

BSC Modification Proposal Form		At what stage is this document in the process?
<h1>P444</h1> <p><i>(Mandatory for BSC Change Analyst to complete.)</i></p> <p><b>Mod Title:</b> Compensation for Suppliers and Virtual Lead Parties for Virtual Lead Party actions in the Balancing Mechanism (BM)</p>		<div style="display: flex; flex-direction: column; align-items: center;"> <div style="margin-bottom: 5px;"><span style="border: 1px solid green; border-radius: 5px; padding: 2px 5px;">01</span> Modification</div> <div style="margin-bottom: 5px;"><span style="border: 1px solid blue; border-radius: 5px; padding: 2px 5px;">02</span> Workgroup Report</div> <div style="margin-bottom: 5px;"><span style="border: 1px solid purple; border-radius: 5px; padding: 2px 5px;">03</span> Draft Modification Report</div> <div style="margin-bottom: 5px;"><span style="border: 1px solid orange; border-radius: 5px; padding: 2px 5px;">04</span> Final Modification Report</div> </div>
<p><b>Purpose of Modification:</b> This Modification would introduce a compensation mechanism for suppliers and Virtual Lead Parties when a Virtual Lead Party takes a Bid or Offer in the Balancing Mechanism (BM)</p>		
<p><b>Is this Modification likely to/Does this Modification impact any of the European Electricity Balancing Guideline (EBGL) Article 18 Terms and Conditions held within the BSC?</b></p> <p><input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p>		
	<p>The Proposer recommends that this Modification should:</p> <ul style="list-style-type: none"> <li>not be a Self-Governance Modification Proposal</li> <li>be assessed by a Workgroup and submitted into the Assessment Procedure</li> </ul> <p>This Modification will be presented by the Proposer to the BSC Panel on 08 September 2022. The Panel will consider the Proposer's recommendation and determine how best to progress the Modification.</p>	
	<p>High Impact:</p> <p>Virtual Lead Parties, BSCCo</p>	
	<p>Medium Impact:</p> <p>Suppliers</p>	
	<p>Low Impact:</p> <p>N/A</p>	

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Timetable		
<b>The Proposer recommends the following timetable:</b>		
Initial consideration by Workgroup	05 October 2022	 <a href="mailto:ivar.macsween@elexon.co.uk">ivar.macsween@elexon.co.uk</a>
Assessment Procedure Consultation	01 December 2022 - 20 December 2022	 02074427007
Workgroup Report presented to Panel	12 January 2023	Proposer: <i>Flexitricity</i>
Report Phase Consultation	16 January 2023 - 30 January 2023	Proposer's representative: <i>Emma Burns</i>
Draft Modification Report presented to Panel	09 February 2023	 <a href="mailto:emma.burns@flexitricity.com">emma.burns@flexitricity.com</a>
Final Modification Report submitted to Authority <i>[not Self-Governance]</i>	13 February 2023	 +447718248977
		Other: <i>Alastair Martin</i>
		 <a href="mailto:Alastair.martin@flexitricity.com">Alastair.martin@flexitricity.com</a>
		 0131 221 8100

# 1 Why Change?

## What is the issue?

[BSC Modification P344](#) created the concept of Virtual Lead Parties (VLPs) to allow independent aggregators to access the Balancing Mechanism (BM). P344 introduced a mechanism to adjust each Supplier's position to remove the volume dispatched by VLPs at sites registered to that Supplier.

However, this does not result in a level playing field between Suppliers and VLPs. This is because when a VLP takes an action on a Supplier's customer, while the volume of the action is removed from the Supplier's imbalance position, it remains present in the customer's meter. This means that volumes billed between customer and Supplier do not match the volumes against which the Supplier is settled for imbalance, even where the Supplier has correctly hedged the customer's volume.

For example, for a demand side customer where the Supplier hedges perfectly, if an Offer is taken and the consumer consumes less energy, the customer's metered consumption is lower than expected, leaving the Supplier long. The P344 mechanism returns the Supplier to a balanced position, but without a price ascribed to that transfer. The result is that the Supplier has purchased energy which it cannot now bill the customer for because the meter does not show consumption. That energy has been transferred from the Supplier to the VLP unpriced, who has sold it in the BM for a price.

Similarly, if a Bid is taken for a demand side customer and the customer consumes more energy, the customer's metered consumption is higher than expected, leaving the Supplier short. The P344 mechanism returns the Supplier to a balanced position, again without a price ascribed to that transfer. The result is that the Supplier bills the customer for consumption showing in the meter which the Supplier did not actually purchase. That energy, which was purchased by the VLP in the BM, has been transferred from the VLP to the Supplier unpriced.

The result is that the VLP gains value in Offers and loses value in Bids. This is a market distortion.

This issue would also exist if a VLP were to be active in the wholesale market, and a compensation mechanism is part of the solution being considered as part of [BSC Modification P415](#).

## Desired outcomes

This modification would introduce compensation for Bids and Offers taken in the BM, potentially mirroring the compensation methodology being developed as part of P415. That is, it prices the volumes which are transferred between VLP and Supplier under P344.

As with P415, the compensation would be two way – both from and to Suppliers and VLPs.

However, the solution should not be dependent on P415 being approved – there is a case for compensation in the BM, even if VLP trading in the wholesale market is not.

# 2 Solution

## Proposed Solution

This Modification would introduce a compensation mechanism for Suppliers when a VLP takes a Bid or Offer in the BM.

The Workgroup will consider the incorporation of elements of the solutions for BSC Modification P415 in order to set the level of compensation payable to/by Suppliers and VLPs.

The methodology should be the same as the one introduced in the wholesale market (if P415 is approved), but this assumption and methodology will be verified by the Workgroup.

The solution would go both ways – VLP should be liable to pay Suppliers compensation when Suppliers suffer detrimental impact from an activity VLP benefits from (load reduction). Conversely Suppliers should be liable to pay VLP compensation when VLP suffer detrimental impact from an activity Supplier benefits from (load reduction).

Compensation payments to/from Parties should be administered by BSCCo as a BSC Trading Charge.

## Benefits

This Modification would have the following benefits:

- Addressing inefficiencies between VLPs and Suppliers
- A level playing field for VLPs in the BM
- Greater volumes in the BM as a result of more efficient arrangements
- Alignment with the potential P415 solution, if P415 is approved.
- Simplification of the systems solution for P415, if this Modification and P415 are approved.

### 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	Positive
(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]	Neutral
(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.*

This Modification will have positive impacts on (b), (c) and (d).

Objective (b)

The operation of the electricity system will be supported as a result of more efficient BM arrangements and greater participation in the BM.

Objective (c)

Greater volumes of available capacity in the BM will lead to greater competitive pressure.

Objective (d)

This Modification is expected to lead to more efficient implementation of P415, should that Modification be approved.

## 4 Potential Impacts

### Impacts on Core Industry Documents

Impacted Core Industry Documents			
<input type="checkbox"/> Ancillary Services Document	<input type="checkbox"/> Connection and Use of System Code	<input type="checkbox"/> Data Transfer Services Agreement	<input type="checkbox"/> Use of Interconnector Agreement
<input type="checkbox"/> Retail Energy Code	<input type="checkbox"/> Transmission License	<input type="checkbox"/> System Operator Transmission Owner Code	<input type="checkbox"/> Supplemental Agreements
<input type="checkbox"/> Distribution Code	<input type="checkbox"/> Grid Code	<input type="checkbox"/> Other (please specify)	

### Impacts on BSC Systems

Impacted Systems				
<input type="checkbox"/> CRA	<input type="checkbox"/> CDCA	<input type="checkbox"/> PARMS	<input checked="" type="checkbox"/> SAA	<input type="checkbox"/> BMRS
<input type="checkbox"/> EAC/AA	<input type="checkbox"/> FAA	<input type="checkbox"/> TAAMT	<input type="checkbox"/> NHHDA	<input checked="" type="checkbox"/> SVAA
<input type="checkbox"/> ECVAA	<input type="checkbox"/> ECVAA Web Service	<input type="checkbox"/> Elexon Portal	<input type="checkbox"/> Other (Please specify)	

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

### Impacts on BSC Parties

Impacted Parties			
<input checked="" type="checkbox"/> Supplier	<input type="checkbox"/> Interconnector User	<input type="checkbox"/> Non Physical Trader	<input type="checkbox"/> Generator
<input type="checkbox"/> Licensed Distribution System Operator	<input type="checkbox"/> National Electricity Transmission System Operator	<input type="checkbox"/> Virtual Lead Party	<input type="checkbox"/> Other (Please specify)

Both Suppliers and VLPs will be subject to the compensation methodology and therefore will be affected.

## Impacts on consumers and the environment

Impact of the Modification on consumer benefit areas:	
Consumer benefit area	Identified impact
<p>Improved safety and reliability</p> <p><i>Will this change mean that the energy system can operate more safely and reliably now and in the future in a way that benefits end consumers?</i></p> <p>Greater volumes in the BM will lead to greater reliability.</p>	Positive
<p>Lower bills than would otherwise be the case</p> <p><i>Will this change lower consumers' bills by controlling, reducing, and optimising spend, for example on balancing and operating the system?</i></p> <p><i>If possible, this section should include any quantifiable benefits.</i></p> <p>Greater competitive pressure in the BM will lead to lower BM prices.</p>	Positive
Reduced environmental damage	Neutral
Improved quality of service	Neutral
Benefits for society as a whole	Neutral

## 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.*

## 5 Governance

### Self-Governance *(choose one)*

<input checked="" type="checkbox"/> <b>Not Self-Governance</b> – A Modification that, if implemented:	
<input checked="" type="checkbox"/> materially impacts the Code’s governance or modification procedures	<input type="checkbox"/> materially impacts sustainable development, safety or security of supply, or management of market or network emergencies
<input type="checkbox"/> materially impacts competition	<input type="checkbox"/> materially impacts existing or future electricity consumers
<input type="checkbox"/> materially impacts the operation of national electricity Transmission System	<input type="checkbox"/> is likely to discriminate between different classes of Parties
<input type="checkbox"/> involves any amendments to the EBGL Article 18 Terms and Conditions related to Balancing; except to the extent required to correct an error or as a result of a factual change	
<input type="checkbox"/> <b>Self-Governance</b> – A Modification that, if implemented:	
Does not materially impact on any of the Self-Governance criteria provided above	

### Progression route *(choose one)*

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

Next steps would involve workgroup to run in parallel to the P415 workgroups.

Timelines would be aligned with P415 where possible, with Ofgem making a decision on both at the same time, and implementation to be aligned where both are approved. However where P415 is not approved, P444 should be implemented at the earliest opportunity.

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

No

**Does this Modification impact any of the EBGL Article 18 Terms and Conditions held within the BSC?**

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No

**Implementation approach**

Implementation should be aligned with P415 for systems and wider market benefits where both are approved. Where P415 is not approved, P444 should be implemented at the earliest opportunity.