

# ELEXON

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**P443 ‘To Cap NGESO Interconnector  
Trades at the Value of Lost Load (VoLL)’**

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329A – Lisa Waters (Waters Wye Associates)  
on behalf of Saltend Cogeneration Company  
Ltd and Paul Wheeler (Elexon)

18 August 2022

## P443: Background and Issue

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- At the current time National Grid Electricity System Operator (NGESO) can trade at prices above the Value of Lost Load (VoLL) – currently £6,000/MWh
- This adds to customers' costs and sends a signal to the markets that customers are willing to buy power at any price
- In a cost of living crisis the Proposer does not believe that the British public are prepared to buy energy at any price and therefore a price cap before emergency actions seems a sensible safety net
- If NGESO has a price cap it will signal to the market that it will not simply buy through spiralling prices. Instead, it would cease to buy energy and start to use other energy management tools when offers to sell power are above VoLL. The Proposer would see these other actions as being:
  - Issuing Capacity Market Warnings (CMW), to which interconnectors have an obligation to respond;
  - Use Electricity Margin Notices (EMNs); and
  - Start to manage demand, either via Demand Side Response (DSR) services or if necessary via load shedding.

## P443: Proposed solution

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- The Proposer's preferred option is to alter BSC Section Q 'Balancing Mechanism Activities' to add in a new paragraph as follows:
- 6.3.2D For any Balancing Services Adjustment Action [provided using an Interconnector] and with a positive Balancing Services Adjustment Volume, the Balancing Services Adjustment Cost cannot be greater than  $\text{VoLL} * \text{Balancing Services Adjustment Volume}$
- The solution will require NGESO to cap its offers to Interconnector Users to no more than VoLL, as defined in the BSC
- These trades are included in the Balancing Services Adjustment Data (BSAD) file, which is sent from NGESO to Elexon. Elexon process the BSAD file for the purposes of Settlement and reporting, with no changes to the file structure or format required

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## Terms of Reference and Workgroup Membership

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### Terms of Reference:

- Should the solution only apply to interconnectors?
- Assurance and validation – should Elexon validate that NGESO have not executed Interconnector Trades above VoLL?
- Is this consistent with EBGL objectives and other retained EU law?
- Welcome Panel views on any others

### Workgroup membership:

- Interconnectors
- Trading and Settlement arrangements
- EBGL

## P443: Views against the Applicable BSC Objectives

- The Proposer believes that this Modification Proposal will better facilitate the following Applicable BSC Objectives:

Applicable BSC Objective	Proposer’s initial views
(b) The efficient, economic and co-ordinated operation of the National Electricity Transmission System	NGESO will not simply buy through all offers to meet demand, rather they will use other tools e.g. Capacity Market
(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	Will protect customers and also Generators and Suppliers who are short in a particular Settlement Period by offering protection from excessive prices
(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	If electricity supplies are short and prices are above the level that customers are willing to pay, the System Operator can issue a Capacity Market Warning for Capacity Market Parties to respond to

## P443: Proposed Progression

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- Urgent Modification – to be agreed by Ofgem
  - Criteria: “A significant commercial impact on Parties, Consumers or stakeholder(s)
- Elexon recommends that P443 should not be progressed as a Self-Governance Modification
  - Materially impacts competition, operation of the Transmission System, sustainable development, safety or security of supply, is likely to discriminate between classes of Parties
  - Involves amendments to EBGL Article 18 terms and conditions

## P443: Proposed Progression and Procedure

- Urgent with Workgroups:

Event	Date
Modification presented to Panel	18 August 2022
Submitted to Authority for decision on urgency	19 August 2022
Initial consideration by Workgroup	W/C 29 August 2022
One month urgent and EBGL consultation	12 September 2022 – 12 October 2022
Workgroup Meeting	W/C 17 October 2022
Draft Modification Report presented to Panel	25, 26 or 27 October 2022
Final Modification Report submitted to Authority	By 31 October 2022

- Workgroup should follow standard Workgroup Terms of Reference, including ability to raise an Alternative Solution and Proposer ownership principles, such as owning the Proposed solution and ability to withdraw
- We will proceed on basis of urgency until we hear otherwise in order to meet the proposed timeline

# P443: Proposed Progression

- Standard Assessment Procedure, if Urgency rejected:

Event	Date
Initial consideration by Workgroup	W/C 29 August 2022 or 5 September 2022
Second Workgroup meeting	W/C 26 September 2022 or 3 October 2022
Assessment Consultation	17 October 2022 to 4 November 2022
Third Workgroup meeting	W/C 14 November 2022 or 21 November 2022
Assessment Report presented to Panel	15 December 2022
Report Phase Consultation	19 December 2022 – 19 January 2023
Draft Modification Report presented to Panel	9 February 2023
Final Modification Report submitted to Authority	15 February 2023



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## P443: Impacts & Costs

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### Impacts

This Modification is expected to impact:

High:

- Generators
- Suppliers
- Interconnector Users
- Non Physical Traders
- Customers
- NGESO

Medium:

- Interconnector operators/owners

Low:

- Balancing and Settlement Code Company (BSCCo)

### Costs

Only costs for Elexon are associated with document changes to implement  
ESO impact assessment required and initial assessment will be requested for first Workgroup meeting  
Modification will cap interconnector trades at VoLL

## P443: Recommendations

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We invite the Panel to:

- a) **RECOMMEND** to the Authority that this Modification should be treated as an Urgent Modification Proposal;
- b) **AGREE** the Urgent progression timetable and procedure for recommendation to the Authority;
- c) **AGREE** the proposed membership for the P443 Workgroup;
- d) **AGREE** the Workgroups Terms of Reference; and
- e) **NOTE** that Elexon will issue the Panel's urgency request to the Authority on 19 August 2022 and we kindly request a response from the Authority by 25 August 2022.