

P415 Workgroup Meeting 1 Summary

The group discussed the proposal and the principles that underpin it, reaching a common high-level understanding of the P415 proposal and the various considerations that will need to be revisited in later Workgroup meetings.

The group agreed that an economic and efficient solution is needed to allow VLPs to independently operate in the wholesale market and address the P415 defect, but stressed the need for consideration of how it can work with existing Supplier arrangements and imbalances to ensure that it is fair and reasonable across the market.

The group agreed the P415 defect and identified a number of high level principles that the P415 Solution should adhere to:

1. VLPs shall trade 'Flexible volumes' which shall represent an aggregate change to import/export to the Total System caused by individual sites volume deviations (from individual site baselines)
2. VLPs shall trade aggregated 'Flexible volumes' on the wholesale market in the same manner as existing Parties i.e. that they have no advantage over existing Trading Parties and be subject to same rules and requirements
3. The VLP shall be the Balancing Responsible Party (BRP) for any wholesale market 'Flexible volumes' trades. Neither the counterparty nor registered Supplier shall bear any liability for delivery of the trade.
4. The group agreed the principle that Suppliers should not be impacted (their imbalance position should not be impacted as result of actions of VLP and they should be left financially neutral)
5. VLPs should not be able to physically self-balance (i.e. change their physical positions post Settlement Period Gate Closure Time [GCT])
6. VLPs should have to comply with REMIT requirements

The group also identified a number of questions that would need to be answered over the course of P415 assessment:

- 1) What is the impact on the forward market? What are the different impacts on a Supplier as a result of the VLP making a forward trade?
- 2) Who's the balance responsible party and how does that link back to EGBL requirements.
- 3) What qualification and cost recovery requirements should VLPs be subject to?
- 4) Customer consent - What information should be provided to the supplier?

Several areas for specific consideration by National Grid were captured:

- 1) What is the impact on the ESO's ability to balance the system?
- 2) Consideration of TNOUS and BSUOS cost recovery
- 3) Will P415 exacerbate NIV chasing?

Several areas were thought to be ultimately out of scope of a BSC Modification, however Elexon will capture the discussions and pass these along to Ofgem for their consideration:

- 1) Potential impact on the existing supplier licenses (what impact could P415 have and what changes might be needed?)
- 2) Is there a need for a new license (for example a license for aggregators)
- 3) Potential impact on Significant Code Review
- 4) Potential impact on REMIT

P415 Defect and Scope

The Proposer explained that there are four basic markets in which customers could get value from offering their flexibility - the Capacity Market, Balancing Services, the wholesale market and Balancing Mechanism. However, crucially, the wholesale market is the only market not open to independent aggregators. While all other markets have the option for the customer to work with an independent aggregator to develop and get value from flexibility, customers are unable to access the wholesale market without working with their Supplier to do so. This is considered to be the P415 defect that the Modification is looking to solve, with immediate benefits being the unlocking of value for the customer and the unlocking of flexibility for the wider system.

The Proposer clarified their intentions behind raising the Modification, explaining that P415 should enable customers operating flexibility to compete with generators in the market, without involving or adversely impacting Suppliers.

He believes that the VLP model is one that is very effective at getting flexibility out of customers, and that having a party with a straightforward economic interest in getting maximum value out of flexibility would lead to wider participation and a more competitive wholesale market and, hence, a more efficient system.

The Proposer felt that, beyond the benefits to market participants offered by the solution, the Clean Energy Package represents a clear mandate to opening up the wholesale market to independent aggregators. The nature of this barrier was questioned as it was noted that VLPs can technically access the wholesale market (and the forward market in particular) by working with Suppliers, and therefore it could be argued that the BSC is already compliant with these requirements. The necessity of relying on a Supplier was felt to be the main barrier to this interpretation, as VLPs were created in order to be able to take behind the meter flexibility without the involvement of a supplier, but at the moment an aggregator does not have access to the same pool of tradeable assets unless relying on a Supplier. Modification P344 established the principle that “market access” means direct market access, and that market participants shouldn’t have to partner with a potential competitor to get into that market. P415 could be seen to be a logical application of that principle.

It was noted that the VLP role in the BSC is currently limited – VLPs are not required to sign up to the wider code because of the nature of the party and the fact they are unlicensed entities, and that the eventual P415 solution would likely need them to sign up to the entire BSC and effectively make them a Trading Party.

The P415 Concept

P415 proposes to create a different form of settlement for the purposes of VLPs, establishing settlement against a volume deviation (or 'flexible' volume) rather than on metered volume. The proposal is to treat them as equivalent and levy the same obligations and restrictions for both.

Relationship with P344, P375 and P376

The Proposer noted that a lot of the "heavy lifting" needed to achieve a P415 solution had been done by P344, enabling VLPs by allowing the separation of normal supply to the customer and the offering of normal flexibility from the customer. It was noted that a feature of P344 is that, when a VLP offers flexibility from a customer and that flexibility is dispatched (this can currently only be dispatched in the BM from the ESO) it doesn't affect the Supplier's balancing position because that Supplier is corrected (there is a question of whether it does leave the Supplier financially neutral but this will be explicitly considered as one of the specific P415 Terms of Reference).

This was felt to be a good building block for P415, with P375 providing another block that facilitates accuracy in determining settlement of actions the VLP has taken. P376 also provides baselining methodologies to separating out normal behaviour from flexibility. It was noted that P415 could therefore be a relatively small Modification in terms of impact on the BSC Legal Text, with the bulk of P415's assessment time spent on discussion and analysis of the wider impacts and considerations P415 could incur.

The group noted that P375 and P376 are either still in assessment or awaiting a decision from Ofgem, and that delays to decisions for either of these could have a knock on impact on the P415 timeline. The Elexon Design Authority representative stated his view that P415 will not have a hard dependency on P375 or P376 – these Modifications, implemented, will make it more accurate to capture actions of a VLP in the BM and wholesale market but access to this market is not dependent on either, and P415 could progress even if they are not approved and implemented.

The P375 Proposer (also present as a P415 Workgroup member), confirmed that P375 would improve the accuracy of capturing VLP actions, but if rejected or delayed would not fundamentally impact the defect that P415 is trying to solve – facilitating VLP direct access to the wholesale market.

Licensing impacts

The group raised several questions around licensing, quickly identifying that this would be a really important area to discuss and pass thoughts and questions on to Ofgem, as this area sits outside the BSC.

It was noted that licenses create obligations (such as reporting obligations) with wholesale market customers over and above those to do with the BSC, and that several Workgroup members were concerned about this area and the obligation that suppliers have owing to deals with their customers, particularly in forward markets.

A supplier representative pointed out that they have no problem with VLP having access to the wholesale market, but stressed the need for careful consideration into whether P415 would balance the right rules for VLP to participate versus more onerous ones that are on Suppliers, ultimately making sure that it's a fair mix.

It was agreed that licence conditions need to be looked at and carefully considered but this area would not be in scope of a BSC Modification, but that the Ofgem rep for P415 would be a good interface for the feeding through of questions to the Authority on this point. The P415 group may not be able to directly impact licensing but agreed that it is important to feed these concerns and discussions back to Ofgem because, if they felt the issue was broad enough and sufficiently worth pursuing, they could subsume P415 into a Significant Code Review.

REMIT

The group also questioned whether VLPs would be subject to REMIT reporting requirements under P415.

Noting that REMIT is intended to address potential market manipulation and insider information by placing responsibility on the party to make sure they don't undertake market manipulation, the group considered that contracts such as the Grid Trade Master Agreements (GTMAAs) have to be reported by Suppliers in order to trade in forward markets. The group were of the opinion that VLPs shouldn't be absolved from the obligation to report what they've traded and that they would have to comply with all REMIT regulations to avoid any potential for engaging in behaviour that would unduly influence the price to their benefit.

The group were comfortable with this assumption that VLPs should and would comply with all REMIT requirements. The Proposer confirmed this approach, noting that his expectation is that if a VLP is engaging in forward trades in its role as a party with an energy account then it will be subject to REMIT.