
P443 Workgroup 1 Summary

Summary

1 Welcome and Meeting Objectives

The Chair welcomed attendees and presented the following meeting objectives to Workgroup Members:

- Consideration of the background to P443 and proposed solution
- Consideration of the P443 Terms of Reference

2 What is the issue and proposed solution?

- 2.1 The Proposer's representative set out the issue that there is currently nothing to stop National Grid Electricity System Operator (NGESO) buying from Interconnectors at any cost. A recent example was on 20 July 2022, where NGESO purchased from Interconnectors at prices over £9,500/MWh, at a cost of £69m. The Proposer's view is that there is a limited role that Ofgem can perform to regulate Interconnectors, however, they can regulate GB Generators and Suppliers if they feel that prices are not cost reflective. The Proposer's view is that there is a limit to which GB consumers are willing to pay for electricity but that high cost trades send a signal to the market that they are prepared to pay any price.
- 2.2 The proposed solution is to set a cap on the price that NGESO can trade with Interconnectors, either at the Value of Lost Load (VoLL) as defined in the BSC (currently set at £6,000/MWh) or in the Capacity Market (currently set at £17,000/MWh) or another value.
- 2.3 A Workgroup Member asked if there was any cap or restrictions on the other side of the Interconnector. The Proposer's representative explained that both Ireland and Norway do restrict flow.
- 2.4 A Workgroup Member expressed their view that that this solution would be taking away an option and could be perceived as anti-competitive. There were also concerns as to whether the solution would be consistent with [The EU-UK Trade and Cooperation Agreement \(TCA\)](#) and the TCA's intent to not treat cross-border any differently than GB.
- 2.5 Elexon explained that when the BSC was written, there was always an intention that Interconnectors Users could participate in the Balancing Mechanism (BM) and questioned whether pursuing this could be a solution.
- 2.6 A Workgroup Member raised a concern that the justification for the Modification is the current unprecedented situation (France having issues with Nuclear, War in Europe, etc.) and that therefore this may not be a long term solution as prices may not always be near VoLL. The Proposer's representative's view was that this is a major issue for Generators, and questioned at what point NGESO would use the Capacity Market (CM), which customers are currently paying for. NGESO could use the CM and issue a CM warning, as Interconnectors are obligated to provide power in the CM.
- 2.7 The Proposer's representative presented on the impacts to different market participants in a future scenario where there was insufficient generation due to cold weather and therefore Interconnector exports were reversed at £10,000/MWh, a cost of £55m in one Settlement Period. Subsequent slides showed the potential impact on Balancing Services Use of System (BSUoS) prices.

3 Terms of Reference

- 3.1 Elexon provided an overview of the specific P443 Terms of Reference (ToR). The specific ToR include the question as to whether the solution should only apply to Interconnectors, whether there should be assurance and validation that trades are not executed above the cap and what is the appropriate level of VoLL that should be used.
- 3.2 The Proposer's representative questioned whether an additional ToR could be to consider whether there should only be certain circumstances where the solution applies. It is not possible for the Proposer (or their representative) or the Workgroup to add an additional ToR themselves as they are set by the BSC Panel, however, this could be covered in the development of the solution.

4 How do NGESO decide to take balancing actions, and in what order?

- 4.1 NGESO presented an overview that had also been presented at the [Operational Transparency Forum](#) (OTF) on how NGESO decide to take balancing actions, and in what order. (Post meeting note – the OTF [recording](#) and [slides](#) can be found in the Weekly forum section of the OTF page of NGESO's website, see published 17 Aug 2022). NGESO clarified that they may skip over actions if they are not possible. NGESO clarified that #5 Capacity Market Notice (CMN) has been removed from updated slides as it's automatically generated based on the CM Rules.
- 4.2 The Proposer's representative asked if NGESO would not take balancing actions based solely on price? NGESO explained that this is the state of play and they would take actions at any price.
- 4.3 NGESO explained that for Interconnector trades, they trade with Parties who have capacity on the Interconnector rather than with a Generator. It was explained that the current market arrangements mean that Interconnectors cannot be in the BM, because of the need for Transmission System Operator (TSO)-TSO coordination. The necessary processes were established by Project TERRE, but GB is unable to participate in those processes as a result of Brexit.

5 20th July 2022 actions

- 5.1 NGESO presented the slides that were presented to the OTF to explain the high balancing costs on 20th July 2022 and what was happening on the day.
- 5.2 NGESO explained the actions they took on 20th July 2022. Due to scarcity in France there were high levels of exports going to Europe. System constraints in the South East (due to unplanned outages) meant there was a shortage of power in parts of London which could not be met by GB generation, and therefore, in order to ensure demand in London could be met, NGESO bought 2.8 GW at peak across all Interconnectors.
- 5.3 The Proposer's representative stated that there is an issue around transparency of constraints, and that this is vital information that needs to be shared with the market. They asked the Ofgem representative if they had investigated the issue on 20th July 2022, Ofgem will check and report back.
- 5.4 The Proposer's representative was keen to understand where it is written down how NGESO instruct Interconnectors, as for Generators it is covered in the Grid Code. NGESO explained that it is contained within Interconnector bilateral agreements. The Proposer's representative asked the Workgroup if they agreed that a list of recommendations should be included in the Modification Report. They were concerned that Interconnector agreements were not transparent, particularly where NGESO was contracting with another National Grid company.

6 NGESO changes and required impacts

- 6.1 NGESO gave an initial overview of their possible changes as a consequence of P443, including C16 statements and Balancing Principles Statement.
- 6.2 They also presented initial thoughts on impacts, including increases in pricing, impacts to relationships with Interconnectors and EU TSOs if trades are capped, and also security of supply, noting that NGESO's job is to keep the lights on.

7 Proposed solution

- 7.1 A Workgroup Member made the point that the proposed solution as drafted would prevent the cost passing through to imbalance pricing via Balancing Services Adjustment Data (BSAD), but it would not prevent the cost being included in BSUoS. They suggested that additional drafting (in the BSC legal text) would be needed to cover this point as the proposed drafting would not prevent NGESO from trading above VoLL. Alternatively, if this was not possible under the BSC, a consequential change to other industry codes or the Balancing Principles Statement might be required.
- 7.2 The Proposer's representative explained that the original thinking for the Modification was to apply a cap on all BM actions, however, this would not have worked as Interconnectors are not covered in BM actions.
- 7.3 A Workgroup Member explained that VoLL in the BSC was not intended to be a price cap and raised the question as to whether this Modification should be accompanied by a review of VoLL?
- 7.4 The Proposer's view is that there is no other way to address this issue and that customers (domestic or industrial & commercial) are not willing to buy electricity at any price.

8 What could be the unintended consequences of the proposed solution?

8.1 The Workgroup considered what could be some of the unintended consequences of the proposed solution, as requested by the BSC Panel when P443 was initially presented on 18 August 2022. The discussion started by NGESO presenting a scenario and questioning whether the proposed solution could lead to security of supply consequences or increase the likelihood of demand disconnection.

8.2 The Proposer's representative's view was that an unintended consequence of not implementing the proposed solution would be that there will be a signal to Interconnectors that they can trade at any price.

9 Progression Plan & Next steps

9.1 Elexon explained that P443 was following a Standard Assessment Procedure as Ofgem had rejected urgency. The P443 Assessment Report is due to be presented to the Panel at its meeting on 8 December 2022, and prior to this the proposed solution would need to be further developed and then consulted upon.

9.2 The next Workgroup meeting will be scheduled to be held as soon as possible, to meet the timescales set out in the Progression Plan.

10 Actions

- 1 NGESO to confirm where it is written (in Code or bilateral agreements) how they instruct Interconnectors
- 2 NGESO to check on the level of VoLL in other European countries
- 3 NGESO and Ofgem to report back to the Workgroup if they are seeking Demand Side Response (DSR) actions this winter and what the impact would be
- 4 NGESO to check whether Trading Units and customers are listed on the Data Portal, in order to have more transparency around Interconnector trading
- 5 Ofgem to check and report back on whether they investigated the issue on 20th July 2022
- 6 P443 Workgroup meeting 2 to be arranged