BSC Modification Proposal Form	At what stage is this document in the process?
# P415 ## Mod Title: Facilitating access to wholesale markets for flexibility dispatched by Virtual Lead Parties	01 Modification 02 Workgroup Report 03 Draft Modification Report 04 Final Modification Report

Purpose of Modification:

To extend the Virtual Lead Party arrangements so that they allow customers to access the Wholesale Electricity Market through this route, independent of their supply arrangements, in a similar manner to the Balancing Mechanism and TERRE.

The Proposer recommends that this Modification should:

- not be a Self-Governance Modification Proposal
- be assessed by a Workgroup and submitted into the Assessment Procedure

This Modification will be presented by the Proposer to the BSC Panel on 8 October 2020. The Panel will consider the Proposer's recommendation and determine how best to progress the Modification.

High Impact:

- Virtual Lead Parties
- ELEXON

Medium Impact:

- Suppliers

Low Impact:

- N/A

Contents

Timetable

Please provide Proposer and Proposer Representative contacts and an indicative timetable. The BSC Change Analyst will update the contents and provide any additional Specific Code Contacts. The BSC Change Analyst can provide specific dates based on your Implementation Approach.

The Proposer recommends the following timetable: *(amend as appropriate)*

Initial consideration by Workgroup	November 2020
Assessment Procedure Consultation	June 2021
Workgroup Report presented to Panel	August 2021
Report Phase Consultation	September 2021
Draft Modification Report presented to Panel	November 2021
Final Modification Report submitted to Authority *[not Self-Governance]*	November 2021

Any questions?

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Please contact the relevant BSC Change Analyst if you have any questions on filling out the Modification Proposal Form. The BSC Change Analyst will act as a critical friend and may set subheadings appropriate to the specific Code,

1 Why Change?

What is the issue?

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

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, the Balancing Mechanism, and the Capacity Market, all of which allow a customer's flexibility to be offered by an aggregator without the involvement of the Supplier.

This anomaly 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 the demand side can bring.

In addition, it is a requirement of the Clean Energy for All Europeans package (EU Directive 2019/944). Article 17, Clause 1 states:

> *"Member States shall allow final customers, including those offering demand response through aggregation, to participate alongside producers in a non-discriminatory manner in all electricity markets."*

The same article goes on to clarify that the Supplier's permission must not be required.

Desired outcomes

Just as customers can participate in Balancing Services, the Capacity Market, or the Balancing Mechanism by working with an independent aggregator, with no involvement from their Supplier, so they should also be able to participate in a similar manner in the Wholesale Energy Market.

This requires that dispatched flexibility volumes be separated from normal supply volumes, with different parties being responsible for each.

To avoid duplication of effort, the mechanism for this should build on the Virtual Lead Party introduced by P344 'Project TERRE' for the Balancing Mechanism and TERRE. It should also support the use of sub-meters per P375 'Settlement of Secondary BM Units using metering behind the site Boundary Point' and baseline methodologies per P376 'Utilising a Baselining Methodology to set Physical Notifications for Settlement of Applicable Balancing Services'.

In a period in which a customer's consumption is being varied by a VLP so as to meet a wholesale market commitment, the customer's Supplier's balancing position should be unaffected. Any imbalances resulting from the VLP's portfolio failing to deliver the traded volumes during that period should be the responsibility of the VLP.

Provision of flexibility for wholesale market purposes under these new arrangements should be stackable with all other flexibility services – i.e. they should all be able to be offered and dispatched simultaneously, subject to the limitation that each unit of delivered energy can only be counted once.

Although we anticipate that in most cases the flexibility traded will be reductions in net consumption, there could be useful actions in the opposite direction, so the mechanism should be symmetrical.

2 Solution

Proposed Solution

The BSC does already allow a VLP to trade in the Wholesale Energy Market (if they also register as a Non Physical Trader), but it does not currently allow them to trade the flexibility that their customers deliver. To remedy this, the solution will provide a mechanism for a VLP to notify to SVAA volumes of flexibility delivered by their customers. Note that:

- This mechanism can only be used to trade flexibility volumes that the VLP can action within their Secondary BM Units, i.e. deviations or changes from normal consumption. SVAA will verify that this is the case by calculating the volumes delivered by customers in the Secondary BM Units.
- Typically one would expect a VLP to balance their position by matching any notification submitted to SVAA with a trade in the wholesale markets (which would be submitted to Settlement as either an Energy Contract Volume Notification (ECVN) or Metered Volume Reallocation Notifcation (MVRN)). But this is a commercial decision for the VLP, as the GB trading arrangements do not require Parties to balance their positions. A VLP whose notifications to SVAA were not matched by ECVNs or MVRNs would be exposed to Imbalance Charges (like any BSC Party who did not balance their position).

To make use of the solution, a Party would need to be registered both as a VLP (in order to register Secondary BM Units) and as a Trading Party (in order to hold Energy Accounts and trade in the Wholesale Energy Market). The Qualification Process for VLPs and other aspects of the Performance Assurance Framework may need to be updated to reflect this new Role of trading flexibility from Secondary BM Units in the Wholesale Energy Market.

This will allow VLPs (as Balancing Responsible Parties) to use VLP flexible volumes to manage their imbalance positions. Specifically, this will allow a VLP, as a Trading Party or a new type of Trading Party, to buy and sell electricity volumes in trades with other BSC Parties. The VLP will be required to submit any such agreements to Settlement as either Energy Contract Volume Notifications (ECVNs) or Metered Volume Reallocation Notifications (MVRNs).

VLPs will only be able to trade flexibility volumes that they can action within their Secondary BMUs – i.e the deviation or change from normal consumption.

The solution should build on P375 and P376 and assumes they will be approved. The delivered volumes will normally be calculated using baseline methodologies, as implemented under P376, because this straightforwardly provides an objective calculation of Half Hourly delivered volumes for each SVA MSID Pair. It may also be appropriate to allow nominated baselines, as for the Balancing Mechanism and TERRE under P344, and rely on the VLP's calculation of Half Hourly delivered volumes for each SVA MSID Paid, if suitable safeguards can be found.

As with Balancing Mechanism and TERRE dispatches, the Supplier associated with any SVA Metering System in a Secondary BM Unit will have their imbalance position corrected so that they are unaffected by the VLP's dispatch of the Secondary BM Unit. Note that it is the delivered volume, rather than the traded volume, that would otherwise affect the Supplier's imbalance position.

It may be appropriate for a payment to accompany the correction of the imbalance position of the Supplier. Such payments are permitted under Article 17 of EU Directive 2019/944. This issue should be considered by the Workgroup.

As per current arrangements, the VLP will be responsible for any imbalance between what they have traded and what their Secondary BMUs (and any other BMUs associated with their Energy Accounts)

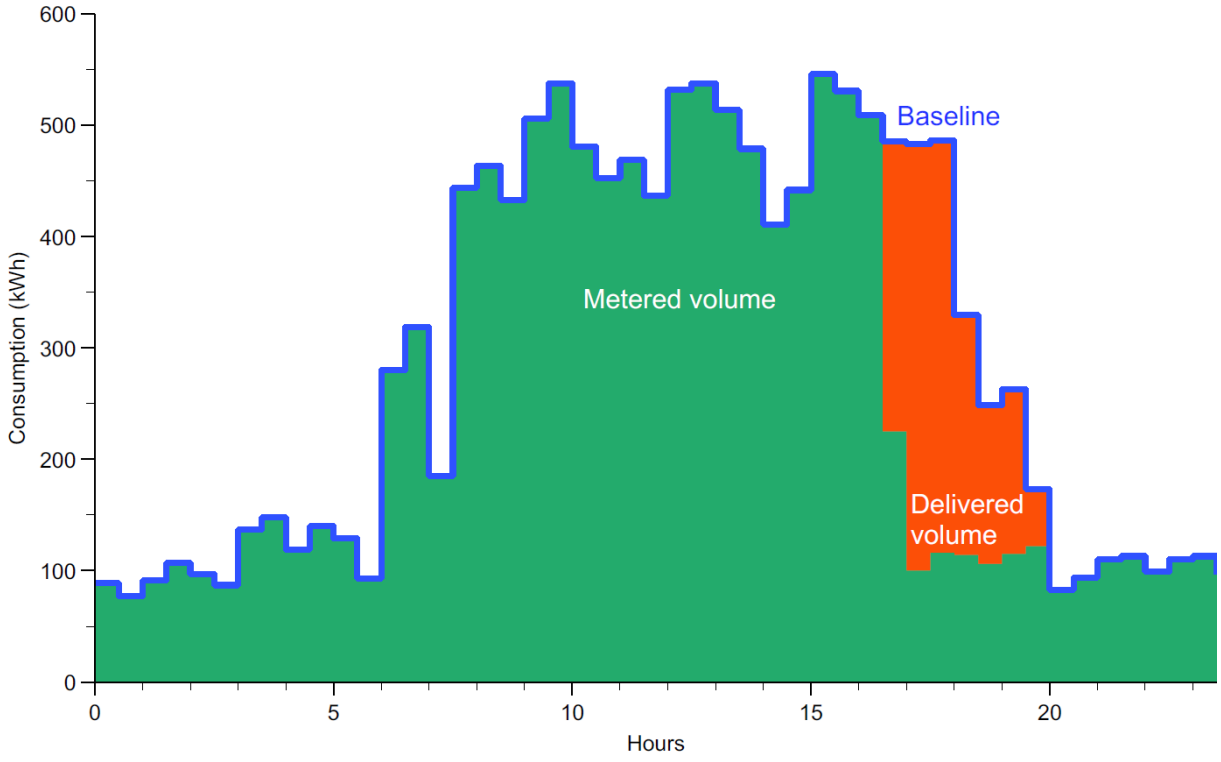
actually deliver. Any traded volume that is identified as non-delivered will be treated as an imbalance volume. Identified imbalance volumes will be exposed to the imbalance price and included on the Party invoice.

Any flexibility volumes traded will be treated as Credited Energy Volumes within the Settlement arrangements. VLPs using the solution will therefore be liable for Imbalance Charges, RCRC and BSC cost recovery charges (in the same way as other Parties with Credited Energy Volumes), and subject to BSC Credit Cover requirements. They will not necessarily be subject to final consumption levies or network charges (subject to any CUSC or DCUSA changes that may be raised to address that).

To give a concrete example, the figure below shows a customer site on which the VLP has arranged an early shut-down. Demand is reduced from 16:30, 3.5 hours earlier than normal. The Modification allows the VLP to use this flexibility in the wholesale market by notifying to Settlement (in advance) the MWh volume that the BM Unit will be instructed to deliver in each of these 7 Settlement Periods, and selling some or all of the instructed volume in the wholesale market. The volume sold in the wholesale market would be notified to Settlement as an ECVN (as for any trade in wholesale markets).

As a result, during those 7 Settlement Periods, rather than the Supplier being responsible for the metered volume (in green), which would leave them unexpectedly out of balance, their position is corrected to follow the baseline (in blue), which should closely match their expectations. The difference between these two is the delivered volume (in orange), which is a Credited Energy Volume for the VLP. Any imbalance between this delivered volume and the instructed volume notified to Settlement is the VLP's responsibility. In practice, a Secondary BMU would have multiple sites, potentially each with different Suppliers, and there may also be Balancing Mechanism dispatches, but the principles remain the same.

Diagram 1 – Worked Example of an early shutdown



Benefits

Consumers who are able to be flexible in their consumption will benefit, in that they will have the option to offer their flexibility into the Wholesale Energy Market via a Virtual Lead Party. At present their only options are to work with their Supplier to offer flexibility, if their Supplier offers this service, or not to do so at all.

This additional route to market should lead to such customers seeing more competition to procure their flexibility, allowing them to get more value from it.

More importantly, this should lead to a higher level of participation in the Wholesale Energy Market by such customer loads, providing increased competition and liquidity, to the benefit of all consumers.

3 Relevant Objectives

Impact of the Modification on the Relevant Objectives:	
Relevant Objective	Identified impact
a) The efficient discharge by the Transmission Company of the obligations imposed upon it by the Transmission Licence	Neutral
(b) The efficient, economic and co-ordinated operation of the National Electricity Transmission System	**Positive**
(c) Promoting effective competition in the generation and supply of electricity and (so far as consistent therewith) promoting such competition in the sale and purchase of electricity	**Positive**
(d) Promoting efficiency in the implementation of the balancing and settlement arrangements	Neutral
(e) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency [for the Co-operation of Energy Regulators]	**Positive**
(f) Implementing and administrating the arrangements for the operation of contracts for difference and arrangements that facilitate the operation of a capacity market pursuant to EMR legislation	Neutral
(g) Compliance with the Transmission Losses Principle	Neutral

Please explain how this change will positively or negatively impact the Applicable BSC Objectives. Where you have identified an impact, concisely explain the rationale.

Wider access to the Wholesale Energy Market will allow more customer loads to participate, increasing the level of competition. This has a direct positive impact on Objective (c).

This additional revenue stream for demand-side flexibility should lead to more demand-side participation in flexibility in general, including the Balancing Mechanism and other Balancing Services needed to operate the National Electricity Transmission System. This should lead to greater competition to provide those services, allowing more efficient, economic operation of the system: a positive impact on Objective (b).

The Market Design Directive of the Clean Energy for All Europeans package states (Article 17, Clause 1):

> *"Member States shall allow final customers, including those offering demand response through aggregation, to participate alongside producers in a non-discriminatory manner in all electricity markets."*

"All electricity markets" includes the Wholesale Electricity Market, so the modification has a positive impact on Objective (e).

4 Potential Impacts

Impacts on Core Industry Documents

Impacted Core Industry Documents			
☐Ancillary Services Document	☐Connection and Use of System Code	☐Data Transfer Services Agreement	☐Use of Interconnector Agreement
☐Master Registration Agreement	☐Distribution Connection and Use of System Agreement	☐System Operator Transmission Owner Code	☐Supplemental Agreements
☐Distribution Code	☐Grid Code	☐Transmission License	☐Other (please specify)

Please provide rationale to support the identified impacts. Please also consider any potential inconsistencies the proposed modification may have with the Capacity Market Documents and/or the CFD Documents. ELEXON will be able to support you with this.

The solution does not depend on changes to other industry codes. It is not clear that changes to network charging arrangements would be appropriate, but these could be raised as Modifications to the CUSC and/or DCUSA if Parties believed it necessary.

There may be an interaction with the Capacity Market Rules, in that Capacity Market baseline calculations should take into account dispatches under this mechanism.

Impacts on BSC Systems

Impacted Systems				
☐CRA	☐CDCA	☐PARMS	☒SAA	☐BMRS
☐EAC/AA	☐FAA	☐TAAMT	☐NHHDA	☒SVAA
☐ECVAA	☐ECVAA Web Service	☐ELEXON Portal	☐Other (Please specify)	

Please provide rationale to support the identified impacts. ELEXON will be able to support you with this.

Changes will be required to the SVAA system (to determine the volumes delivered by each Secondary BM Unit) and the SAA system (to calculate the Imbalance positions for VLPs, and adjust the imbalance positions of affected Suppliers). There is substantial overlap with the changes required for P376.

Impacts on BSC Parties

Impacted Parties			
☒Supplier	☐Interconnector User	☐Non Physical Trader	☐Generator
☐Licensed Distribution System Operator	☐National Electricity Transmission System Operator	☒Virtual Lead Party	☐Other (Please specify)

Please provide rationale to support the identified impacts. ELEXON will be able to support you with this. For a description of market roles, please refer to our Market Role Guide.

The main impact will be on VLPs, who will have an expanded role. Suppliers will be affected only in as much as MSID Pairs for which they are responsible that are part of a VLP's Secondary BMU will be able to be dispatched for wholesale market purposes, as well as for the Balancing Mechanism and TERRE.

Legal Text Changes

Please provide details of the changes you believe will need to be made to the BSC. As a minimum, this should identify sections of the BSC that will require changes. ELEXON will be able to support you with this.

Changes are likely to be needed to Section S, Annex S-2, Section T, Annex X-1, and Annex X-2. The legal text should be developed by a Workgroup.

5 Governance

Please state clearly which governance procedures apply and why (i.e. how the Modification should be progressed).

Self-Governance

☒ **Not Self-Governance –** A Modification that, if implemented materially impacts:	
☐ the Code's governance or modification procedures	☐ sustainable development, safety or security of supply, or management of market or network emergencies
☒ competition	☒ existing or future electricity consumers
☐ the operation of national electricity Transmission System	☐ likely to discriminate between different classes of Parties
☐ **Self-Governance –** A Modification that, if implemented:	
Does not materially impact on any of the Self-Governance criteria provided above	

The whole point of the proposed modification is to allow more electricity consumers to benefit from competing in the Wholesale Electricity Market, so it will materially impact the Self-Governance criteria and should therefore be sent to Ofgem for decision.

Progression route

☒ **Submit to assessment by a Workgroup** –:A Modification Proposal which:	
does not meet any criteria to progress via any other route.	
☐ **Direct to Report Phase** – A Modification Proposal whose solution is typically:	
☐ of a minor or inconsequential nature	☐ deemed self-evident
☐ **Fast Track Self-Governance** – A Modification Proposal which meets the Self-Governance Criteria and:	
is required to correct an error in the Code as a result of a factual change including but not limited to:	
☐ updating names or addresses listed in the Code	☐ correcting minor typographical errors
☐ correcting formatting and consistency errors, such as paragraph numbering	☐ updating out of date references to other documents or paragraphs
☐ **Urgent –** A Modification Proposal which is linked to an imminent issue or current issue that if not urgently addressed may cause:	
☐ a significant commercial impact on Parties, Consumers or stakeholder(s)	☐ a Party to be in breach of any relevant legal requirements.
☐ a significant impact on the safety and security of the electricity and/or gas systems	

It requires consideration in a Workgroup to develop all the details.

Does this modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

Not so far as we are aware.

Does this modification impact on end consumers or the environment?

For consumers, it will have the benefits spelled out in “Benefits” section above.

For the environment, more effective use of demand-side resources should reduce the need to build new infrastructure. In addition, greater use of demand-side resources should allow the integration of higher levels of variable renewable generation at lower cost, thereby reducing carbon emissions.

Implementation approach

Since the proposed solution depends on the baselining methodologies from P376, it cannot be implemented before that without significant duplication of effort. But since the societal benefits from broader participation in the Wholesale Energy Market should be substantial, it should be implemented as soon as practicable after P376, subject to the time required for any system changes. Development of the solution via Workgroups should therefore start as soon as sufficient detail in the P376 solution is clear – i.e. imminently – rather than waiting for full implementation.