



Making a positive difference
for energy consumers

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Dear Sara,

Authority decision to 'send back' Balancing and Settlement Code modification proposal P461' Accurate Reporting of Customers Delivered Volumes to Suppliers'

On 25 January 2024, the Final Modification Report (FMR) for P461 was submitted to the Authority¹ for decision. We have decided that we are unable to form an opinion on P461 based on the FMR as submitted to us and are therefore sending the FMR back for further work.

Background

BSC modification P344 'Wider Access & Project TERRE', introduced arrangements for customers and generators to participate in the Balancing Mechanism (BM) through an independent aggregator (a Virtual Lead Party or VLP) independently of their electricity Supplier.² When they do this, the Supplier's Imbalance Volume is adjusted to remove the effect of any Bid Offer Acceptance (BOAs), ie imbalances caused by VLP actions.

Currently, in the process described above, the data reported to the Supplier is the unadjusted Delivered Volumes reported to the Supplier Volume Allocation Agent (SVAA) by the VLP and does not reflect any adjustments made to that data in Settlement.

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 Electricity Markets (Ofgem) supports GEMA in its day-to-day work. This decision is made by or on behalf of GEMA.

² <https://www.ofgem.gov.uk/publications/p344-project-terre-implementation-gb-market-arrangements>

The issue stated in the P461 FMR is that the Delivered Volumes reported to the Supplier are frequently inconsistent with the adjustments made to the Supplier's Imbalance Volume in Settlement.

The proposed solution in P461 is the introduction of a formula which incorporates any adjustments made to the data by the Settlement Administration Agent (SAA) into the values reported to Suppliers.³

In the FMR, the proposer categorises two potential use cases for the proposed solution with the caveat that the exact use to which each Supplier puts this information may vary depending on the terms of their contract with the customer:

1. Adjusting payments from (or to) the customer for the energy they use (or generate), ie the proposed solution would ensure Suppliers have the data required to bill their customers accurately. Specifically, when Imbalance Adjustments are applied to a Supplier arising from customers' participation in the BM through a VLP, the Supplier will be able to accurately attribute them to individual customers.
2. Passing on other costs or charges to customers, ie some Power Purchase Agreements (PPAs) may require generators to forecast their output, with any deviations from the forecast being settled at the Imbalance Price. The Supplier will need to take any Delivered Volumes into account to avoid unfairly penalising the generator for delivering Bid Offer Acceptances.

Reasons for send back

While we recognise that there may be a needs case for addressing the issue that P461 seeks to resolve, we are unable to make a decision on the proposed solution due to a lack of sufficient information and evidence in the FMR submitted to us.

We have identified the following deficiencies in the FMR:

It is unclear from the FMR the scale of the problem that P461 is trying to address, and what impacts this problem is currently having on Suppliers, customers, and other industry parties. The FMR also does not describe which customers this problem applies to.

³ These values are exchanged between the SVAA and Suppliers via the P0287 dataflow which reports values calculated from delivered volumes and other adjustments during the main calculation to determine the BM Unit position.

The FMR does not present sufficient information or evidence on the expected impact of the implementation of the proposed solution on Suppliers, customers, and other industry parties, despite the key justification for P461 centring around enabling Suppliers to bill their customers accurately. No distinction is made in the FMR between the impact of the proposed solution on domestic and non-domestic customers. While a Request for Information (RFI) and consultation were carried out, we are concerned that the potential impact of this code modification on the domestic market, including Suppliers and the subsequent impact on customers, has not been considered sufficiently.

The FMR states that a benefit of the proposed solution is that it will enable Suppliers to bill their customers more accurately. The P344 mechanism removes the Account Volumes dispatched by VLPs at sites registered to a Supplier and returns the Supplier to a balanced position from the perspective of imbalance settlement. If the proposed solution is implemented, the FMR does not provide sufficient information on the Imbalance Adjustments that P461 would allow Suppliers to pass through to their customers.

The proposed solution in the FMR includes a new formula to be used to calculate the Period Secondary BM Unit Adjustment Factor. While the proposed formula is detailed in the legal text which accompanies the FMR, the variables named in the formula are not clearly explained in the FMR and the worked example is difficult to interpret.

The FMR does not include sufficient analysis on the positive impact on the applicable BSC objective (c), which is "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." Therefore, we are unable to sufficiently evaluate the extent to which this modification proposal positively impacts the applicable BSC objective.

Finally, the interactions between P461 and another code modification referenced in the FMR, P444, have not been clearly set out. The FMR states that P444 could impact one of the use cases, "Adjusting payments from (or to) the customer for the energy they use (or generate)", but it does not detail how these modifications interact in general or the potential scale of that impact. We have also been advised by the code administrator that there is a need to align P461 with P415 as the legal text does not fully align.

Direction

We therefore direct that additional steps are undertaken to address these deficiencies. A revised FMR should include:

- Additional information on the justification for this code modification, including how customers, suppliers and other relevant industry parties are negatively impacted by the current process.
- Clear evidence on the impact and benefits of the proposed solution on customers, suppliers and other relevant industry parties, including an assessment of any differences in the impact on both domestic and non-domestic customers.
- Additional evidence of how the implementation of this modification would positively and/or negatively impact the applicable BSC Objectives.
- Explanation of the interactions with other relevant inflight code modifications, including P444 as referenced in the FMR, and impacts on the use cases for P461.
- To resolve the misalignment of legal texts between P415 and P461, we would suggest that work be done to re-baseline the legal text in this send back process.

After addressing the issues discussed above, and revising the FMR accordingly, the BSC Panel should re-submit it to us for decision as soon as reasonably practicable, and in any event within two months in accordance with paragraph 2.7 B of Section F of the BSC.

Yours sincerely,

Fiona Campbell

Head of DSO Governance & Flexibility Strategy – Energy Systems Management & Security

Signed on behalf of the Authority and authorised for that purpose