ELEXON

Amending Baselining Methodology Document for P415 – Review

Date and time	**13 February 2024 17:00**	Purpose	**For your review**
To	**CVA and SVA Release Circular distribution lists**	From	**BSC Change**

Amending Baselining Methodology Document for P415 – Review

1. What is the purpose of this circular?

1.1 This circular is to invite BSC Parties and any interested third parties to review the draft versions of the Baselining Methodology Document BSC Configurable Item (CI) that we are amending for:

- P415 'Facilitating access to wholesale markets for flexibility dispatched by Virtual Lead Parties'.

1.2 Please return your comments to releases@elexon.co.uk, using the review form provided as Attachment 1 to this circular, by **17.00** on **4 March 2024**.

2. Who is impacted by the Modification(s)?

2.1 P415 will impact:

- Suppliers; and
- VLPs.

3. Background and proposed changes

3.1 Balancing and Settlement Code (BSC) Modification P376 ('Utilising a Baselining Methodology to set Physical Notifications for Settlement of Applicable Balancing Services'), which was implemented on 23 February 2023, introduced the concept of baselining to the BSC.

3.2 P376 allows an optional alternative mechanism to determine the expected flows at Supplier Volume Allocation (SVA) Metering Systems (using a baselining technique calculated using an approved Baselining Methodology) for verifying that Additional BM Units and Secondary BM Units have delivered Bid Offer acceptances. A BM Unit utilising this option is referred to as a Baselined BM Unit.

3.3 BSC Section S13 requires the BSC Panel to establish a Baselining Methodology Document (and subsequently have it in force at all times) containing the approved methodologies.

3.4 There is currently one approved methodology, BL01, the focus of which is on the Balancing Mechanism (BM) and describes the methodology for calculating volumes of electricity delivered by Suppliers and Virtual Lead Parties (VLPs) in the BM.

3.5 BSC Modification P415 ('Facilitating access to wholesale markets for flexibility dispatched by Virtual Lead Parties') was approved by the Authority on 6 October 2023 for implementation on 7 November 2024 as part of the November 2024 Standard BSC Release.

3.6 P415 relies on Deviation Volumes, which capture the difference between what a site would tend to consume or generate without any action from a VLP (calculated using a Baselining Methodology) and what was actually consumed/generated as a result of a VLP action taken at that site. Deviation Volumes represent an import/export MWh deviation to the Total System as a result of that action by a VLP.

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3.7 The only approved Baselining Methodology technique, and the Baselining Methodology Document itself, was established by Modification P376 for use in the BM. Both the P376 and P415 Workgroups envisaged that additional Baselining Methodologies may be required over time, as the volumes of flexibility using baselining increase, and new flexibility technologies become available. However, the P376 solution has not yet been used to any material extent, and we therefore don't have the data required to assess how Methodology BL01 has performed to date. We therefore do not propose a full review of Baselining Methodologies at this stage. However, we have reviewed the BL01 Methodology to assess whether any features of it could be problematic in the context of P415. As a result we propose that the Panel should make changes to clarify the use of In Day Adjustments.

3.8 P376 established the process for amending the Baselining Methodology Document (section 4). The process allows BSCCo to request the BSC Panel to review or change the Baselining Methodology. Elexon is requesting the BSC Panel to make changes to the Baselining Methodology Document as part of the implementation of P415.

3.9 The process requires that the BSC Panel will consult with Parties in a manner appropriate to the scale and complexity of the changes before agreeing them.

3.10 Methodology BL01 uses historic data (for up to 10 Working Days, or 4 Non-Working Days) to calculate Unadjusted Baseline Values, but these do not fully account for variations in factors such as weather and temperature on the day. The In Day Adjustments are used to provide an up or down lift to ensure the values used in the calculations are a better representation of the conditions on the day. Elexon proposes to clarify how In Day Adjustments would work under P415.

3.11 BL01 handles In Day Adjustments as follows:

- Where the BM Unit has an Acceptance (in the BM), an In Day Adjustment is calculated (and added to the Unadjusted Baseline) as per section 3.4.3 (BL01 Step 3 – Calculate In Day Adjustment) of the Methodology. It is based on consumption in the "In Day Reference Window" i.e. the three-hour period up until Gate Closure for the first Settlement Period with an Acceptance.

- Where the BM Unit doesn't have an Acceptance, section 3.4.3.1 (In Day Adjustments for Settlement Days without Acceptances) states that multiple In Day Adjustments are calculated (for reporting purposes only), but don't impact Settlement (because, in the absence of Acceptances, baselines aren't used in Settlement).

3.12 P415 invalidates the explanation in section 3.4.3.1 of the Baselining Methodology Document as it is for the WM and not the BM and using an Acceptance as the decision point for inclusion of In Day Adjustments is not appropriate.

3.13 Elexon proposes to amend BL01 to clarify that a Wholesale Market Notification does not trigger an In Day Adjustment, i.e. the In Day Adjustment Window ends at Gate Closure for the first Settlement Period with an Acceptance (as currently), and in the absence of any Acceptance the In Day Adjustment is zero. Section 3.4.3.1 of the Baselining Methodology Document would be amended to clarify that, in the absence of Acceptances, any baseline used in Settlement won't have an In Day Adjustment applied. This clarification is required because (in the absence of Acceptances) the Baseline is currently not used in Settlement at all.

- This option removes the risk of baselining manipulation, either through deliberate gaming or through legitimate reasons, but could potentially reduce accuracy by not accounting for variations in factors such as weather and temperature on the day.

3.14 Elexon proposes that this option should be progressed as it is simpler for the Lead Party, mitigates the gaming risk and avoids the assurance issue of Lead Parties not picking the most accurate Baselining Methodology.

3.15 Elexon also proposes to:

- general amendments to the wording in the Baselining Methodology Document to make it relevant to P415; and
- to add Virtual Trading to the Event Day list of circumstances in Appendix A to align with the P415 version of BSC Section S.

3.16 The Baselining Methodology Document is a Category 3 Configurable Item and as such does not require to be amended by Modifications or Change Proposals.

4. BSC Panels' initial discussions

4.1 Elexon presented the proposed changes and sought initial views from the Panel at their meeting on 8 February 2024 (347/10).

4.2 A Panel Member questioned whether this demand shifting issue would be a problem in the Balancing Mechanism under P376. Elexon acknowledged it could be, but highlighted that under the Balancing Mechanism there is uncertainty about being dispatched by the ESO and it was felt that on the balance of probabilities that the risk didn't need mitigated for this scenario as we had no evidence to support it being a problem. Elexon also acknowledged that when use of the P376 solution becomes more prevalent we will have data to confirm whether this belief is accurate.

4.3 A Panel Member questioned whether an increased use of P415 could cause a problem with the baselining methodology where there are a high number of Event Days in the baseline reference period. Elexon acknowledged that this could potentially be a problem and agreed with the Panel Member to add a question in the consultation on that topic.

4.4 Elexon acknowledged that baselining is an evolving process and other schemes have encountered issues balancing the range of variables that can impact the accuracy. Elexon confirmed that baselining techniques require to be monitored as part of assurance activities and a data driven analysis would be the driver for any amendments to current, or new additions, to the baselining techniques available.

5. Which BSC Configurable Items do I need to review?

5.1 The following BSC CIs will require your review. Please click the links to review the changes. You can download the redlined changes from the relevant Modification or CP webpages or the Release Circulars webpage.

No	Modification/CP	BSC CI(s)
1	P415	Baselining Methodology Document

6. What will happen after the industry review?

6.1 Elexon will consider all review comments and update the documents as required. Elexon will also inform the outcome of any comments to the relevant reviewer where necessary.

6.2 We will then take the documents and a summary of any consultation responses to the responsible Committee(s). The Committee papers will note any comments that we didn't action and the reasons why, and any subsequent course of action undertaken as a result.

7. When will the BSC Configurable Items become effective?

7.1 The Implementation Date for P415 is:

- 7 November 2024 as part of the November 2024 BSC Release.

7.2 Elexon aims to have the amended baselining methodology in place by the time the first Virtual Trading Party would have qualified in that role post 7 November 2024. This will be confirmed once a final solution has been agreed and approved by the BSC Panel.

7.3 If you have any queries about this circular, please email Releases@elexon.co.uk.

Appendices

Appendix 1 – Background to BSC Modification P415

Attachments

Attachment A – response form

Attachment B – Baselining Methodology Document v1.1

For more information, please contact:

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Appendix 1

1. What's new for P415?

1.1 Currently customers (consumers of electricity) who are able to be flexible about their consumption cannot currently obtain any value from that flexibility from the Wholesale Energy Market, except if they work with their Supplier to do so. Therefore, customers can only obtain value from flexibility from working with their Supplier, and not from VLPs who may also be able to support flexibility services.

1.2 This is because the BSC assigns all flexibility delivered by a customer to their Supplier, with the exception of flexibility instructed by National Grid ESO in the Balancing Mechanism, which can be assigned to a third party (referred to in the BSC as a "Virtual Lead Party").

1.3 As a result, customers can only access power exchanges (and other markets that require notification of contracts under the BSC) though their Supplier. This contrasts with Balancing Services and the Capacity Market (CM), all of which allow a customer's flexibility to be offered by an aggregator without the involvement of the Supplier. This defect should be fixed primarily because it will remove a barrier to customers offering flexibility, and hence should increase participation and the level of effective competition in the wholesale market.

1.4 P415 will enable a VLP to trade Deviation Volumes on the wholesale market on behalf of their customer(s). These trades shall be captured in the same manner as existing Parties i.e. via Electricity Contract Volume Notifications (ECVN).

1.5 Deviation Volumes are a measurable commodity that represent an import/export MWh deviation to the Total System as a result of independent aggregation activity by a VLP.

1.6 Neither the counterparty nor registered Supplier shall bear any liability for delivery of the trade. On principle, the registered Supplier at a site where the customer has chosen to use a VLP independent aggregation service will receive no direct benefit nor detriment from such a service.

1.7 Under the approved solution, compensation costs are mutualised, with compensation paid at a price that approximates the Supplier's expected sourcing costs, obtained by using Ofgem's published Price Cap Methodology (PCM).

1.8 P415 was approved by the Authority on 6 October 2023 for implementation on 7 November 2024.

1.9 This Circular invites you to comment on the changes to the following BSC CIs for P415:

- Baselining Methodology Document

1.10 For more information on P415 please contact **Ivar Macsween** on 020 7380 4279 or email bsc.change@elexon.co.uk.

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