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Dear Michael,

Decision on the BSC Panel's recommendation for BSC Modification Proposal P443 'To Cap NGESO Interconnector Trades at the Value of Lost Load (VoLL)' to be treated as an Urgent Modification Proposal

BSC Modification Proposal P443 was raised by Saltend Cogeneration Company Ltd (the 'Proposer') on 17 August 2022.¹ The proposal seeks to prevent National Grid Electricity System Operator (NGESO) from entering into trades to reduce or increase the flow across interconnectors at a price that is above the Value of Lost Load (VoLL), which is currently administratively set in the BSC at £6,000/MWh. The Proposer requested that P443 be treated as an Urgent BSC Modification Proposal.

The BSC Panel (the 'Panel') considered the Proposer's urgency request at its meeting on 18 August 2022. On 19 August, the Panel wrote to inform us of its majority view that P443 should be treated as urgent because they considered there could be a significant commercial impact on parties, consumers or other stakeholder(s) if the proposal is not treated as urgent.

We have considered both the Panel's and the Proposer's arguments and have decided that P443 should not be progressed on an urgent basis. We have set out our reasoning below.

¹ [P443 'To Cap NGESO Interconnector Trades' - Elexon BSC](#)

Background

NGESO is obligated to co-ordinate and direct the flow of electricity onto and over the national electricity transmission system in an efficient, co-ordinated and economic manner and in accordance with the National Electricity Transmission System Security and Quality of Supply Standards.²

NGESO procures balancing services to ensure operational security. At different times and in different circumstances, NGESO uses a variety of balancing tools to assist in co-ordinating and directing the flow of electricity onto and over the national electricity transmission system. NGESO's balancing actions include the acceptance of bids and offers submitted by balancing mechanism participants, the call off of ancillary service contracts, and trades to reduce or increase flows across interconnectors.

The costs NGESO must spend to operate the national electricity transmission system have grown significantly: from around £1bn per year between 2016 to 2019, to £2bn in 2020/21 and to over £3bn in 2021/22. NGESO's review³ of the high costs associated with winter 2021/22 showed that the recent large increase in balancing costs has primarily been driven by high offer prices submitted by participants in the GB balancing mechanism.

The proposal

The Proposer argues that NGESO's ability to enter into trades to reduce or increase flows across interconnectors at prices above VoLL (as administratively set in the BSC at £6,000/MWh) adds to customers' costs and sends a signal to the markets that customers are willing to buy power at any price. The Proposer states that the introduction of a price cap on NGESO's interconnector trades would send a signal to the market that NGESO would not buy energy at prices above £6,000/MWh and instead NGESO would take alternative actions such as issuing system warnings, demand side response services or disconnecting demand.

Panel discussion on urgency

The Panel considered the request for urgency by reference to Ofgem's Guidance on Code Modification Urgency Criteria.⁴ The Panel's majority view was that P443 does meet Ofgem's criteria for urgency.

² [Security and Quality of Supply Standard \(SQSS\) | National Grid ESO](#)

³ [ESO Balancing Market Review 2022 | National Grid ESO](#)

⁴ [Ofgem Guidance on Code Modification Urgency Criteria | Ofgem](#)

Our decision

We have considered the proposal and the Panel's views on urgency. We have assessed the request against the urgency criteria set out in our published guidance and, in particular, whether this modification proposal is related to an imminent or current issue that if not urgently addressed may cause a significant commercial impact on parties, consumers, or other stakeholders(s).

When requesting a formal decision on a request for urgency, as in this case, it is important that evidence and a fully articulated rationale for the request is made. A stated impact should be justified with evidence and should clearly articulate how the request satisfies the Authority's Urgency Criteria. We consider that the Proposer has provided insufficient evidence to show how the modification proposal satisfies the Authority's Urgency Criteria. We are therefore unconvinced that the issue may cause a significant commercial impact on parties, consumers or other stakeholder(s) if not addressed urgently.

In particular, the Proposer has not provided sufficient information on the perceived commercial impact. The proposal states that customers, suppliers or generators *could* be exposed to extraordinary costs if NGESO were to enter into trades to reduce or increase flows across interconnectors at prices above £6,000/MWh. However no evidence is provided to support this assertion or to articulate the expected significance of the commercial impacts on customers, suppliers or generators (for example, the likelihood or magnitude of the impact).

Data published by NGESO⁵ shows that there has been one day on 20th July 2022 when NGESO traded to reduce or increase flows across interconnectors at a price above £6,000/MWh. The Proposer provides no evidence of the commercial impact of NGESO's trades on 20th July 2022, nor sets out why it thinks the incidence of these events will increase.

We also wish to note that the proposal casts light on important questions related to the costs consumers should bear to secure electricity supplies. As ongoing high prices continues to put consumer bills under extreme pressure, we believe it is vital that these questions are given careful consideration. We do not believe this is possible within the constrained timetable under the urgency procedure. However, we remain supportive of all industry efforts to reduce energy system costs and, in particular, we encourage industry participants

⁵ [ESO Data Portal: Historic GTMA \(Grid Trade Master Agreement\) Trades Data - Dataset | National Grid Electricity System Operator \(nationalgrideso.com\)](https://www.nationalgrideso.com/eso-data-portal/historic-gtma-grid-trade-master-agreement-trades-data-dataset)

to develop proposals that could reduce the high balancing costs witnessed over recent years.

For the avoidance of doubt, in rejecting this request for urgency, we have made no assessment of the merits of the proposal and nothing in this letter in any way fetters our discretion in respect of the proposal.

Yours sincerely,

Grendon Thompson
Head of Wholesale Market Management
Duly authorised on behalf of the Authority