

Modification proposal:	<b>Balancing and Settlement Code (BSC) P397: Assessing the costs and benefits of adjusting Parties' Imbalances following a demand disconnection</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:	05 Oct 2020	Implementation date:	06 Oct 2020

## Background

In circumstances where the National Electricity Transmission System Operator (NETSO) is unable to call upon sufficient generation, it can call upon Demand Control under the Grid Code<sup>3</sup> as a last resort emergency instruction to manage the situation. This enables NGESO to instruct Licensed Distribution System Operators (LDSOs) to reduce demand in their areas, either through initiating Voltage Reduction and/or disconnecting consumers through Demand Disconnection. A Demand Control Event (DCE) is the term given to the period when a Demand Control is in effect.

Settlement Adjustment Processes (SAP) were introduced into the BSC under P305 'Electricity Balancing Significant Code Review Developments'<sup>4</sup> in November 2015. The SAP is necessary to calculate Trading Parties' Balancing Mechanism Unit Allocated Demand Disconnection Volume Period BM Unit Demand Disconnection Volume.

The BSC Panel is concerned that the SAP may not be efficient to run in all circumstances, for example, when considering a DCE that has minimal material impact on Settlement.

## The modification proposal

At its meeting on 14 November 2019, the BSC Panel challenged ELEXON to develop a Modification Proposal that it could adopt at its December 2019 Panel meeting.

P397 was subsequently raised by the BSC Panel (the Proposer). The proposed solution seeks to introduce a mechanism wherein the BSC Panel sets rules for ELEXON to use to determine whether relevant parties should operate the SAP or not, based on whether the value of doing so exceeds the associated costs.

The solution comprises the following:

- BSC Panel establishes and maintains business rules – 'Demand Disconnection Event (DDE) Threshold Rules' – which will set out:
  - The circumstances in which ELEXON should assess the costs and benefits of a DCE.

<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> Operating Code 6 'Demand Control' available at [ ].

<sup>4</sup> <https://www.ofgem.gov.uk/publications-and-updates/balancing-and-settlement-code-bsc-p305-electricity-balancing-significant-code-review-developments>

- A method for assessing the costs and benefits of a DCE – including any specific calculations or parameters that ELEXON should follow or use in its assessment – whereby SAP should not be performed where the costs are equal to or greater than the value;
  - If a DCE is determined to include a DDE, ELEXON shall compare the pre-determined cost and calculated DCE-specific benefit values to determine whether the Settlement Adjustment Processes shall be run.
- Other criteria, timescales, parameters or calculations necessary to assess the DCE.
- New requirements on ELEXON to complete an assessment of each DCE in accordance with the BSC Panel’s Rules and to notify BSC Parties, Party Agents and BSC Panel of its findings.

More detail as to the definition of **DCE\_Cost** and **DCE\_Value** are given in the Demand Disconnection Event Threshold Rules.<sup>5</sup>

The Proposer believes its solution strikes a balance between being the straightforward to implement and operate, and reflecting the costs and values of different sized DCEs. The Proposer believes P397 proposed will better facilitate BSC applicable objectives (c) and (d)<sup>6</sup>.

*Send back*

P397 was presented to the BSC Panel meeting 16 January 2020. The majority of the panel agreed that P397 would better facilitate Applicable BSC Objective (c) as it would mean money is only spent running the adjustment processes when the cost of doing so is lower than the perceived benefits of running the adjustment processes. The BSC Panel unanimously agreed that the implementation of P397 would positively impact Applicable BSC Objective (d) as this could potentially enable the industry to forego running a potentially inefficient process unnecessarily.

P397 was submitted to us for decision on 27 January 2020. On 3 March 2020 we sent back<sup>7</sup> P397 to the BSC Panel for further work, principally to gather more evidence. Issue 89<sup>8</sup> was raised to gather the requested evidence and to review the first instance of the SAP being used to determine whether they are still fit for purpose.

As a result of this work the Proposer made minor amendments to P397. These were to clarify the calculations so that that all active LDSOs and Agents are assumed to be impacted by a DCE. Secondly to amend the Business Rules in respect of Half Hourly Agent costs of performing the SAP.

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<sup>5</sup> <https://www.elxon.co.uk/bsc-and-codes/bsc-related-documents/other-documents-category-3/>

<sup>6</sup> <https://www.elxon.co.uk/documents/training-guidance/bsc-simple-guides/section-f-simple-guide/>

<sup>7</sup> <https://www.ofgem.gov.uk/publications-and-updates/authority-decision-send-back-bsc-modification-proposal-p397-assessing-costs-and-benefits-adjusting-parties-imbalances-following-demand-disconnection>

<sup>8</sup> <https://www.elxon.co.uk/smg-issue/issue-89/>

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

At the BSC panel meeting of 13 August 2020, a majority of the Panel considered P397 would better facilitate Applicable Objective (c). The Panel also unanimously considered P397 would better facilitate Applicable Objective (d). The Panel therefore recommended its approval.

## **Our decision**

We have considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 14 August 2020. We have considered and taken into account the responses to the industry consultation(s) 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 will better facilitate BSC objective (d) and has a neutral impact on the other applicable objectives.

### ***(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***

We believe the solution proposed to be neutral against this objective. We note that a Panel member also considered the impact of this modification on this objective to be neutral as, in their view, it has neither a positive or negative effect on competition.

We consider the evidence provided to us highlights that affected parties would save as a result of not running the settlement adjust processes but does not provide evidence concerning the impact on competition. The low value associated with future costs of running the settlement adjustment processes across all parties does suggest that the modification as proposed would have little to no impact on competition.

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

This modification may enable the industry to forego running a potentially inefficient process unnecessarily and provides certainty to parties on when the SAP is needed. We agree that the implementation of P397 would result in costs not being incurred

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<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)

<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.

unnecessarily when the value of running the settlement adjustment process is higher than the **DCE\_value**. We therefore believe that this modification promotes efficiency in the implementation and administration of the settlement arrangements.

#### *Other issues*

We note, however that there is an error within the legal text associated with P397. Specifically at paragraph 4.7 the reference to 3.4.4 should be 3.4.5. We consider the error is not a material inaccuracy and therefore does not affect our approval of this modification. We expect however, this error to be corrected via a Fast Track Self Governance modification as soon as is reasonably possible.

#### **Decision notice**

In accordance with Standard Condition C3 of the Transmission Licence, the Authority hereby directs that modification proposal BSC P397 'Assessing the costs and benefits of adjusting Parties' Imbalances following a demand disconnection' be made.

**Chris Thackeray**

**Head of GB Wholesale Markets**

Signed on behalf of the Authority and authorised for that purpose