

All interested parties,
stakeholders in GB and beyond,
and other regulatory bodies

Email: Alastair.Owen@ofgem.gov.uk

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Dear colleagues,

Decision on Dynamic Containment in relation to an update to the Terms and Conditions related to Balancing

On 30 July 2021, we¹ received a proposal from the Electricity System Operator ("ESO") to make amendments to the national terms and conditions related to balancing ("T&C") required by Article 18 of Commission Regulation (EU) 2017/2195 establishing a guideline on electricity balancing², as amended by the Electricity Network Codes and Guidelines (Markets and Trading) (Amendment) (EU Exit) Regulations 2019 (the "EBGL Regulation").³ The ESO provided an updated version to the proposal, which was sent to us on 10 September 2021 following minor corrections and the inclusion of 'looped blocks'.⁴ This proposal relates to an update to facilitate the introduction of the high frequency element to the Dynamic Containment ("DC") product.

DC is a service procured by the ESO based on the DC Service Terms, DC General Terms and Conditions, DC Auction Rules, and DC Participation Guidance Document.⁵ The ESO has proposed changes to these documents to improve the service and to implement the DC

¹ The terms "we", "us", "our", "Ofgem" and "the Authority" are used interchangeably in this document and refer to the Gas and Electricity Markets Authority. Ofgem is the office of the Authority.

² Commission Regulation (EU) 2017/2195 of 23 November 2017 establishing a guideline on electricity balancing. The EBGL came into force on 18 December 2017. Accessible at <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32017R2195>

³ The UK SI amendment of the EBGL is accessible at: https://assets.publishing.service.gov.uk/media/5c17d6b440f0b60c8d601a2c/ENC_Markets_and_Trading_SI.pdf

⁴ We understood from previous industry engagement that one of the key changes introduced with DC high frequency was the introduction of "looped blocks". We noted that the ESO had not included any text on "looped blocks" and following a discussion with the ESO, it provided us with an amended submission to include reference to "looped blocks".

⁵ The current DC documents are accessible at: <https://www.nationalgrideso.com/industry-information/balancing-services/frequency-response-services/dynamic-containment?how-to-participate>

high frequency product. As a result, the ESO has requested an amendment to the T&C required by Article 18 of the EBGL Regulation, based on the proposed updates.

This letter sets out our decision to approve the proposed amendments to the provisions that form part of the T&C.

Background

In accordance with Article 18 of the EBGL Regulation, the ESO was required to develop a proposal regarding the T&C for balancing service providers ("BSPs") and balance responsible parties ("BRPs"). On 8 October 2019,⁶ we published our decision to confirm, upon satisfaction of certain conditions, that the T&C proposed by the ESO are the T&C required by Article 18 of the EBGL Regulation. On 25 June 2020, all the necessary conditions were met, and the proposed T&C came into force in Great Britain ("GB").

DC is an opt-in service for BSPs to receive payments from the ESO to provide balancing capacity, and to deliver balancing energy, acting quickly on signals from the ESO in order to help maintain system frequency. DC is classed as a frequency containment response ("FCR") product for provision of balancing capacity and balancing energy, and consequently the terms and conditions for the provisions of DC services by BSPs must be incorporated into the T&C. On 28 September 2020,⁷ we published our decision to confirm that the proposed documents relating to the service conditions for the 'soft launch' of DC formed part of the T&C. On 17 February 2021,⁸ we published a decision to approve further changes to these documents. We also published a decision approving additional changes on 31 August 2021⁹ as the ESO moved the product to an automated auction platform. We understand that the ESO intends for DC high frequency to be procured on that same platform.

We recognise that the ESO's plan is to go live with DC high frequency in October 2021. DC high frequency is a product that operates by turning down generation to arrest increases in system frequency.¹⁰

⁶ Our 8 October 2019 decision is accessible at: <https://www.ofgem.gov.uk/publications-and-updates/decision-transmission-system-operators-proposal-terms-and-conditions-related-balancing>

⁷ Our 28 September 2020 decision is accessible at: <https://www.ofgem.gov.uk/publications-and-updates/decision-dynamic-containment-relation-terms-and-conditions-related-balancing>

⁸ Our 17 February 2021 decision is accessible at: <https://www.ofgem.gov.uk/publications/decision-dynamic-containment-relation-update-terms-and-conditions-related-balancing>

⁹ Our 31 August 2021 decision is accessible at: <https://www.ofgem.gov.uk/publications/decision-dynamic-containment-relation-update-terms-and-conditions-related-balancing-0>

¹⁰ More information on DC is accessible at: <https://www.nationalgrideso.com/industry-information/balancing-services/frequency-response-services/dynamic-containment?overview>

We understand that DC high frequency will also be important in ensuring system operability against large demand disconnections. The ESO highlights in their Frequency Risks and Control Report ("FRCR")¹¹ that as more outfeed losses are connected to the system, high frequency deviations will need to be investigated further. We understand that this is of particular importance given that the Northern Sea Link ("NSL") Interconnector (Norway to GB) expected to come online imminently, and which is likely to present a new potential largest demand loss.

The ESO has now submitted a proposal to amend the T&C in order to include relevant updated provisions from the DC Service Terms, DC General Terms and Conditions, DC Auction Rules, and DC Participation Guidance Document. To aid with the visibility of the T&C, the ESO has provided an updated mapping document.

This proposal sets out the ESO's intention to introduce the DC high frequency product. The ESO have also made changes to improve the overall service of DC in the following main ways:

- 1) Allowing the option for providers to offer 'looped' DC low frequency and high frequency blocks¹²;
- 2) pushing back the closing time of the auction from 10:00 D-1 to 14:30 D-1¹³;
- 3) pushing back the time for publication of the auction results from 10:30 D-1 to 15:00 D-1; and
- 4) providing additional clarity over operational and performance baselines, energy requirements and duration for DC.

The proposal for amending the T&C to include the provisions was consulted on between 18 June 2021 and 19 July 2021¹⁴ in accordance with Article 10 of the EBGL Regulation.

Decision

We have reviewed the provisions related to DC proposed by the ESO to be recognised as T&C submitted to us in line with the requirements of the EBGL Regulation, the wider objectives of the Electricity Regulation and our statutory duties and obligations. We have also engaged with the ESO to better understand its proposals.

¹¹ The ESO's Frequency Risk and Control Report ("FRCR") is accessible at:

<https://www.nationalgrideso.com/document/189566/download>

¹² We understand that 'looped' bids allow providers to submit bids that require the acceptance of both a DC low frequency and DC high frequency bid in order to activate either.

¹³ The ESO explained to us that this change was needed due to Interconnectors forming an important part of frequency loss risks. Interconnector nominations are only known at 13:30, therefore the ESO plan to run the auction at 14:30 to allow Interconnector flows to be included in the DC requirements

¹⁴ The ESO consultation is accessible at: <https://www.nationalgrideso.com/industry-information/codes/european-network-codes-old/meetings/consultation-open-ebgl-article-18-2>

In making our decision, we took into consideration the responses to the industry consultation. Responses were generally favourable toward the updates proposed to the T&C. However, several consultation responses requested clarifications on the performance monitoring and the auction rules. The ESO responded to these questions sensibly and made changes to the T&C to reflect stakeholder comments. We also acknowledge the concerns that stakeholders have raised with regards to Grid Supply Point ("GSP") aggregation and baselines. Although these were not in-scope of the specific change proposed and consulted on by the ESO, we ask the ESO to continue their engagement with stakeholders on these two areas in order to prevent barriers to parties who wish to enter the DC market.

Finally, we believe that implementing a DC high frequency product that is unbundled from the DC low frequency will make the market more accessible to other technology types such as onshore and offshore wind and therefore maximise participation and competition in DC.

In light of the above, we believe that the ESO's proposal meets the requirements of Article 18 of the EBGL Regulation. We therefore approve the proposed amendments to the provisions that form part of the T&C.

Next Steps

We welcome the changes made by the ESO and believe that the inclusion of DC high frequency will be more beneficial to market participants and the ESO. However, due to the increasing complexity of the DC auction (most notably with regards to the introduction of looped bids) and in line with our recent decision on DC low frequency, we reiterate our request for the ESO to:

1. Provide market participants with all the necessary information and support, such that they have confidence in the new auction, and can understand why a particular provider has or has not been selected; and
2. Continuously review the economic efficiency of the new DC auction to ensure that DC is being procured at the lowest possible cost to consumers.

We will monitor the information provided to industry and the transparency of the auction results from go live of the new auction and go live of the DC high frequency product. We expect the ESO to publish the updated DC Service Terms, DC General Terms and Conditions, DC Auction Rules, and DC Participation Guidance Document as well as an updated mapping of the T&C as soon as possible.

Finally, we request the ESO to continue its engagement with stakeholders on this issue of GSP aggregation and baselines and take action to ensure that these issues do not place undue barriers on potential market participants being able to provide DC. We understand that the ESO plans on publishing a paper in the Autumn 2021 on this issue that sets out the requirements for moving to GSP level procurement. In order to help industry stakeholders understand the reasoning for not extending the transitional arrangement for GSP aggregation, we would like this paper to outline clear reasoning why the ESO believe GSP level aggregation is more beneficial to the ESO and end consumers than GSP-group level aggregation. We would also like to see an assessment of any impacts GSP level aggregation may have on response and reserve products.

If you have any queries regarding the information contained in this letter, please contact James Hill (James.Hill@Ofgem.gov.uk) or Luke McCartney (Luke.McCartney@Ofgem.gov.uk).

Yours faithfully,

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