4.7 Issue Form

Issue Form - BSCP40/04	Issue Number 94 *(mandatory by BSCCo)*

Issue Title *(Mandatory by originator)*

Assessing barriers to entry to the Balancing Mechanism for sub 1MW providers and decimal bids

Issue Description *(Mandatory by originator)*

What are we seeking to do?

National Grid Electricity System Operator (ESO) has committed to facilitating the transition to a zero carbon energy system in line with government net zero targets. This includes building the future Balancing Services and wholesale markets to attract the volume of flexibility, including small scale flexibility, needed to unlock future greater consumer value and manage the low carbon system.

The ESO conducted an impact assessment to understand the barriers to entry to joining the Balancing Mechanism (BM) for sub 1MW participants (and users with decimal bids) across a range of internal areas including Industry codes, control room, IT and Settlement. The assessment concluded that further participation will help to enable zero carbon system operation. Further, the 1MW threshold and GSP level constraint has been noted by Market Participants as a blocker to participation.

The key findings of the impact assessment showed that the existing ESO IT tools have been hard coded to only accept integers (whole numbers). The ESO is currently transforming its suite of IT tools through the Balancing Review programme. This is expected to complete by 2025.

We are seeking to engage Market Participants to join an Issue Group to help assess the barriers to entry to the Balancing Mechanism for sub 1MW providers and decimal bids.

Background

On 18 June 2020, ACER (Agency for the Cooperation of Energy Regulators) published 2 decisions on EBGL (European Electricity Balancing Guidelines). ACER is the European regulatory body aimed at working towards a European single energy market to benefit consumers. It currently has the power to mandate regulatory change in Great Britain, as GB is part of the European internal energy market. Post Brexit arrangements are yet to be clarified. One of these decisions related to the methodology and list for standard products for balancing capacity. It indicated (Art 5.1c): the minimum bid quantity and granularity shall be 1MW; This aligns with Article (5.2d) volume divisibility: divisible with a minimum granularity of 1MW or indivisible bids. This means that bids relating to standard products have a minimum threshold of 1MW and can only be offered in 1MW increments.

Further work to clarify the impact has taken place. This relates to standard products. Specific products, products only required for GB, (each must be approved by Ofgem) do

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not have to meet the same criteria. A process to approve new and existing specific products is being created at the moment.

Additionally, a large number of small players participating in the Balancing Services market would require a robust approach and accurate data for Settlement and metering, to enable visibility and control for efficient control room operations. Simultaneously, viability for small players is required to allow entry and competition.

Therefore, we would like to raise an Issue to see what other Industry changes could be made ahead of the expected 2025 IT change to aid Market Participants participation in the BM.

As part of this Issue Group we'd also like to share the initial findings from the ESO impact assessment and:

- assess what other barriers/defects may currently exist which are not being tackled by current modifications, which if removed may aid sites to participate in Balancing Services, thus making it easier to reach the 1MW threshold
- consider other ongoing related BSC (Balancing and Settlement Code) Modifications including P375 'Settlement of Secondary BM Units using metering behind the site Boundary Point', P376 'Utilising a Baselining Methodology to set Physical Notifications for Settlement of Applicable Balancing Services' and P415 'Facilitating access to wholesale markets for flexibility dispatched by Virtual Lead Parties' and their contribution to lowering barriers to entry, i.e. will these BSC Modifications remove sufficient barriers to make it easier for Aggregators to meet the 1MW Threshold
- based on the above identify what improvements should be made and any necessary code modification(s) to facilitate those improvements. (this includes the BSC as well as other codes)

Justification for Examining Issue *(Mandatory by originator)*

We are encouraging competition and believe that addressing barriers to entry will create significant consumer benefits. We believe small scale flexibility providers have a part to play in enabling the transition to a net zero energy system in the UK, and some of these providers have told us that this issue is a barrier to their bringing greater volume of small scale flexibility to the market. We furthermore believe that addressing this issue isn't purely an IT challenge for the ESO, but is likely to have an impact on the systems and processes for all Market Participants. We want to facilitate the discussion around the impacts existing processes and regulation have on small players.

This gives us the opportunity to identify challenges and strive to find solutions that will enable growth in the small scale flexibility market, once it is ready to join and participate in the BM. We additionally want to investigate if there are opportunities that can be delivered ahead of the IT transformation, for example through joint aggregation.

Potential Solution(s) *(Optional by originator)*

Solutions such as joint aggregation (the possibility of aggregators working together through commercial arrangements to expand their GSP volumes) are initial concepts to consider but the purpose of the Issue Group is to seek Industry feedback on what they determine as

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barriers preventing them meeting the 1MW threshold. Potential solutions will arise out of this analysis.
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