Making a positive difference
for energy consumers

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Dear Sara Vaughan,

Authority decision to 'send back' Balancing and Settlement Code modification proposal P444 'Compensation for Virtual Lead Party actions in the Balancing Mechanism'

On 15 June 2023, the Final Modification Report (FMR) for BSC modification proposal P444 was submitted to the Authority[1] for decision. We have decided that we are unable to form an opinion on P444 based on the FMR submitted to us and are therefore sending the proposal back for further work.

Background

P444 is a modification proposal titled "Compensation for Suppliers and Virtual Lead Parties for Virtual Lead Party actions in the Balancing Mechanism (BM)".

A Virtual Lead Party (VLP) is an independent aggregator that controls (potentially on behalf of a third party) power generation and/or electricity demand from a range of assets for the purposes of selling Balancing Services to National Grid Electricity System Operator (ESO).[2]

[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] Guidance Document. Use of System - Virtual Lead Party (VLP)

Under the current BSC arrangements introduced by P344 'Project TERRE implementation into GB market arrangements'[3], there is no mechanism for compensation of parties who have been affected by VLP activity in the BM. As a result, suppliers are left commercially impacted.

P444 seeks to amend BSC systems and processes to introduce a compensation mechanism for suppliers and VLPs when a VLP takes a Bid or Offer[4] in the BM. The Alternative view, which is recommended by the BSC panel, is that VLP's should be liable to pay compensation costs for volumes adjusted by that VLP. The Proposed view is that suppliers' compensation would be mutualised amongst all energy suppliers.

The BSC Panel and Workgroup have recommended approving the P444 Alternative Modification and rejecting the P444 Proposed Modification, in line with the BSC Panel and Workgroup's recommendation on a separate code modification, P415. P415 is a distinct modification that considers the same compensation methods for VLPs and suppliers, but in a different context. P415 is designed to grant VLPs access to Wholesale Markets, complete with a compensation method. At present, VLPs do not have access to participate in Wholesale Markets, whereas they do already have access and are active in the Balancing Market.

Even though P415 and P444 propose to employ the same compensation methods, the contexts in which VLPs operate are different. The Workgroup has aimed to make the solutions for P444 consistent with those developed for P415, despite these modifications addressing different issues. In this process, they have relied on the Cost-Benefit Analysis for P415.

Reasons for our decision

While we acknowledge that the Workgroup aimed for the P444 compensation method to be aligned with the P415 compensation method, we cannot base our decision on P444 solely on the Cost-Benefit Analysis of P415. These two modifications operate within different markets and VLPs already have access to the BM. It is not feasible to assess the impact of P444 on the industry solely on the impacts of P415. Therefore, we are unable to properly form an opinion on this modification.

We have identified the following deficiencies in the FMR:

[3] P344 'Wider Access & Project TERRE'
[4] The Balancing Mechanism allows BSC Parties (if they wish) to submit Offers to sell energy (by increasing generation or decreasing consumption) to the system and Bids to buy energy (by decreasing generation or increasing consumption) from the system, at prices of the BSC Party's choosing.

The documents supporting P444 does not include any impact analysis on the applicable BSC objectives (b), (c) and (d). Thereby, we cannot evaluate the impact of P444's effects on industry and other stakeholders. Thus, we cannot make a decision on P444.

Direction

We therefore direct that additional steps are undertaken to address these deficiencies. A revised FMR should include:

- impact analysis with quantitative and qualitative evidence which fully explains and demonstrates the impact on industry of implementing either compensation method through the BSC Modification P444 against the status quo.
- how the implementation of this modification would positively and/or negatively impact the applicable BSC Objectives.

After addressing the issues discussed above, and revising the FMR accordingly, the BSC Panel should re-submit it to us for decision as soon as reasonably practicable.

Yours sincerely,

Holly MacDonald
Head of Domestic Market Management
Signed on behalf of the Authority and authorised for that purpose