

## **P415 Meeting 3 Summary**

The group considered Wholesale Market roles, responsibilities and current network charging arrangements and considered whether VLPs could be construed to be acting as a Supplier under P415. Consideration was given to whether P415 could potentially impact the level playing field and the group further refined the concept of how a VLP will operate in the Wholesale Market under P415. The benefits of incorporating P376 functionality within this Modification were discussed and the group began to consider how the P415 process could fit within current imbalance settlement arrangements.

### **Market roles and responsibilities**

The group considered the different market roles and their responsibilities within the electricity market.

In the previous meeting some Workgroup members had expressed concern that non-commodity costs paid by Suppliers and Generators could create a non-level playing field in that a VLP who doesn't pay these costs receive an unfair advantage in the wholesale market.

To address the question of whether a VLP would receive a benefit under P415 in this regard, the group were first taken through four comparable roles in the BM and Wholesale Market (Supplier, Generator Non Physical Trader and Independent Aggregators) to establish the service that they provide and whether they are licensable. Doing so allowed the group to compare "apples with apples" when it comes to market roles and any implications on the level playing field.

### **Could VLPs be considered a Supplier under P415?**

The group noted that the role of Supplier is a licenced activity - Ofgem requires a license for a Supplier that tells them what they can and cannot do, including interactions with the end consumer.

The group recognised that the Ofgem's definitions of Independent Aggregators as parties who bundle changes in consumers loads or distributed generation output for sale in organised markets and who do not simultaneously supply the customer with energy helps to clarify the role and purpose of VLPs.

The group were comfortable that Independent Aggregators/Virtual Lead Parties function as a service to a customer and are not a Supplier because they don't supply the site as part of their business model and do not charge the customer for the volume that they provide. Additionally, IAs cannot be considered a Generator as they do not own assets at the site but provide a service to those sites.

The group noted that Non Physical Traders trade electricity from Generators, Suppliers and other Trading Parties, buying volumes and selling them on to make a margin but also not considered to supply a site and therefore have no Supplier responsibilities or requirements to hold a licence.

It was noted that, while not obligated to hold a licence, Independent Aggregators and NPTs still must comply with the BSC and other relevant industry codes and are therefore not participating with no obligations whatsoever.

It was clarified that P415 would not enable VLPs to sell volumes directly to a site and thereby provide that site with energy - rather it would enable the buying of flexibility from a site so they can

deviate from their normal consumption levels, amending the Supplier's position so that they remain net neutral and unexposed to any imbalance as a result of VLP actions.

To confirm that a VLP is not acting as a Supplier under P415 and answer the question of whether the Deviation Volumes in the VLP account can be construed as "supply to premises", Elexon agreed to seek a legal position to provide clarity for the Workgroup that P415 would not create a loophole that would create a competitive advantage for VLPs and potentially not be permitted under the Electricity Act.

### **Network Charging**

The group considered how Network Costs are recovered and where they correctly lie.

National Grid currently recover these from Suppliers and Generators as they have a relationship with all consumers, and charges are based on the end customer paying for their usage of the system, whether they be distribution or generation, with rules defined in the CUSC.

It was noted that, under P415, VLP activity could conceivably impact the consumption-based TNUoS, DUoS and BSUoS charges. The National Grid representative highlighted that just because a VLP is not paying any of these charges, network charges are still being incurred by the asset that is currently being used. They did think that this would constitute an impact on the "level playing field" as whatever metered flow an asset produces will incur network charges, so the contract that the VLP would have with that asset would still have to take into consideration any incurred network charges.

The group agreed with this interpretation – whatever happens the customer will have to pay the Network Charges. If VLPs ask them to deviate in a way that changes their network charges, VLPs would have to make it worth their while and present an attractive contractual proposition for them to deviate.

### **Role of the VLP within P415**

The group drew a similarity between NPTs and VLPs when trading in the WM under P415 (in that the Supplier continues to supply the site but the responsibility for trading those volumes is given to another party) and the group found it helpful to equate the two roles in the Wholesale Market.

If a customer reduces their consumption, the Supplier would be left in a long position if it were not for the adjustment, with the VLP making itself short. The imbalance calculation/adjustment cancels out that long and short position.

In a sense, the VLP is selling out the Supplier's imbalance on the WM on behalf of their customers and this was helpful to facilitate understanding of the interactions and intentions behind P415.

Effectively, the VLP is creating an imbalance which is good for system welfare, creating imbalance on a Supplier's account and then trading it. This is an implicit transaction behind the P415 solution.

In this context the Metered Volume always remains with the Supplier – the VLP takes the imbalance volume and trades that imbalance the Supplier would have otherwise had. Levy costs are all levied on to Supplier volumes, but if the Metered Volume does not change (and is not transferred) as a result of this, it is just the imbalance that changes.

If the Metered Volume increases then then the Supplier is short and if the Metered Volume goes down the Supplier is long. Those long and short positions are being transferred to the VLP who will take all the imbalance exposure and hedge how they see fit.

In this context the VLP acts like an NPT, taking an imbalance position on behalf of its Supplier as a result of actions it is taking with its customer and either closing that non-physical position or accept cash out price if desired.

A question for National Grid was identified- the group need to understand what National Grid need from a VLP who would operates in the Wholesale Market in terms of the information needed to operate their processes. More clarity on how the System Operator treats secondary BMUs given that these volumes all sit elsewhere is also desired. In the case where National Grid want visibility of Wholesale Market trade within a secondary BMU, the group were concerned about the difficulty in identifying VLP activity and questioned whether this information would be useful without additional context.

### **Non-Delivery**

In considering the risk presented by non-delivery of volumes by a VLP, the group were comfortable that the relationship between the customer and the VLP under P415 addressed any concerns, with the VLP remaining balance responsible for this imbalance and with no impact on the account of the Supplier.

### **Updates to Solution Principles**

The group noted and agreed updates to the solution principles that capture that the P415 output a service that IA's provide for their customers

### **Benefits of linking to P376**

The benefits of adopting of baseline methodologies via [P376 'Utilising a Baseline Methodology to set Physical Notifications'](#) were also discussed. P376 provides a method for estimating what normal consumption at a site could be using recent historic data. P376 is intended for Balancing Services but nevertheless will produce a number to represent flow of energy at the boundary point from which any deviation for P415 can be measured.

The group heard how under P376 a VLP notifies settlement that a SBMU is to be a Baselined BM Unit. However not all MSID Pairs in a Baselined BM Unit may be suitable for using the baselining solution. Parties will need to monitor MSID Pairs in a Baselined BM Unit to ensure that the appropriate statuses are selected for each.

While P376 is currently limited in circumstances, applying exclusively to the Balancing Mechanism. Following discussion, the group feel that some kind of pre-Gate Closure notification will be needed to make it applicable to the Wholesale Market, but the group wished to better understand if and how Secondary BMU PNs are used by National Grid, who took an action to investigate and report back to the Workgroup.

### **Imbalance settlement**

The group considered the current imbalance settlement arrangements and some worked examples for a proposal for how this might change under P415. Some members were uncomfortable with changing Credited Energy Volumes and Elexon will consider alternate approaches.

### **Next Steps**

Further solution refinement will be necessary to differentiate between these Balancing and Deviation Volumes and methods for capturing non-delivery in further meetings. Elexon will begin to draft a solution summary document.