

Modification proposal:	Balancing and Settlement Code (BSC) P447: Avoiding impact of Winter Contingency actions on cash-out prices (P447)		
Decision:	The Authority ¹ directs that this modification be made ²		
Target audience:	National Grid Electricity System Operator (NGESO), Parties to the BSC, the BSC Panel and other interested parties		
Date of publication:	21 October 2022	Implementation date:	24 October 2022

Background

This modification is designed to correct a potential issue with the calculation of cash-out prices. The issue arose following introduction of a new balancing service, the Winter Contingency Service (“WCS”),³ by the Electricity System Operator (“ESO”) as an additional tool for system security for winter 2022/2023.

The issue arises due to the nature of the contracts used for the WCS. Coal units contracted under the WCS are required to offer their volumes into the balancing mechanism (“BM”) at £0/MWh. If the ESO determines a need to accept those offers, this must be done at the £0/MWh offer price. The proposer says that this gives rise to a risk that the £0/MWh offer accepted could set the cash-out price at that value. As the WCS would only be called during periods of generation scarcity, this is not the expected signal and could remove the incentive for parties to assist by providing additional generation in those periods.

¹ References to “the Authority”, “Ofgem”, “we” and “our” are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day to day work. This decision is made by or on behalf of GEMA.

² This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989.

³ The ESO contracted with a number of coal plants for this service for winter 2022/23. Units contracted under the WCS can only provide the WCS and cannot take part in other markets / services.

The Proposer and the BSC Panel⁴ (the “Panel”) requested Ofgem grant urgent status to this modification on 29 September 2022. The Authority approved urgency on 4 October 2022.⁵

The modification proposal

The proposed modification, raised by the ESO (the “Proposer”) on 29 September 2022, intends to solve an issue whereby accepting BM offers from units providing the WCS can set cash-out prices inappropriately at £0/MWh. To do so, the modification introduces the concept and definition of a “Winter Contingency BM Unit”.⁶

The modification then allows Elexon to remove from settlement data any BM offers accepted by the ESO from Winter Contingency BM Units. This will be done prior to conducting calculation of cash-out prices and hence avoid setting its value to £0/MWh. Elexon would be notified of the relevant actions by the ESO via the BSC Procedure 18 process for *ex post* corrections of bid-offer acceptance (“BOA”) data.

The ESO would reintroduce the equivalent volume of the accepted BM offer actions from Winter Contingency BM Units into cash-out through a balancing service adjustment data (“BSAD”) submission. P447 proposes that this BSAD submission should be system flagged by the ESO. Elexon would price these submitted volumes at an administratively high price (£99,999/MWh, selected as being the maximum value accepted by the system), which would mean that the actions would be repriced at the cost of the highest priced action when cash-out prices are calculated.

The Proposer believes that code objectives⁷ (b), (c) and (d) are better facilitated by this change, and that there is a neutral impact on the other code objectives.

⁴ The BSC Panel is established and constituted pursuant to and in accordance with Section B of the BSC and Standard Licence Condition C3 of the Electricity Transmission Licence.

⁵ Our decision on urgency can be accessed at: <https://www.ofgem.gov.uk/publications/decision-request-treat-bsc-modification-p447-avoiding-impact-winter-contingency-actions-cash-out-prices-urgent-modification-proposal>

⁶ The ESO has contracted with 5 coal units which will provide the WCS as Winter Contingency BM Units.

⁷ Applicable BSC objectives are set out in standard condition C3(3) of NGENSO’s Transmission Licence, available here: <https://epr.ofgem.gov.uk/Content/Documents/Electricity%20transmission%20full%20set%20of%20consolidated%20standard%20licence%20conditions%20-%20Current%20Version.pdf>

BSC Panel recommendation

At the BSC Panel meeting held on 13 October 2022, the Panel considered that P447 would better facilitate the BSC objectives, and the Panel therefore unanimously recommended its approval. The Panel agreed unanimously that BSC objectives (b) and (c), are better facilitated through implementation of P447. The Panel voted by majority that the impact on objective (d) was neutral, though we note that there were some members of the Panel who felt this modification might be slightly detrimental to objective (d). Overall, the Panel acknowledged that, on balance, the impact of P447 would be positive.

Our decision

We have considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 13 October 2022. We have considered and taken into account the responses to the industry consultations which are attached to the FMR⁸. We have concluded that:

- implementation of the modification proposal will better facilitate the achievement of the applicable objectives of the BSC; and
- directing that the modification be made is consistent with our principal objective and statutory duties.⁹

Impact Assessment

We determined that an impact assessment (“IA”) would cause unnecessary delay to a pressing issue that could have a detrimental impact on market parties.

We agree with the information put forward in the FMR, supported by responses to the consultation, that impacts to market parties by implementing this modification should be minimal. Further, we note that this solution is a temporary fix to a time-bound issue, and so ongoing impacts should not be present. The ESO and Elexon may experience minor impacts to

⁸ BSC modification proposals, modification reports and representations can be viewed on the [Elexon website](#).

⁹ The Authority’s statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Electricity Act 1989.

allow them to conduct this process, but the impacts are limited mainly to situations when the WCS is used and so this is not anticipated to be frequently incurred, nor large in magnitude.

The potential impacts of delaying correction of the identified issue are expected to far outweigh any impacts to any market parties due to its implementation.

For these reasons we have not conducted an IA.

Reasons for our decision

We consider that this modification proposal will better facilitate BSC objectives (b), (c), (d) and (e), and has a neutral impact on the other applicable objectives. The correction of the cash-out price issue by this modification should only need to be temporary, with WCS expiring 31 March 2023. We note that under modification P447, BM Units can only be treated as Winter Contingency BM Units until 31 March 2023.

(b) the efficient, economic and co-ordinated operation of the national electricity transmission system

The Proposer suggested that objective (b) will be better facilitated by P447. The Panel unanimously agreed with this view.

We agree that this modification allows for a more efficient operation of the national electricity system, in line with objective (b). The modification will correct a potential distortion of the calculation of cash-out prices, which could affect the way in which market parties respond to periods of scarcity and, subsequently, the way the ESO is able to operate the system.

(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

The Proposer put forward that P447 would better facilitate objective (c). The Panel unanimously agreed with this view.

Parties providing generation will be able to do so with confidence that the rewards for doing so will be reflected accurately under the P447 solution. Without this, there is a possibility that market parties would be compensated or charged incorrectly for the actions they take. Additionally, this retains the requirement to ensure that energy from Winter Contingency BM Units is paid at £0/MWh, in keeping with the principles of the way in which those units have been contracted. We therefore agree that objective (c) is better facilitated through this modification.

(d) Promoting efficiency in the implementation of the balancing and settlement arrangements

The Proposer suggested that there would be a positive impact on objective (d). The panel voted by majority that this modification is neutral under objective (d).

We recognise the comments raised by some members of the Panel around reduced efficiency of balancing and settlement arrangements (ie detriment to objective (d)) because of additional steps and added complexity. However, while we agree that the process becomes slightly more complex, the outcome of the process is certainly more efficient and so, on balance, we find that objective (d) is overall positively impacted.

(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]

We note that the Proposer and the Panel identified neutral impacts on objective (e). We note that Article 6(5) of the Electricity Regulation^{10,11} requires that “The imbalances [of balancing markets] shall be settled at a price that reflects the real-time value of energy.”.

¹⁰ Regulation (EU) 2019/943 on the internal market for electricity (recast) (the “Electricity Regulation”) can be accessed here: <https://eurlex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32019R0943&from=EN>

¹¹ The Electricity Regulation is amended in UK law by UK SI 2020 No. 1006 which can be found at: <https://www.legislation.gov.uk/ukSI/2020/1006/contents/made>

We therefore conclude that objective (e) is also better facilitated through P447, as previously there were balancing markets that could have seen their imbalances settled at a price (£0/MWh) that would not have reflected the real-time value of energy.

We find that objectives (b), (c), (d) and (e) are better facilitated by implementation of this modification.

Decision notice

In accordance with Standard Condition C3 of the Transmission Licence, the Authority hereby directs that modification proposal BSC P447: *Avoiding impact of Winter Contingency actions on cash-out prices* be made.

Adam Gilham

System Operation Principal Policy Advisor

Signed on behalf of the Authority and authorised for that purpose