

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

Email: Alastair.Owen@Ofgem.gov.uk

Date: 23 March 2021

Dear colleagues,

### **Decision on Short Term Operating Reserve in relation to an update to the Terms and Conditions related to Balancing**

On 3 February 2021, we<sup>1</sup> 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 balancing,<sup>2</sup> as amended by the Electricity Network Codes and Guidelines (Markets and Trading) (Amendment) (EU Exit) Regulations 2019 (the “EBGL Regulation”).<sup>3</sup> This proposal relates to an update of the Short Term Operating Reserve (“STOR”) Auction Rules, STOR Assessment Principles, STOR Service Terms, STOR General Terms and Conditions and STOR Participation Guidance Document (collectively referred to as the “STOR service conditions”).

STOR is a product that the ESO already uses within the Great Britain (“GB”) system for the purposes of balancing. STOR provides a reserve of energy which is dispatched by the ESO in response to a fault on the network. It is one of a number of products that contribute to the Operating Reserve Requirement (“ORR”)<sup>4</sup> which the ESO hold.

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<sup>1</sup> The terms “we”, “us”, “our”, “Ofgem” and “the Authority” are used interchangeably in this document and refer to the Gas and Electricity Markets Authority. Ofgem is the office of the Authority.

<sup>2</sup> 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>

<sup>3</sup> The UK SI amendment of the EBGL Regulation is accessible at: [https://assets.publishing.service.gov.uk/media/5c17d6b440f0b60c8d601a2c/ENC\\_Markets\\_and\\_Trading\\_SI.pdf](https://assets.publishing.service.gov.uk/media/5c17d6b440f0b60c8d601a2c/ENC_Markets_and_Trading_SI.pdf)

<sup>4</sup> The ESO holds the ORR to take account of demand forecast errors, plant losses and market imbalance. It mainly consists of actions taken by the ESO in the balancing market and contracted reserve (such as STOR).

The ESO has submitted a proposal to amend the T&C in order to include relevant provisions from the STOR service conditions. To aid with the visibility of the T&C, the ESO has also provided an updated mapping document,<sup>5</sup> linking specific provisions of the STOR service conditions to the requirements of Article 18 of the EBGL Regulation.

This letter sets out our decision to confirm that the STOR service conditions, as mapped by the ESO, form part of the T&C pursuant to Article 18 of the EBGL Regulation.

## 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,<sup>6</sup> 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 GB.

STOR is a provision of reserve energy which is dispatched by the ESO in response to a fault on the network (e.g. in response to the loss of a generator). STOR had previously been procured on a long-term contract basis. Article 6(9) of Regulation (EU) 2019/943 on the internal market for electricity (recast),<sup>7</sup> as amended by the Electricity and Gas (Internal Markets and Network Codes) (Amendment etc.) (EU Exit) Regulations 2020 (the “Electricity Regulation”)<sup>8</sup> requires that “contracts for balancing capacity shall not be concluded more than one day before the provision of the balancing capacity and the contracting period shall be no longer than one day”.

Therefore, to ensure compliance with Article 6(9) of the Electricity Regulation for future procurement of STOR, the ESO is proposing an amendment to the T&C, to account for the changes to the procurement of STOR and incorporate the STOR service conditions.

The proposal for amending the T&C to include the STOR service conditions was consulted on between 17 December 2020 and 21 January 2021<sup>9</sup> in accordance with Article 10 of the EBGL Regulation.

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<sup>5</sup> The current STOR documents are accessible at: <https://www.nationalgrideso.com/industry-information/balancing-services/Reserve-Services/Short-term-operating-reserve/How-to-participate>

<sup>6</sup> 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>

<sup>7</sup> Regulation (EU) 2019/943 on the internal market for electricity (recast) can be accessed here: <https://eurlex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32019R0943&from=EN>

<sup>8</sup> The UK SI amendment of the Electricity Regulation is accessible at: <https://www.legislation.gov.uk/uksi/2020/1006/contents/made>

<sup>9</sup> The ESO consultation is accessible at: <https://www.nationalgrideso.com/events-calendar/ebgl-article-18-mapping-dynamic-containment-and-short-term-operating-reserve>

## Decision

We have reviewed the STOR service conditions proposed by the ESO to be recognised as part of the 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.

In making our decision, we took into consideration the responses to the consultation from industry stakeholders. Responses were generally favourable toward the updates proposed to the T&C. The ESO also took on board several responses and made improvements to the T&C before making their submission to us, particularly to improve clarity around information submission from providers.

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 STOR service conditions to form part of the T&C.

## Next Steps

We expect the ESO to publish the STOR Auction Rules, STOR Assessment Principles, STOR Service Terms, STOR General Terms and Conditions, and STOR Participation Guidance Document, as well as an updated Article 18 mapping document.

Although not directly relevant to this decision, we note that there were a number of responses to the consultation that related to wider suggestions for improvement to the STOR product which have not been addressed as part of this alignment to day-ahead procurement. We encourage the ESO to remain mindful of these comments for any future development of STOR as well as other Reserve products, and ask that these consultation responses are fed into the ESO Reserve Product Reform Programme.<sup>10</sup>

If you have any queries regarding the information contained in this letter, please contact James Hill ([James.Hill@Ofgem.gov.uk](mailto:James.Hill@Ofgem.gov.uk)).

Yours faithfully,

**Alastair Owen**

Senior Policy Manager - Systems & Networks

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<sup>10</sup> The ESO's Reserve Product Reform is currently open for consultation at the following address: <https://www.nationalgrideso.com/research-publications/future-balancing-services#:~:text=The%20Reserve%20Reform%20project%20aims,Market%20Platform%20from%20March%202022>