

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

Email: [ESOperformance@ofgem.gov.uk](mailto:ESOperformance@ofgem.gov.uk)

Date: 9 April 2021

Dear colleagues,

### **Decision on Optional Downward Flexibility Management in relation to the Terms and Conditions related to Balancing**

On 19 March 2021, we<sup>1</sup> received a proposal from the Electricity System Operator (“ESO”) to amend 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 the inclusion of Optional Downward Flexibility Management (“ODFM”) Service Terms, ODFM General Terms and Conditions, and ODFM Guidance Document (collectively referred to as the “ODFM service conditions”) into the T&C.

To aid with the visibility of the T&C, the ESO has also provided an updated mapping document,<sup>4</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 ODFM service conditions, as mapped by the ESO, form part of the T&C pursuant to Article 18 of the EBGL Regulation.

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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/legalcontent/EN/TXT/PDF/?uri=CELEX:32017R2195&from=EN>

<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 current ODFM documents are accessible at: <https://data.nationalgrideso.com/ancillary-services/optional-downward-flexibility-management-odfm1>

## Background

In accordance with Article 18 of the EBGL Regulation, the ESO must develop a proposal regarding the T&C for balancing service providers (“BSP”) and balance responsible parties (“BRP”). On 8 October 2019,<sup>5</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 Great Britain (“GB”).

ODFM is a replacement reserve (“RR”) product that was developed in 2020 by the ESO to cope with suppressed demand resulting from national lockdowns in response to the COVID-19 Pandemic. ODFM is aimed at small-scale renewable generators (mostly wind and solar generators), allowing them to receive payment for turning down their generation output. The ESO’s intention was to replace ODFM after summer 2020 with an enduring downward flexibility product. However, the ESO has not developed an alternative product, and as the lockdown has continued into 2021, the ESO has determined that it is necessary to restart to procurement of ODFM to ensure operational security.

ODFM is classed as a RR product for provision of balancing energy and, consequently, the terms and conditions for the provisions of ODFM services by BSPs must be incorporated into the T&C. In our decision letter dated 3 July 2020,<sup>6</sup> we confirmed that the ODFM service conditions, submitted to us on 23 June 2020, formed part of the T&C pursuant to Article 18 of the EBGL Regulation. However, we note that the ODFM service terms were time limited and ceased on 25 October 2020, to align with the time limited Grid code modification GC0143.<sup>7</sup>

As a result, the ESO has submitted another proposal to amend the T&C in order to once again include the provisions of the ODFM service conditions. The proposal for amending the T&C to include the ODFM service conditions was consulted between 15 February 2021 and 15 March 2021 in accordance with Article 10 of the EBGL Regulation. To aid with the visibility of the T&C, the ESO provided updated mapping containing the changes to provisions approved last year.

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<sup>5</sup> Our 8 October 2019 decision is accessible at: <https://www.ofgem.gov.uk/publications-and-updates/decisiontransmission-system-operators-proposal-terms-and-conditions-related-balancing>

<sup>6</sup> Our decision dated 3 July 2020 is accessible at the following address: <https://www.ofgem.gov.uk/publications-and-updates/odfm-relation-tc-related-balancing>

<sup>7</sup> More information about Grid code modification GC0143 can be found at the following address: <https://www.nationalgrideso.com/industry-information/codes/grid-code-old/modifications/gc0143-last-resort-disconnection-embedded>

## Decision

We have reviewed the ODFM service conditions proposed by the ESO to be recognised as part of the T&C, the stakeholder responses submitted to us in line with the requirements of the EBGL Regulation, the wider objectives of Commission Regulation (EU) 2019/943<sup>8</sup> as amended by the Electricity and Gas (Internal Markets and Network Codes) (Amendment etc.) (EU Exit) Regulations 2020,<sup>9</sup> and our statutory duties and obligations. We have also engaged with the ESO to better understand its proposals.

In light of the above, we believe that the ESO's proposal meets the requirements of Article 18 of the EBGL Regulation. We have therefore decided to approve the ESO's amendments to the T&C to include the ODFM service conditions.

## Next Steps

We expect the ESO to publish the updated ODFM service conditions as well as its updated mapping of the T&C as soon as possible.

If you have any queries regarding the information contained in this letter, please contact Chris Statham ([Christopher.Statham@ofgem.gov.uk](mailto:Christopher.Statham@ofgem.gov.uk)) or Alastair Owen ([Alastair.Owen@ofgem.gov.uk](mailto:Alastair.Owen@ofgem.gov.uk)).

Yours faithfully,

**Alastair Owen**

Senior Manager - ESO Regulation

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<sup>8</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>9</sup> The UK SI amendment of the Electricity Regulation is accessible at the following address: <https://www.legislation.gov.uk/ukSI/2020/1006/contents/made>