BSC Modification Proposal Form	At what stage is this document in the process?

P412

Mod Title: Ensuring non-BM Balancing Services providers pay for non-delivery imbalances at a price that reflects the real-time value of energy

01 Modification
02 Workgroup Report
03 Draft Modification Report
04 Final Modification Report

Purpose of Modification:

This Modification will introduce imbalance charges for non-Balancing Mechanism (BM) Balancing Services providers, where their delivery does not match instructed volumes. This will mean the GB market more effectively meets the requirements of the Clean Energy Package.

Is this Modification likely to impact any of the European Electricity Balancing Guideline (EBGL) Article 18 Terms and Conditions held within the BSC?

☒ Yes ☐ No

The Proposer recommends that this Modification should:

- not be a Self-Governance Modification Proposal
- be assessed by a Workgroup and submitted into the Assessment Procedure

This Modification will be presented by the Proposer to the BSC Panel on 10 September 2020. The Panel will consider the Proposer's recommendation and determine how best to progress the Modification.

High Impact:

Non-BM Balancing Services providers

Suppliers

National Grid ESO as the National Electricity Transmission System Operator (NETSO)

Elexon as the Balancing and Settlement Code Company (BSCCo)

Medium Impact:

None

Low Impact:

None

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Timetable

The Proposer recommends the following timetable:

Initial consideration by Workgroup	28 October 2020
Assessment Procedure Consultation	24 February 2021 - 17 March 2021
Workgroup Report presented to Panel	13 May 2021
Report Phase Consultation	20 May 2021 - 21 June 2021
Draft Modification Report presented to Panel	08 July 2021
Final Modification Report submitted to Authority	15 July 2021

This timetable is based on the expectation that four Workgroups will be held prior to the Assessment Procedure Consultation.

Any questions?

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1 Why Change?

What is the issue?

The Clean Energy Package Regulation 2019/943[1] (CEPR) requires that all market participants are responsible for the imbalances they cause on the system, and that imbalances are settled at a price reflecting the real time value of energy. Specifically, CEPR Article 5(1) states;

'All market participants shall be responsible for the imbalances they cause in the system ('balance responsibility'). To that end, market participants shall either be balance responsible parties or shall contractually delegate their responsibility to a balance responsible party of their choice. Each balance responsible party shall be financially responsible for its imbalances and shall strive to be balanced or shall help the electricity system to be balanced'

and CEPR Article 6(5) states;

'The imbalances shall be settled at a price that reflects the real-time value of energy'.

When the National Electricity Transmission System Operator (NETSO) issues an instruction to a non-BM (Balancing Mechanism) Balancing Service Provider (BSP), there is currently no financial penalty if they under-deliver[2] against that instruction within the scope of the BSC. However, this will cause an imbalance as there is a shortfall in the amount of energy expected by the NETSO. According to the CEPR, this imbalance must be charged to the non-BM BSP or a balance responsible party of their choice (for example the Supplier responsible for the boundary point meters of the unit providing the service).

Over-delivery is already paid at the imbalance price. This is because Elexon will adjust the Supplier's position based on the Applicable Balancing Services Volume Data (ABSVD). ABSVD is based on the delivered volume of a non-BM Balancing Service. Where a unit delivers more than it was supposed to, the ABSVD will adjust the Supplier's position by the amount instructed plus the additional amount, and the whole volume is subject to imbalance payments. However, when a service under-delivers the adjustment is only made for this lower volume, meaning the shortfall is not charged at the imbalance price.

The trading arrangements need to change to ensure we can apply the imbalance price to the difference between instructed and delivered volumes on non-BM contracts.

Desired outcomes

The desired outcome is that all Balancing Services providers, including those not activated via the Balancing Mechanism, will be responsible for imbalances resulting from deviations from their instructions to deliver a Balancing Service.

[1] REGULATION (EU) 2019/943 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 5 June 2019 on the internal market for electricity

[2] Under-delivery refers to a failure to increase generation by a specified amount. The opposite would be true if a unit were instructed to decrease generation.

2 Solution

Proposed Solution

The P354 'Use of ABSVD for non-BM Balancing Services at the metered (MPAN) level' solution enables Settlement to apply adjustments to Suppliers relating to delivered volumes of non-BM Balancing Services. If we were to alter this process so that adjustments were made based on instructed volumes rather than delivered volumes, this would ensure that a Supplier's portfolio is appropriately adjusted for both under and over delivery of non-BM Balancing Services.

This solution works because the Supplier would be exposed, at a portfolio level, to differences between the instructed non-BM Ancillary Services volumes and the actual metered volumes at their sites. This deviation would be aggregated with other deviations between their contracted and metered volumes.

This solution would involve NGESO providing instructed rather than delivered volumes to Supplier Volume Allocation Agent (SVAA), but the ABSVD adjustment logic will not change.

The altered ABSVD solution applies to Half Hourly metered SVA registered sites, as this is a limitation of the original ABSVD solution. Some CVA sites may come into scope, depending on how they operate.

Benefits

The initial benefit of this Modification is to ensure the GB energy market more effectively meets the requirements of the relevant paragraphs in the Clean Energy Package.

A further benefit will be to remove some inconsistencies between the arrangements of non-BM service providers and BM service providers. This could increase competitiveness between services. It will ensure that there is greater incentive to avoid shortfalls in instructed energy so additional balancing actions do not need to be taken to cover shortfalls. This will be more economically efficient and ensure that non-BM parties that create a shortfall also meet the cost of that shortfall more effectively. This additional incentive to deliver instructed energy volumes would also be beneficial from an operation system management perspective.

3 Relevant Objectives

Impact of the Modification on the Relevant Objectives:	
Relevant Objective	Identified impact
a) The efficient discharge by the Transmission Company of the obligations imposed upon it by the Transmission Licence	Neutral
(b) The efficient, economic and co-ordinated operation of the National Electricity Transmission System	Neutral
(c) Promoting effective competition in the generation and supply of electricity and (so far as consistent therewith) promoting such competition in the sale and purchase of electricity	Positive
(d) Promoting efficiency in the implementation of the balancing and settlement arrangements	Neutral
(e) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency [for the Co-operation of Energy Regulators]	Positive
(f) Implementing and administrating the arrangements for the operation of contracts for difference and arrangements that facilitate the operation of a capacity market pursuant to EMR legislation	Neutral
(g) Compliance with the Transmission Losses Principle	Neutral

We believe that this Modification is primarily positive against BSC Objective (e), as it brings GB arrangements into closer alignment with the Clean Energy Package Regulation.

The modification proposal will also result in a positive outcome versus Objective (c), as it would remove some inconsistencies between imbalance provisions relating to non-delivery for non-BM Balancing Services and those for other Balancing Services. It will ensure that, particularly when there is a shortfall against instructed energy, that additional balancing actions do not need to be taken to cover that shortfall. This will be more economically efficient and ensure that non-BM parties that create a shortfall also meet the cost of that shortfall more effectively.

4 Potential Impacts

Impacts on Core Industry Documents

Impacted Core Industry Documents			
☐Ancillary Services Document	☐Connection and Use of System Code	☐Data Transfer Services Agreement	☐Use of Interconnector Agreement
☐Master Registration Agreement	☐Distribution Connection and Use of System Agreement	☐System Operator Transmission Owner Code	☐Supplemental Agreements
☐Distribution Code	☐Grid Code	☐Transmission License	☒Other (please specify)

There may need to be changes to non-BM Balancing Services contracts to include the application of imbalance in the terms. There may also need to be additions to the contracts to account for situations where a Supplier's position shouldn't be adjusted but an imbalance charge still needs to be applied. Changes would be needed to National Grid ESO's C16 procurement guidelines and Standard Contract Terms at the appropriate time.

Impacts on BSC Systems

Impacted Systems				
☐CRA	☐CDCA	☐PARMS	☒SAA	☐BMRS
☐EAC/AA	☐FAA	☐TAAMT	☐NHHDA	☒SVAA
☐ECVAA	☐ECVAA Web Service	☐ELEXON Portal	☒Other (Please specify)	

The solution will alter the ABSVD data sent to SVAA for making adjustments to Suppliers based on non-BM Balancing Services. This may result in minor changes to SVAA and Settlement Administration Agent (SAA) for processing the new data. However, the data format is likely to be similar to existing received data and therefore should not require a significant change.

Depending on the solution, BSC Systems may also need to register Parties delivering non-BM Balancing Services. This would require a change to the BSC Customer Solution.

Impacts on BSC Parties

Impacted Parties			
☒Supplier	☐Interconnector User	☐Non Physical Trader	☐Generator
☐Licensed Distribution System Operator	☒National Electricity Transmission System Operator	☐Virtual Lead Party	☐Other (Please specify)

The Modification will impact on Balancing Service Providers where under-delivery takes place for non-BM Balancing Services - or their nominated Supplier if the Supplier is responsible for the Service Provider's imbalance positions. It may also affect Suppliers more generally as their imbalance positions will be adjusted.

Legal Text Changes

Changes to the legal text should be developed by the Workgroup.

The following BSC Sections are likely to be updated:

- BSC Section J 'Party Agents and Qualification Under the Code'
- BSC Section Q 'Balancing Services Activities'
- BSC Section S 'Supplier Volume Allocation'
- BSC Section S, Annex S-2 'Supplier Volume Allocation Rules'
- BSC Section V 'Reporting'
- BSC Section X 'Definitions and Interpretation'
- BSC Section X, Annex X-2 'Technical Glossary'

In addition, the following BSC subsidiary documents are likely to be updated:

- BSCP01 'Overview of Trading Arrangements'
- BSCP503 'Half Hourly Data Aggregation for SVA Metering Systems Registered in SMRS'
- BSCP508 'Supplier Volume Allocation Agent'
- SVA Data Catalogue
- Interface Definition Documents

5 Governance

Self-Governance

☒ **Not Self-Governance –** A Modification that, if implemented:	
☐ materially impacts the Code's governance or modification procedures	☐ materially impacts sustainable development, safety or security of supply, or management of market or network emergencies
☒ materially impacts competition	☐ materially impacts existing or future electricity consumers
☐ materially impacts the operation of national electricity Transmission System	☐ is likely to discriminate between different classes of Parties
☒ involves any amendments to the EBGL Article 18 Terms and Conditions related to Balancing; except to the extent required to correct an error or as a result of a factual change	
☐ **Self-Governance –** A Modification that, if implemented:	
Does not materially impact on any of the Self-Governance criteria provided above	

This Modification will impact on competition between parties, by altering the commercial considerations of non-BM Ancillary Services providers. The Modification should therefore be sent to Ofgem for decision.

Progression route

☒ **Submit to assessment by a Workgroup** –:A Modification Proposal which:	
does not meet any criteria to progress via any other route.	
☐ **Direct to Report Phase** – A Modification Proposal whose solution is typically:	
☐ of a minor or inconsequential nature	☐ deemed self-evident
☐ **Fast Track Self-Governance** – A Modification Proposal which meets the Self-Governance Criteria and:	
is required to correct an error in the Code as a result of a factual change including but not limited to:	
☐ updating names or addresses listed in the Code	☐ correcting minor typographical errors
☐ correcting formatting and consistency errors, such as paragraph numbering	☐ updating out of date references to other documents or paragraphs
☐ **Urgent –** A Modification Proposal which is linked to an imminent issue or current issue that if not urgently addressed may cause:	
☐ a significant commercial impact on Parties, Consumers or stakeholder(s)	☐ a Party to be in breach of any relevant legal requirements.
☐ a significant impact on the safety and security of the electricity and/or gas systems	

We do not believe that Urgent status is required, and that the modification should be developed in a Workgroup to allow full industry discussion and input.

Does this modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

We do not believe this Modification impacts on a Significant Code Review, or any other significant industry change projects.

Does this Modification impact any of the EBGL Article 18 Terms and Conditions held within the BSC?

At this stage we anticipate this Modification to impact the EBGL Article 18 Terms and Conditions held within the BSC. This will be considered during the Assessment Procedure.

Does this modification impact on end consumers or the environment?

We do not believe this Modification will have any direct impact on electricity consumers.

Impact on the Environment	
This Modification is neutral with the net zero target.	

Implementation approach

Implementation could be approximately 18 months from the start of the modification process, assuming no unexpected complications are encountered through modification development.