calendar months to approve or reject our proposals.

Should you have questions about the consultation process or wish to discuss any of the proposals in more detail, please contact us at demandflexibility@nationalgrideso.com .

Response & Quick Reserve Consultations

In parallel to this consultation, a Response and Quick Reserve consultation will be live but at different stages. Any feedback on Quick Reserve or Response related elements should be submitted to that consultation. Links to the dedicated pages for these consultations are outlined below.

https://www.nationalgrideso.com/industry-information/balancing-services/reserve-services/quick-reserve

https://www.nationalgrideso.com/industry-information/balancing-services/frequency-response-services/new-dynamic-services-dcdmdr

Summary of Key Topics

To support the review of the key proposed changes by industry and other stakeholders as part of this consultation, we have identified the key developments below that we have also covered in our Initial Service Design proposal recording and subsequent Q&A sessions/provider 1-2-1's. For each proposal topic, we are asking respondents to set out whether they agree/disagree, provide any supporting rationale and whether they have any other comments on the proposal and proposed wording.

A high-level summary of key developments is provided here for convenience. Please note that this is for summary support purposes, and we strongly encourage all stakeholders to review the full suite of changes outlined in the tracked version of both the DFS Service Terms and Procurement Rules.

1. **Service Positioning.** Based on our early view of winter 24/25 and feedback from industry, we believe this is the correct time to continue to evolve the service and move it to a commercial merit-based margin tool. This will ensure that participating and new flexibility volume will continue to see a route to market whilst being assessed against the alternative options available. We are also seeking to expand the use of the service to be available all year round.
2. **Stacking.** We propose to remove previous clauses explicitly preventing stacking with the Capacity Market and Distribution Network Operators (DNO's) flexibility markets. With the move to a merit-based service we recognise the importance for parties to be able to stack different revenue streams. ESO have proposed to retain the no stacking element for the Balancing Mechanism (BM), response, and reserve products. This is in line with our objective of avoiding incentivising a delay in moving to these markets. We do not want a situation where DFS and reserve revenue is enough to delay a unit from participating in the BM, as we value competition in the BM. There are also concerns regarding introducing another route of procuring BM actions in advance of gate closure, and with creating any incentives to renege on Response and Reserve contracts as DFS would provide an energy revenue which may be larger than capacity revenue.
3. **Metering.** We propose to further widen the opportunity for asset meter participation by removing the requirement for the boundary meter to be half hourly settled.
4. **Performance Incentives**. We propose introducing a performance incentive mechanism to ensure that providers are accountable for delivery and incentivise accurate forecasting/bids, ultimately ensuring value of the service.
5. **Procurement/utilisation**. We propose moving the service to within day only. Removing the day ahead capability ensures we can make a more informed decision when utilising the service and aligns to the broader ambition of moving procurement of our services as close to real time as possible.
6. **Data/Process**. We are proposing to remove the requirement for providers to share incentive file data with us as we move to a commercial service. We would also value feedback on the relevance of the Anticipated DFS Requirement Notice process with the repositioning of the service. We are seeking to provide further capability to support unit meter point duplication challenges between providers.

Roadmap Activities.

As part of our initial service design proposal, we identified activities which will form part of our DFS roadmap ensuring we continue to explore and develop further opportunities such as a bi-directional service offering and locationality. These will not feature as part of this Article 18 consultation but will be reviewed following the outcome of this process. More information will be shared through the usual communication channels when this work commences.

The following sections share a brief overview of the key areas we are seeking feedback on as part of this process. ESO acknowledge that alongside the final submission to Ofgem we will also be submitting a derogation request. Any use of the service will be subject to such derogation being granted by Ofgem and in place ahead of any service procurement.

1. Service Positioning

What is the proposed change?

We are proposing to reposition the DFS to be a merit-based margin tool which will provide our control room additional options to provide economic margin support on the system. This will include ensuring the terms facilitate access to DFS across the year.

Why are we proposing this change?

Based on our early view of winter 24/25 as outlined in our recorded content and feedback from industry, we believe this is the correct time to evolve the service and move it to a commercial merit-based margin tool. This will ensure that participating and new flexibility volume will continue to see a route to market whilst ensuring the service delivers economic value by being compared to the alternative options available. As identified in our Flexibility Strategy work, we recognise that maintaining access and a route to market for flexibility is important in our transition to both net zero and our expanded role of National Energy System Operator (NESO). We anticipate that this type of flexibility will ultimately be best placed to be market led but is highly dependent on the smart meter rollout and the introduction/implementation of Market Wide Half Hourly Settlement (MWHHS). We therefore anticipate that this service will continue to provide a route to market and developed until MWHHS is delivered. This aligns with the derogation we will be submitting to Ofgem in parallel to this process.

Over the previous 2 years the operation of DFS has provided us valuable learning and insights in the behaviour and processes associated with accessing flexibility from more than 2.5 million households and businesses and this has supported our confidence to move the product to a merit-based margin tool. Our Winter 23/24 End of Year Report provides greater details on the learnings realised to date supporting our confidence in this transition.

Questions

- Do you agree with the proposal to evolve the DFS away from a last resort enhanced action winter contingency service and operate as a merit-based margin tool? Please provide your rationale
- Do you have any other comments or questions on the proposal?

2. Stacking

What is the proposed change?

We are proposing to facilitate the DFS to be stackable with the Capacity Market and DNO flexibility markets. Additions have been made to the baseline process to cater for DNO utilisations under the contractual terms. We are seeking to retain the rule that this service is not permitted to be stacked with ESO core markets such as the Balancing Mechanism, Response and Reserve Services. We have also introduced a clause that allows ESO to approve additional stacked products through maintaining an updated list on our webpage.

Why are we proposing this change?

Feedback from providers has ranked stacking as one of the highest priority change areas through the industry questionnaire we held back in April 2024. Parties have highlighted that as the market evolves, it is crucial for providers to be able to stack multiple revenue streams for creating the best value proposition for their customers. ESO are supportive of this request in the context of moving away from an enhanced action product to a commercial merit-based market and recognise that the capability to stack revenue should ultimately facilitate more competitive submissions for DFS and other markets. We also received feedback from our DNO partners they believe the ability to stack would further support their market growth and uptake from flexibility providers. As we seek to continue to enhance co-ordination and design with our DNO counterparts, we recognise the benefits this could bring. As we move away from an enhanced action winter contingency tool, we recognise that the service may be dispatched an increased number of periods outside of when CM events are witnessed and therefore with it no longer being positioned alongside our last resort services, we acknowledge that CM stacking is an appropriate rule to support maximising parties being able to revenue stack and support targeting lower price bids.

Whilst we have proposed to allow stacking for the CM and DNO flexibility markets we have chosen to retain the rule which prevents stacking with the BM, Response and Reserve products. As we see a transitional element to DFS, until Market Wide Half Hourly Settlement delivers a missing market signal to flexible consumers, it is important that we both help build that flexible capacity through our markets and ensure that our core frequency markets are set up for that end state. We stated an objective to avoid incentivising a delay in moving to these markets, as we want to maximise competition in these markets to drive value for consumers, for example we do not want a situation where DFS and reserve revenue combined is enough to delay a capable unit from participating in the BM. Conversely, we also do not want to undermine the long-term investment signal in our core enduring frequency markets through introducing competitive capacity only in the short-term.

There are also concerns regarding introducing another route of procuring BM actions in advance of gate closure, and with creating any incentives to renege on Response and Reserve contracts as DFS would provide an energy revenue which may be larger than capacity revenue. As the majority of previous DFS volume has been manually activated domestic demand, we also believe that this volume is unlikely to be able to deliver the short response times needed for the BM, Response and Reserve and therefore practically this is unlikely to impact the core market for the DFS service.

Through our provider engagement to date we have heard that parties would value a mechanism within the terms for ESO to be able to provide clarity on stacking as new trials and other market mechanisms emerge. We have therefore proposed the products/services that are eligible to stack with DFS will be shared on our webpage ensuring we can add appropriate services/products on a case-by-case basis. We foresee this being particularly beneficial for the introduction or expansion of such services as the Local Constraint Market and other ESO innovation products such as Crowdflex. ESO will keep an updated list on our DFS webpage of services which can be stacked with the DFS and will communicate with all parties when any updates are made.

Questions

- Do you agree with the proposal to facilitate stacking with the Capacity Market and DNO Flexibility Markets? Please provide your rationale.
- Do you agree with the proposed additions within the baseline methodology to offer clarity on how stacking will impact parties' baseline calculations? Please provide your rationale.
- Do you have any other comments or questions on the proposal to facilitate stacking with the CM and DNO services?

3. Metering

What is the proposed change?

1. We propose to remove the requirement for an asset meter to be associated with a boundary meter that is Half Hourly Settled (HHS).
2. We will provide additional clarity on approach where premises have multiple boundary meters represented by same/different providers. The same premises can take part in DFS if eligible boundary meters are represented by different providers or if all boundary meters are managed (i.e., flexibility market contract) by a single provider. All eligible meters shall be entered into DFS under the same DFS unit.

Why are we proposing this change?

1. Whilst we made a step to facilitate asset meter participation in the second year of operation of the DFS, uptake was very low. Provider feedback has indicated that the rule requiring an asset meter to be associated with a HHS boundary meter, particularly for domestic participants, is a large challenge for some providers due to the speed of industry rollout and the access/education for consumers around this topic. We believe that where consumers are seeking to participate with certain assets, they should have the capability to do this and DFS acts as a good introduction into flexibility. We have sought to take this feedback on board and remove this restriction. For statistics on the uptake from DFS winter 23/24, please refer to our end of year report which covers this in more detail. We have chosen to retain

the clauses which requires a provider to be able to still access the boundary meter data for audit purposes. We feel this is an important aspect to ensure that we have the proper capability to review the impact of widening such access through a data driven approach. We acknowledge that additional steps may be required for providers to comply with this audit requirement, and we will keep this rule under review as data provided to us may give us confidence to potentially remove it under subsequent consultations. In parallel we are happy to support industry in broader challenges around access to data and process constraints.

2. Through our engagement to date, some parties have requested us to provide additional clarity in our terms for more unique metering setups such as where a premises has multiple meters at the boundary with same/different representatives of such meters. Clarification of this rule in the contract shall allow a route for these unique premises to take part in the service with clearer guidance that shall allow more flexibility and volume. Enforcing a rule that all MPANs in the same premises are signed up together is similar to the already existing rule that all sub-meters are signed up together to a single provider (if meter is eligible and managed by this provider), to minimise gaming risk.

Questions

- Do you agree with proposal 1 to further facilitate the participation of asset metering within the DFS? Please provide your rationale.
- Does the additional wording provided in proposal 2 under the contractual terms offer suitable clarity around premises with multiple boundary meters? Please provide your rationale
- Do you have any other comments or questions on proposal 2 and proposed wording?

4. Performance Incentives

What is the proposed change?

We are proposing to amend our settlement calculations by introducing additional performance incentives. The new settlement formulas can be found in our contractual terms. Under the terms ESO will undertake this calculation and any subsequent impact to settlement of the service.

ESO are seeking to continue to settle based off delivered volume within an envelope from 50%-120% of the contracted volume. ESO are proposing to cap payments at 120% of contracted volume and under 50% are subject to a sliding scale as per the formula whereby no payment will be made under 25%. For opt out unit meter points we have maintained the rule whereby delivery against the service would result in that meter point negatively impacting the Units and would be subject to pay ESO if overall delivery was negative.

Why are we proposing this change?

In the previous 2 iterations of the DFS providers payment has been settled against delivered volumes. We heard from industry this was a crucial structure to the service in attracting volume at pace for what was forecasted to be a challenging winter to ensure parties could sign up customers. Utilising millions of domestic and business consumers to provide winter contingency support was a world first and there was uncertainty around how consumers would deliver. From this there was a concern that strong penalties may risk damaging the uptake and evolution of engaging consumers in flexibility for the future.

By settling based on delivered volume ESO was able to ensure that we provided an accurate spend on the use of the DFS but recognise moving into the third year of operation it is important to continue to bolster the confidence and signals to ensure a reliable service delivery. Through our engagement we have heard consistently that settlement based on delivered volumes is a positive attribute to the service and helps providers attract new volume. We have therefore ensured that we have continued to offer this mechanism but within an envelope, so that delivery outside of that envelope is discouraged (by reduced payments) and delivery within that envelope is incentivised. Our DFS recording provides a visual example of this and the Winter 23/24 End of Year Report provided valuable insights into the accuracy of delivery over time.

Questions

- Do you agree with the proposed performance incentive structure? Please provide your rationale.
- Do you have any other comments or questions on the proposal and proposed wording?

5. Procurement/Utilisation

What is the proposed change?

We propose that the DFS removes the day ahead capability to issue a Service Requirement and operates only within day. Within the terms we are also proposing to remove the specific within day options of specific time to publish a service requirement. For the avoidance of doubt the timings and process once a Service Requirement is issued remain consistent with previous years.

Why are we proposing this change?

In the first iteration of the DFS in winter 22/23, industry feedback indicated that procuring and utilising the service for domestic and business consumers would require a minimum of day ahead notice to ensure attracting maximum volume. Given the positioning of the service as an enhanced action this was incorporated into the design and an appropriate time bound derogation approved by the regulator. As we continued to develop the service into its second year of operation still under an enhanced action winter contingency tool, we wanted to ensure we were continuing to move procurement/utilisation as close to real time as possible but retained access to maximum volume should system conditions require the use of the service. The tests and ability to conduct events both day ahead and at two varying within day procurement timescales provided us with valuable learnings around how this impact both volumes and accuracy. Further information around this can be found in our Winter 23/24 End of Year Report

The recast Electricity Regulation (retained from EU law) states that:

Market participants shall be allowed to bid as close to real time as possible, and balancing energy gate closure times shall not be before the intraday cross-zonal gate closure time.

In previous iterations of DFS, we requested a derogation from the regulator to allow us to procure the service at longer lead times, particularly Day Ahead. Last year we introduced within day procurement, and now have data that shows most of the volume is still available within day. However, we have heard some concerns from providers that this may affect overall delivery/availability from some consumer segments. We are very interested to hear from potential providers how this change may potentially impact the volume available for the service from their perspective. Overall, we consider this a positive change that supports the retention of the DFS as an ongoing tool – if granted a derogation by the regulator.

We also plan to remove specifics around the times we can issue a Service Requirement, this allows us flexibility to instruct the service when we see we have a requirement and avoid a definitive deadline to make a decision when there may still be uncertainty. We believe that this will help us maximise economic savings from instructing the service vs. alternative commercial actions.

Questions

- Do you agree with this proposal to move the procurement of the service to within day only? Please provide your rationale
- Do you support our intention through this change to enable the DFS as an ongoing service without the need for continued new derogations season to season? Please provide your rationale
- Do you have any other comments or questions on the proposal and proposed wording?

6. Data/Process

What is the proposed change?

1. Removal of the obligation to send an incentive file sharing how providers opt to incentives/pay their customers.
2. Requirement for parties to share delivery data for those customers who opted in but did not deliver. For clarity this does not impact our earlier changes to the settlement calculations, this is a data request.
3. MPANs are now required to be in only one DFS Unit, and the unit is allocated at the time of Unit Meter Point Schedule submission.
4. Whilst ESO has not proposed any revision to the Anticipated DFS Service Requirement Notice we would value specific feedback on this topic.
5. Introduce the ability for Registered Service Providers to access information on assigned providers for a Unit Meter Point for the purposes of further supporting duplication resolution.

Why are we proposing this change?

1. As we seek to position the service to a merit-based margin tool we do not believe it is necessary to continue to request this incentive file data and supports in efficiencies from a process and data perspective. ESO gained limited insight from the data in previous iterations of the service and this approach aligns with other commercial markets where we see the aggregation of flexibility.
2. To gain further insights on MPAN-level delivery, we propose that parties include in their settlement files data related to meter readings and calculated baseline from each participating MPAN. This includes both cases where ESO contracted a demand reduction and the MPAN showed a net reduction or where ESO contracted a demand reduction and the MPAN showed a net increase. Regardless of whether the MPAN is of the opt-in type or of the opt-out type. This will allow us to continue to gain valuable data insights into the structure of delivery and levels of uptake/consistency. This does not impact changes we are making to settlement and performance incentives.
3. During the competitive tests, we encountered some procurement challenges with the previous concept of allowing MPANs to be in multiple DFS Units. For example, when two or more DFS Units had bids at the same price it was impossible to discriminate between them, as accepting only one bid could result in delivery from the other units as being assigned as over-delivery against the accepted unit. While the introduction of performance incentives assists with this, we are also considering the future iterations of the service, and any locational aspect will require MPANs to be clearly associated with DFS units in defined areas. Across both, we felt that this was the correct point in the service evolution to make this change and aligns with the structure across most other flexibility markets.
4. For winter 22/23 there was an emphasis on ensuring ESO could access maximum volumes to support the system during times of stress using its winter contingency toolkit. In doing so industry fed back that any advanced warning would be beneficial if conditions were looking challenging and DFS may be required. This related to the manual processes and logistical actions required to inform more than 2.6m consumers to deliver. Whilst this notice was described within the contractual terms it was not a firm obligation to issue every time. We recognise the benefit such an approach had in early iterations of the service but as we move to a within day merit-based margin tool we foresee the ability to confidently issue this notice moving closer and closer to any such Service Requirement and therefore do not believe it offers the same value as in previous iterations of the service. We would value additional feedback on this notice specifically to help inform us on this approach and if we should seek to make an additional change/removal to this notice.
5. In its second year of operation ESO further clarified rules around Unit Meter Point duplication and how this would be resolved. Throughout our stakeholder engagement to date we have heard that where duplications do sometimes still exist this can be a painful customer experience due to the party they are seeking to participate with not being able to provide further details of where that consumer may already be registered. We received feedback that allowing Registered Service Providers the ability to check a duplicate MPAN and share with the consumer who the Unit Meter Point is currently registered to would support providing a better customer experience where duplication challenges are experienced. We

intend to restrict this check to Registered Service Providers. We welcome feedback on the introduction of this additional data sharing capability.

Questions

- Do you agree with proposal 1 to remove the incentive file process? Please provide your rationale
- Do you have any other comments or questions on proposal 1?
- Do you agree on proposal 2 to include delivery data from all unit meter points that participated in events? Please provide your rationale.
- Do you have any other comments or questions on proposal 2?
- Do you agree on proposal 3 whereby each meter point can only be allocated to a single DFS Unit? Furthermore, the allocation is indicated at the time of submission of the Unit Meter Point Schedule file. Please provide your rationale
- Do you have any other comments or questions on proposal 3?
- Please share your thoughts on proposal 4 the Anticipated DFS Requirement Notice and how the move to within day only procurement impacts your views on the purpose/benefits of this notice. Does the increased automation around various processes impact your views on this notice’s value/purpose? Please provide your rationale
- Do you agree with proposal 5 to include the ability to share additional information relating to the Registered Service Provider for the purposes of resolving unit meter point duplications? Please provide your rationale.

Appendix 1: Mapping Table

EBR Article 18 mapping for Demand Flexibility Terms and Conditions

Please note*:* The table below cross references the terms and conditions related to balancing described in article 18 of Commission Regulation (EU) 2017/2195 of 23 November 2017 (as incorporated into EU retained law, and as amended by the Electricity Network Codes and Guidelines (Markets and Trading) (Amendment) (EU Exit) Regulations 2019/532) ("**EBR Article 18**") against the corresponding parts of the GB codes and relevant contractual provisions, with particular reference to the Demand Flexibility 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 furthermore in the event of any conflict or inconsistency between this table and EBR Article 18 the latter shall prevail.

Table 1 – Mandatory Elements

Below is the mapping of EBR Article 18 with references to the relevant Demand Flexibility Service terms and conditions.

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:	-	-

Article	Text	Code or Document	Section
18.4.a	Define reasonable and justified requirements for the provisions of balancing services;	DFS Procurement Rules DFS Service Terms	**DFS Procurement Rules** 4 – Registration of DFS Units 5 – Registration as Registered DFS Participant 6 – DFS Operational Baselines 8 – Weekly Indicative Forecasts 9 – Updates to Unit Meter Point Schedules 11 – Submission of DFS Bids 15 – Delivery of DFS **DFS Service Terms** 5 – Service Delivery
		BSC	A, H3, H4.2, H4.7, H4.8, H5.5, H6, H10, J3.3, J3.6, J3.7 and J3.8
		CUSC	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 balancing services subject to conditions referred to in paragraph 5 (c);	BSC	K3.3, K8, S6.2, S6.3 and S11, S12, S13 and S14
		Grid Code	DRSC 4.2, BC1.4
		DFS Procurement Rules	**DFS Procurement Rules** 4 - Registration of DFS Units Schedule 2 – Registration and Pre-Qualification Procedure
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
		DFS Procurement Rules	**DFS Procurement Rules** 4 - Registration of DFS Units 5 – Registration as Registered DFS Participant Schedule 2 – Registration and Pre-Qualification Procedure

Article	Text	Code or Document	Section
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;	DFS Procurement Rules	**DFS Procurement Rules** 4- Registration of DFS Units 5 – Registration as Registered DFS Participant Schedule 2 – Registration and Pre-Qualification Procedure
		Grid Code	BC5, BC4.4.2
		CUSC	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;	-	-
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;	DFS Procurement Rules	**DFS Procurement Rules** 4 - Registration of DFS Units Schedule 2 – Registration and Pre-Qualification Procedure
		BSC	K3.3 and K8
		Grid Code	BC1.4 and BC1.A.10

Article	Text	Code or Document	Section
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;	DFS Procurement Rules DFS Service Terms	**DFS Procurement Rules** 4 – Registration of DFS Units 5 – Registration as Registered DFS Participant 6 – DFS Operational Baselines 8 – Weekly Indicative Forecasts 11 – Submission of DFS Bids Schedule 2 – Registration and Pre-Qualification Procedure Schedule 3 – DFS Operational Baselines **DFS Service Terms** 6 – Performance Monitoring 8 – Payment Procedure
		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
		DFS Procurement Rules DFS Service Terms	**DFS Procurement Rules** 15 – Delivery of DFS **DFS Service Terms** 18 – Assignment
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), Article 158(1)(e), Article 158(4)(b), Article 161(1)(f) and Article 161(4)(b) of Regulation (EU) 2017/1485;	DFS Service Terms	**DFS Service Terms** 6 – Performance Monitoring
		Grid Code	BC1.4, BC1.A.10,
		CUSC	4.1.3.19
18.5. g	the definition of a location for each balancing 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

Article	Text	Code or Document	Section
18.5. i	the rules for the settlement of balancing service providers defined pursuant to Chapters 2 and 5 of Title V;	DFS Service Terms	**DFS Service Terms** 8 – Payment Procedure Schedule 1 – Utilisation Payments Schedule 2 – 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;	DFS Service Terms	**DFS Service Terms** 8 – Payment Procedure Schedule 1 – Utilisation Payments Schedule 2 – 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.	DFS Procurement Rules DFS Service Terms	**DFS Procurement Rules** 5 – Registration as Registered DFS Participant 11 – Submission of DFS Bids **DFS Service Terms** 6 – Performance Monitoring 12 – Provision of Other Services Schedule 1 – Utilisation Payments
		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

Article	Text	Code or Document	Section
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 paragraph 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	Deterministic frequency deviation is a continental European concept and is not a characteristic of	N/A

Article	Text	Code or Document	Section
	deviations pursuant to Article 137(4) of Regulation (EU) 2017/1485.	the GB system. Therefore, this requirement does not apply to GB.	

Table 2 - 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 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 due to trading within intraday market;	NG ESO 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.
	-	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 electrical losses compensation, where relevant;	NG ESO does not expect to require this from Balancing Service Providers. No BSC party is required to contract to match its Final Physical Notifications (FPNs).
18.7. e	an exemption to publish information on offered prices of balancing energy or	NG ESO does not expect to require this exemption. Such data is published on

	balancing capacity bids due to market abuse concerns pursuant to Article 12(4)	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)	A derogation will be sought under Regulation (EU) 2019/943 Article 6(14) from the requirements of Regulation (EU) 2019/943 Article 6(4) and this will be submitted alongside the Article 18 submission and subject to Ofgem approval
18.7. g	An application for the use of dual pricing for all imbalances based on the conditions established pursuant to Article 52(2)(d)(i) and the methodology for applying dual pricing pursuant to Article 52(2)(d)(ii).	NG ESO 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.