

Modification proposal:	Balancing and Settlement Code (BSC) P435: Enabling EMRS to undertake preparatory work for potential future settlement services to LCCC (P435)		
Decision:	The Authority ¹ directs that this modification be made ²		
Target audience:	National Grid Electricity System Operator (NGESO), Parties to the BSC, the BSC Panel and other interested parties		
Date of publication:	14 April 2022	Implementation date:	25 April 2022

Background

The activities Elexon or its subsidiaries are permitted to undertake are outlined in BSC Section C 'BSCCo and its Subsidiaries' Annex C-1³. Currently, the services provided to Low Carbon Contracts Company (LCCC) as the Contracts for Difference (CFD) Counterparty, for the CfD Scheme, and to Electricity Settlement Company (ESC) as the Capacity Market (CM) Settlement Body for the CM Scheme, are restricted to settlement services (as defined in legislation). These services are delivered through Elexon's wholly owned subsidiary, EMR Settlement (EMRS) Limited.

As the electricity market evolves, the Secretary of State (SoS) for Business Energy and Industrial Strategy (BEIS) may seek to introduce additional schemes, or amend existing schemes, to deliver government policy and incentivise investment in new technology not currently covered by existing mechanisms. In the event that these schemes are managed by LCCC outside its remit of the CFD Counterparty or the CM Settlement Body, they may need support from EMRS to explore and develop the necessary settlement systems and processes.

Although EMRS was established to provide settlement services with respect to the Government's CFD and CM schemes, as a subsidiary of Elexon, its vires is regulated by the

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

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

³ <https://www.elexon.co.uk/documents/bsc-codes/bsc-sections/bsc-section-c-bscco-and-its-subsidiaries/>

BSC⁴. Currently, the BSC would not permit EMRS to offer its expertise and experience to LCCC for any purpose other than CFD and CM settlement.

The modification proposal

Elexon Limited (the proposer) has raised this modification (P435) in March 2022. P435 seeks to enable EMRS to undertake preparatory work (such as exploring the development of processes and systems) on behalf of the LCCC/ESC, in order to facilitate the implementation of any new schemes established by, or proposed to be established by the SoS from time to time (from legislation and/or via a contract). To clarify, P435 will not enable EMRS to operate any new schemes. A further change to the BSC would be needed to permit this, either via a Modification or via a direction from BEIS (granted under legislation).

The proposer and BSC Panel agreed that P435 does better facilitate Applicable BSC Objective (d)⁵ as it allows fixed costs of Elexon to be shared across other activities, creating the opportunity for Costs to BSC Parties to be defrayed. Additionally, new activities will enable Elexon to retain, attract and develop its people for the benefit of the industry, as there will be opportunities for them to work on a wider range of activities.

BSC Panel⁶ recommendation

At the BSC Panel meeting on 10 March 2022, the BSC Panel agreed that P435 would better facilitate the BSC objectives (d) and the Panel therefore recommended its approval.

However, the BSC Panel did not agree with the Proposer that P435 better facilitated Applicable BSC Objective (b⁷). The Proposer believed P435 would aid the efficient development and operation of the Transmission System by facilitating industry schemes that support system balancing, whilst ensuring that guidance and support is consistent with industry expectations and reduce the fragmentation of services for the benefit of stakeholders. The BSC Panel believe that P435 is neutral against Objective (b) as they do not believe it would provide any direct benefits for ESO in operating the Electricity Transmission System.

⁴ See paragraph 1.2 of BSC Section C 'BSCCo and its Subsidiaries' – see link in footnote 3.

⁵ (d) 'Promoting efficiency in the implementation and administration of the balancing and settlement arrangements'.

⁶ 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.

⁷ (b) The efficient, economic and co-ordinated operation of the National Electricity Transmission System.

Our decision

We have considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 16 March 2022. We note that no responses to the consultation were received. We have concluded that:

- implementation of the modification proposal will better facilitate the achievement of the applicable objectives of the BSC;⁸ and
- directing that the modification be made is consistent with our principal objective and statutory duties.⁹

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.

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

The BSC Panel considered that P435 would better facilitate objective (d), because it allows fixed costs of Elexon to be shared across other activities, creating the opportunity for Costs to BSC Parties to be defrayed. Additionally, new activities will enable Elexon to retain, attract and develop its staff for the benefit of the industry, as there will be opportunities for them to work on a wider range of activities.

We agree that P435 would better facilitate objective (d) because:

- as stated in the FMR, the cost associated with the future 'preparatory work' to be undertaken will not be funded by BSC Parties; and
- Elexon's accumulated expertise can be further developed and shared to the benefit of the wider industry.

⁸ As set out in [Standard Condition C3\(3\) of the Electricity Transmission Licence](#).

⁹ 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.

Decision notice

In accordance with Standard Condition C3 of the Transmission Licence, the Authority hereby directs that modification proposal 'BSC P435: Enabling EMRS to undertake preparatory work for potential future settlement services to LCCC' be made.

Zak Rich

Deputy Director – Low Carbon RAB

Signed on behalf of the Authority and authorised for that purpose