

4.7 Issue Form

Issue Form - BSCP40/04	Issue Number <i>(mandatory by BSCCo)</i>
<p>Issue Title <i>(Mandatory by originator)</i></p> <p>Review of the current practice of setting Dynamic Parameters within the Balancing Mechanism</p>	
<p>Issue Description <i>(Mandatory by originator)</i></p> <p>What is the issue?</p> <p>Strict compliance with the market manipulation rules following Ofgem’s ‘Open letter on dynamic parameters and other information submitted by generators in the Balancing Mechanism’ may lead to a less economic/efficient outcome than what some generating plant was doing prior Ofgem’s open letter being published.</p> <p>While Energy UK understand the need for clear guidance, there is a concern around the distinction between technical and economic dispatch of parameters and what this could mean in practice for limits submitted from generating plant to National Grid Electricity System Operator (NGESO).</p> <p>There is a difference between the absolute limit of a technical parameter that a unit can operate at and the level at which it can do so in the most economically efficient manner. For example pushing a generation unit to the limit of its Minimum Zero Time would be more expensive due to the associated risks. Therefore, there is a commercial trade-off between risk and capability.</p> <p>Further Background</p> <p>Various factors can influence a Balancing Mechanism (BM) bid/offer and how the generation plant is operated affects the operational costs and therefore the prices that can be offered. By way of example, ramp rates can be quickened but would cost more depending on the risk the plant incurs in doing so. It is therefore not always possible to capture the running options and associated prices in a single BM bid/offer. This can result in the ESO having fewer and potentially more expensive options to choose from, which ultimately costs the end consumer more.</p> <p>In the longer term, generating plant may need to balance their operations with environmental limits. For example, a plant in the Capacity Market (CM) may have to be careful not to run out of operational hours due to environmental constraints at the start of winter as it may need to be open to meet CM obligations later in the winter.</p>	
<p>Justification for Examining Issue <i>(Mandatory by originator)</i></p> <p>BM prices have become more expensive after the guidance was published, although this is hard to quantify. Addressing the concerns outlined above could assist NGESO in selecting more economically efficient products to balance the system. This could result in increased cost reflectivity and competition in the BM.</p>	

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

A BSC Issue group should be convened to identify future arrangements that enable both compliance with market manipulation rules (i.e. the publication of actual physical capability parameters) as well as maintaining economic efficiency (i.e. the publication of another set of ‘operationally efficient’ parameters).

The Issue Group’s recommended solution may be exclusive to the Grid Code or may involve both BSC and Grid Code change but the potential for BSC impacts should be assessed via the group in any case. There are multiple potential Solutions to this Issue that may or may not be practical. Within the group we aim to clarify what is permissible with the existing arrangements as well as developing the solution in a manner that could foster greater competition by providing greater flexibility in the dynamic parameter arrangements.

Energy UK have identified a number of options that may better facilitate the BSC and/or Grid Code Applicable Objectives for Issue Group consideration:

- Allow for multiple combinations of dynamic parameters and associated pricing options for a single Balancing Mechanism Units (BMU) in the BM
- Decreasing BOA prices. Often the cost per MWh of a generator decreases as its output increases, but we note that the BM only allows for increasing BOA prices as output increases.
- Reword the text in the BSC and Grid Code that will allow for more flexibility when declaring technical parameters

It would be useful to determine if NGESO would find any solution useful with regards to balancing the system. It would also be helpful to investigate what parameters signatories believe would be useful to change and we would welcome input from NGESO and Ofgem in this regard.

The BSC Bid Offer Acceptance (BOA) rules ([Section Q: Balancing Services Activities](#) part 4) may usefully be reviewed to allow for greater flexibility in pricing.

Finally, the group could consider if all parameters are necessary for all generating plant, for example should storage or smaller generating plants have fewer or different parameters?

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