

Modification proposal:	<b>Balancing and Settlement Code (BSC) P371: Levelling the playing field - Inclusion of Spin-Gen, Non-BM Fast Reserve and Non-Tendered Fast Reserve actions into the calculation of the Imbalance price and extension of the cash-out price arrangements to Fast Reserve</b>		
Decision:	The Authority <sup>1</sup> directs that this modification be made <sup>2</sup>		
Target audience:	National Grid Electricity System Operator (NGESO), Parties to the BSC, the BSC Panel and other interested parties		
Date of publication:	16 December 2019	Implementation date:	25 June 2020

## Background

Imbalance pricing is an important part of the wholesale trading arrangements in Great Britain ("GB"). For any given half hour Settlement Period, Balancing and Settlement Code ("BSC") Parties may trade with each other up to the start of the relevant Settlement Period. However, the contracts between Parties do not always cover the generation or demand requirements on the Transmission System. Parties need to submit Physical Notifications ("PN") for each Settlement Period so that the Electricity System Operator ("ESO") can understand the overall imbalance of the Transmission System. To balance the Transmission System, the ESO takes balancing actions. A balancing action is an instruction to a Party, in accordance with agreed rules, to either increase or decrease generation, or increase or decrease demand. These balancing actions can be taken either through the Balancing Mechanism ("BM") or separately ("non-BM actions").

Following the end of a Settlement Period, Elexon will compare the amount of energy each Party contracted with its actual metered volumes for the Settlement Period, accounting for any balancing actions. Any surplus or shortfall that the Party has is paid for using the relevant imbalance price. The BSC Systems calculate the energy imbalance price using balancing actions accepted by the ESO for that Settlement Period.

In August 2012, Ofgem launched its Electricity Balancing Significant Code Review ("EBSCR")<sup>3</sup> to look at imbalance prices. Upon completion of the EBSCR, the Authority issued a direction to NGESO to raise P305 'Electricity Balancing Significant Code Review Developments'.<sup>4</sup> P305 aimed to address the fact that previous methods for pricing reserve costs into cash-out did not accurately reflect the real-time value of this reserve and excluded the cost of some reserve products altogether. It is important that energy balancing actions are reflected in the imbalance price calculation, to create the accurate price signals for the market to balance, to mitigate the risks to future electricity security of supply and maximise balancing efficiency, at a low cost to consumers.

<sup>1</sup> 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.

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

<sup>3</sup> <https://www.ofgem.gov.uk/electricity/wholesale-market/market-efficiency-review-and-reform/electricity-balancing-significant-code-review>

<sup>4</sup> <https://www.elexon.co.uk/mod-proposal/p305/>

The P305 proposal set out to include Short Term Operating Reserve ("STOR")<sup>5</sup> products which are not instructed via the BM (non-BM STOR) in the imbalance price. P305 was approved by Ofgem in April 2015 with an implementation date of November 2015.

Currently non-BM Fast Reserve actions are not included in the imbalance price calculation. Non-BM Fast Reserve is a contracted Balancing Service provided by non-BM participants, whereby the service provider delivers a rapid active power<sup>6</sup> through either an increased output from generation or a reduction in consumption following receipt of an despatch instruction from NGESO.

### **The modification proposal**

UK Power Reserve (the "Proposer") raised P371 on 11 September 2018. P371 proposes to require NGESO to include details of non-BM Fast Reserve actions in the Balancing Services Adjustment Data<sup>7</sup> ("BSAD") file used in the imbalance price calculation, mirroring the treatment of other non-BM actions.

The Proposer contends that the current calculation of the imbalance price is sending incorrect messages to the industry and distorting the market signal, this lack of transparency is potentially impacting the behaviour of market participants, increasing costs for end consumers. In order to move towards a more cost reflective imbalance price, fair and harmonised treatment of all services and facilitate greater transparency, Fast Reserve actions should be included in the imbalance price calculation. The proposer believes that the implementation of P371 will allow the imbalance price to reflect the cost of non-BM Fast Reserve actions and will therefore send improved price signals to market participants.

The Proposer considers that the modification would better facilitate BSC objectives<sup>8</sup> (a), (b), (c), (d) and (e) in comparison to the current baseline.

### **BSC Panel<sup>9</sup> recommendation**

At the BSC Panel meeting on 12 September 2019, the BSC Panel unanimously considered that P371 would better facilitate BSC objectives (a), (b) and (c) and the BSC Panel therefore recommended its approval.

### **Our decision**

---

<sup>5</sup> STOR is a contracted balancing service, whereby the service provider delivers a contracted level of power when instructed by NGESO.

<sup>6</sup> The technical requirements to deliver fast reserve can be found [here](#).

<sup>7</sup> Balancing actions taken outside of the Balancing Mechanism are submitted to the BSC Systems as Balancing Services Adjustment Data ("BSAD"). The ESO specifies what balancing actions are included in BSAD in the [BSAD Methodology Statement](#).

<sup>8</sup> Applicable BSC objectives are set out in standard condition C3(3) of NGESO's Transmission Licence, available [here](#).

<sup>9</sup> The BSC Panel is established and constituted pursuant to and in accordance with Section B of the BSC and Standard Special Licence Condition C3 of the Electricity Transmission Licence available at: [www.epr.ofgem.gov.uk](http://www.epr.ofgem.gov.uk)

We have considered the issues raised by the modification proposal and the Final Modification Report (“FMR”) dated 20 September 2019. We have considered and taken into account the responses to the industry consultations which are attached to the FMR.<sup>10</sup> We have concluded that:

- implementation of the modification proposal will better facilitate the achievement of the applicable objectives of the BSC;<sup>11</sup> and
- directing that the modification be made is consistent with our principal objective and statutory duties.<sup>12</sup>

### **Reasons for our decision**

We consider this modification proposal P371 will better facilitate BSC objectives (b), (c) and (e) and has a neutral impact on the other applicable objectives.

#### ***Objective (a) the efficient discharge by the licensee of the obligations imposed upon it by this licence***

The Proposer contends that the P371 solution better facilitates this objective as they believe, although not explicitly listed in the methodology, NGESO should already be including details of non-BM Fast Reserve in the BSAD methodology. To this extent they perceive NGESO to currently be non-compliant with Standard Condition C16 of its Transmission Licence.<sup>13</sup>

The BSC Panel unanimously agreed that P371 better facilitates this objective, not on the basis of compliance with Standard Condition C16 but rather that under NGESO’s roles and principles they are required to provide accurate and transparent market data. The BSC Panel believed that P371 would therefore better facilitate BSC objective (a), as it would facilitate the publication of increased market information.

We consider that the implementation of P371 would reinforce Principle 1<sup>14</sup> as outlined in the ESO Roles and Principles Guidance document<sup>15</sup> by supporting market participants with the provision of comprehensive and accurate market data. However, we do not believe that this modification has a material impact on NGESO’s compliance with C16 and on balance we therefore consider that P371 is neutral in regard to BSC objective (a).

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

---

<sup>10</sup> BSC modification proposals, modification reports and representations can be viewed on the Elexon website at [www.elexon.co.uk](http://www.elexon.co.uk)

<sup>11</sup> As set out in Standard Condition C3(3) of the Electricity Transmission Licence: <https://epr.ofgem.gov.uk>

<sup>12</sup> 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.

<sup>13</sup> Standard Special Licence Condition C16 of the Electricity Transmission Licence relates to the efficient, economic co-ordination of electricity onto and over the national electricity transmission system along with the procurement and use of balancing services. It is available at: [www.epr.ofgem.gov.uk](http://www.epr.ofgem.gov.uk).

<sup>14</sup> Principle 1: Support market participants to make informed decisions by providing user-friendly, comprehensive, and accurate information

<sup>15</sup> [https://www.ofgem.gov.uk/system/files/docs/2019/03/eso\\_roles\\_and\\_principles\\_guidance\\_2019-20.pdf](https://www.ofgem.gov.uk/system/files/docs/2019/03/eso_roles_and_principles_guidance_2019-20.pdf)

The Proposer believes that BSC objective (b) will be better facilitated as P371 will make the imbalance price more reflective of market conditions, which will send stronger price signals to market participants; consequently, increasing the efficiency of the operation of the transmission system. It was also highlighted by the Proposer that the sharpening of pricing signals to the market will enable improvement in the provision of economic flexible capacity.

The BSC Panel, along with the majority of the Workgroup agreed that P371 will better facilitate this objective for reasons same as the Proposer. Consultation respondents were by majority in agreement that the modification better facilitates BSC objective (b) for similar reasons, whilst also highlighting that in addition to a more reflective cash-out price; the Net Imbalance Volume ("NIV")<sup>16</sup> would be more reflective of market conditions, which would further promote the efficient and economic operation of the transmission system.

We have reviewed the analysis conducted by Elexon and believe P371 would deliver an improvement over the current baseline and will have positive impact in relation to BSC objective (b) with cash-out prices better reflecting the energy balancing actions taken by NGESO; improving balancing efficiency and supporting investment in flexibility. Overall, we hold similar views as those provided by the Proposer and the BSC Panel in regard to this objective and consider that the modification will help strengthen price signals which should in turn lead to a more cost-effective operation of the transmission system.

In regard to the discussion contained within the FMR surrounding the uncertainty of the future of balancing services, we note NGESO's response to the P371 assessment procedure consultation<sup>17</sup> which outlines that non-BM providers will continue to be an important part of NGESO's future balancing services strategy. We therefore conclude that there is sufficient longevity in the P371 solution for the market benefits to be realised.

***Objective (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 considers that P371 better facilitates this objective as including non-BM Fast Reserve actions in the imbalance price calculation would allow it to be more cost reflective of market conditions and guarantee consistent treatment of different balancing service providers which would support competition. The Workgroup and the BSC Panel agreed that P371 better facilitates objective (c) for similar reasons as those given by the Proposer.

The aim of the imbalance price is to reflect the underlying cost to balance the system, and to accurately reflect the scarcity on the system, which should send signals for investment in flexible generation. We note the comments from the Workgroup members and consultation respondents that the proposed modification will promote effective competition in the BSC arrangements and we are also minded to agree that P371 will better facilitate BSC objective (c) against the current baseline.

---

<sup>16</sup> The Net Imbalance Volume is the volume of the overall system energy imbalance, as a net of all system and energy balancing actions for the relevant Settlement Period

<sup>17</sup> <https://www.elexon.co.uk/documents/change/modifications/p351-p400/p371-assessment-consultation-responses/>

Our view is that P371 facilitates the further provision of a cost reflective imbalance price that helps accurately reflect energy balancing actions taken by the NGESO. This supports effective competition by accurately reflecting the value that balancing actions deliver and helps align competitive incentives of market participants with the interests of the consumer. In addition, parties may also be encouraged to enter the market with a sharper price signal that better reflects the value of the services procured.

***Objective (d) promoting efficiency in the implementation and administration of the balancing and settlement arrangements***

The Proposer believes that P371 better facilitates BSC objective (d), stating that the inclusion of non-BM Fast Reserve actions into the calculation of the cash out price will make it more cost reflective, which will in turn promote competition and enhance efficiency in the BSC arrangements. The majority of the Workgroup disagreed with this view and stated that the rationale provided by the Proposer for this objective instead better relates to BSC objective (c). The BSC Panel took the same view as the majority of the Workgroup and considered that P371 was neutral in regard to BSC objective (d).

We have assessed the reasoning and believe that P371 is neutral in respect to BSC objective (d) as we do not feel that the current baseline would be improved following implementation of P371. In addition, we consider the rationale given by the proposer under this objective is more appropriate under BSC objective (c) as it fundamentally relates to competition.

***Objective (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]***

The Proposer believes that P371 better facilitates BSC objective (e) as including non-BM Fast Reserve actions in the cash out price, will better reflect the intent of the Electricity Balancing Guideline ("EB GL") by ensuring that the imbalance price is more cost reflective of energy balancing actions taken. It should be noted that the Workgroup believed that P371 is neutral in regard to this objective; they noted that a direct link between this modification and the requirements of EB GL was not clear. The BSC panel was also in agreement with the Workgroup and believed that P371 was neutral towards BSC objective (e).

We consider that P371 has a small positive impact in regard to BSC objective (e). This is because P371 supports our compliance with the requirements of EB GL (specifically Articles 52-55)<sup>18</sup> by ensuring that all manual frequency restoration reserves products are included in the imbalance price calculation. Moreover, the changes under P371 were one of the conditions set out in our decision on 8 October 2019<sup>19</sup> for the national terms and conditions proposed by the ESO pursuant to Article 18 of EBGL to take effect.

---

<sup>18</sup> [https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L\\_.2017.312.01.0006.01.ENG&toc=OJ:L:2017:312:TOC](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2017.312.01.0006.01.ENG&toc=OJ:L:2017:312:TOC)

<sup>19</sup> <https://www.ofgem.gov.uk/publications-and-updates/decision-transmission-system-operators-proposal-terms-and-conditions-related-balancing>

## **Decision notice**

In accordance with Standard Condition C3 of the Transmission Licence, the Authority hereby directs that modification proposal BSC P371: 'Levelling the playing field - Inclusion of Spin-Gen, Non-BM Fast Reserve and Non-Tendered Fast Reserve actions into the calculation of the Imbalance price and extension of the cash-out price arrangements to Fast Reserve' be made.

**Chris Thackeray**

**Head of GB Wholesale Markets**

Signed on behalf of the Authority and authorised for that purpose