

**Phase**

Initial Written Assessment

Definition Procedure

Assessment Procedure

Report Phase

Implementation

## P447 'Avoiding impact of Winter Contingency actions on cash-out prices'

This Modification would prevent negative impacts to the cash-out price if the Winter Contingency service is used.



The BSC Panel initially recommends **approval** of P447



Ofgem have designated P447 as an Urgent Modification Proposal



The BSC Panel does not believe P447 impacts the European Electricity Balancing Guideline (EBGL) Article 18 terms and conditions held within the BSC

This Modification is expected to impact:

- Trading Parties
- Generators
- Suppliers
- NGESO
- BSCCo

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## About This Document



Not sure where to start? We suggest reading the following sections:

- Have 5 mins? Read section 1
- Have 15 mins? Read sections 1, 6 and 7
- Have 30 mins? Read all except section 3
- Have longer? Read all sections and the annexes and attachments
- *You can find the definitions of the terms and acronyms used in this document in the [BSC Glossary](#)*

This is the P447 Draft Modification Report, which Elexon will present to the Panel at its meeting on 13 October 2022. It includes the responses received to the Urgent Modification Consultation on the Panel's initial recommendations. The Panel will consider all responses, and will agree a final recommendation to the Authority on whether the change should be made.

There are four parts to this document:

- This is the main document. It provides details of the solution, impacts, costs, benefits/drawbacks and proposed implementation approach.
- Attachment A contains the draft redlined changes to the BSC for P447.
- Attachment B contains the P447 Modification Proposal Form.
- Attachment C contains the full responses received to the P447 Urgent Modification Consultation.



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## Why Change?

Due to the ongoing war in Ukraine and the potential for scarcity over the winter period, the Electricity System Operator (ESO) has entered into additional bi-lateral contracts with coal generators that would otherwise not have been generating over the winter period at the request of the Department for Business, Energy and Industrial Strategy (BEIS). These contracts form a new service, the 'Winter Contingency Service'.

As per the agreed contract, this service must be dispatched at £0/MWh. ESO will dispatch this service using Offers in the Balancing Mechanism (BM). Were this Offer to be included in the cash-out calculation it could, in certain circumstances, set the system price to £0/MWh, resulting in perverse incentives for Parties not to make generation available to the market at a time when the market is already likely to be under considerable strain.

## Solution

The proposed solution requires changes to [BSC Sections T 'Settlement and Trading Charges'](#)<sup>1</sup>, [Annex X-1 'General Glossary'](#)<sup>2</sup> and [BSCP18 'Corrections to Bid-Offer Acceptance Related Data'](#)<sup>3</sup> to allow Offers from certain Balancing Mechanism (BM) Units ("Winter Contingency BM Units") to be treated (for purposes of calculating Imbalance Prices only) as having a very high price (£99,999/MWh) and system flagged. This will ensure that these actions are removed from the price stack and therefore do not impact the system price, whilst providing transparency to the market that these actions have been taken.

## The case for Urgency

[Ofgem granted P447 'urgent status'](#)<sup>4</sup> on 3 October 2022 as they are satisfied it is related to a current issue that if not urgently addressed may cause a significant commercial impact upon Parties and consumers, in accordance with its [urgency criteria](#)<sup>5</sup>. The Proposer, National Grid Electricity System Operator (NGESO), requested P447 be treated urgently. The Panel agreed and recommended to Ofgem that P447 be treated urgently at an urgent Panel meeting on 29 September 2022.

## Impacts & Costs

The intention of P447 is not to impact Parties, P447 should remove the impact the Winter Contingency service would have in the absence of this Modification.

The only anticipated impact is on National Grid who will submit the BSCP18 form to remove the Winter Contingency Bid-Offer Acceptances (BOAs) from Settlement and include the corresponding volumes in their BSAD and ABSVD files when required.

It is challenging to assess how often the P447 process would be used, but the impact on Elexon is limited to the effect from a potential increased volume of BSCP18 forms that are likely to fall within BAU thresholds.

<sup>1</sup> <https://bscdocs.elexon.co.uk/bsc/bsc-section-t-settlement-and-trading-charges>

<sup>2</sup> <https://bscdocs.elexon.co.uk/bsc/bsc-section-x-1-general-glossary>

<sup>3</sup> <https://bscdocs.elexon.co.uk/bsc-procedures/bscp-18-corrections-to-bid-offer-acceptance-related-data>

<sup>4</sup> <https://www.elexon.co.uk/mod-proposal/P447/>

<sup>5</sup> <https://www.ofgem.gov.uk/publications/ofgem-guidance-code-modification-urgency-criteria-0>

## Implementation

The Panel recommended P447 be implemented **1WD following Authority decision**, as part of a special BSC Release. This will ensure the Modification is implemented as soon as possible.

## Recommendation

The Panel unanimously recommended that P447 should be **approved** as it better facilitates Applicable BSC Objective (b), (c) and (d). The Panel also believe, by majority that P447 does not impact the EBGL article 18 terms and conditions held within the BSC. As P447 has been granted urgent status it must be submitted to Ofgem for decision and in any case the Panel also believed P447 did not meet the Self-Governance criteria.



### What is the issue?

Due to the ongoing war in Ukraine and the potential for scarcity over the winter period the Electricity System Operator (ESO) has entered into additional bi-lateral contracts with coal generators that would otherwise not have been generating over the winter period.

This has been done to provide additional non-gas capability to generate significant volumes of electricity if needed. These contracts provide an insurance policy for Great Britain (GB) to prevent demand disconnection in a period of tight margins and reduce the level of rota load disconnection during periods of generation shortfalls.

The units will only be dispatched as an 'enhanced action' after all other market solutions are exhausted.

As per the agreed contract this service must be dispatched at £0/MW to minimise the impact on the cash-out price and restrict payments to the providers of the service (so called 'double-payments'), which would create unnecessary cash flows between parties.

Initial industry concerns were raised in the responses to [National Grid's C16 additional consultation for winter contingency issued on the 8th of August 2022 to 5 September 2022<sup>6</sup>](#), regarding the impact of the £0/MWh BOA price feeding into cash-out. While initial discussions indicated that impacts to cash-out could be managed through System Flagging it has come to light that in certain scenarios where there is severe scarcity in the GB wholesale markets and they have cleared at their maximum price, the Winter Contingency Service would lose its system flag and become second stage flagged, leading to NIV tagging having to be applied, which could lead to the Winter Contingency Service setting the cash-out Price at £0/MWh.

This could cause perverse incentives for Parties not to make generation available to the market leading to market price volatility and uncertainty.

At the request of BEIS, the ESO has agreed contracts with Drax, EDF and Uniper to extend the life of coal fired power plants this winter.

These units will be available from 1 October 2022 until 31 March 2023, with costs recovered through BSUoS between 1 October 2022 and 31 March 2023.

The units contracted will not be available to the open market and will only be dispatched at the request of ESO. These contracts are only intended to be used when all commercial options have been exhausted within the Balancing Mechanism (BM).

### What is the cash-out/System Sell Price?

The System Sell Price (SSP) is the 'cash-out' price that is used to settle the difference between contracted generation or consumption and the amount that was actually generated or consumed in each half hour trading period. SSP is paid to BSC Trading Parties who have a net surplus of imbalance energy. These prices are designed to incentivise Parties to balance their position.

Indicative SSP for each half hour trading period is reported on the Balancing Mechanism Reporting Service (BMRS)

<sup>6</sup> <https://www.ofgem.gov.uk/publications/decision-provide-direction-national-grid-electricity-system-operator-limited-pursuant-standard-licence-condition-c169aii>

### Mitigating the risk: Winter Contingency Contracts

Name	Volume	Date
West Burton A	2 x 400MW	1 Oct 2022 – 31 Mar 2023
Drax	2 x 570MW	1 Oct 2022 – 31 Mar 2023
Ratcliffe	1 x 480MW	Nov 2022 – 31 Mar 2023

£340m to £395m subject to the procurement and use of the coal

Cost recovered through BSUoS between 01/10/22 and 31/03/23 with cost spread equally between these days

The units contracted will not be available to the open market and will only be dispatched at the request of ESO

- Dispatch via Balancing Mechanism (BM) or trade with a price of £0/MWh and system flagged.
- Post event, ESO will withdraw BOA and replace through BSAD with price of £99,999/MWh

Market will be informed of warning and dispatch instructions through normal channels.

nationalgrid ESO

## Urgent Code Modification

An Urgent Code Modification is a Modification Proposal which is linked to an imminent or current issue that, if not urgently addressed, may cause:

- A significant commercial impact on Parties, Consumers or stakeholders;
- A Party to be in breach of any relevant legal requirements; and
- A significant impact on the safety and security of the electricity/and or gas systems.

An urgent BSC Modification must follow a prescribed timetable and procedure approved by Ofgem, as described in Section F2.9. This approved timetable can be found in Section 5.

In seeking urgency, the Proposer is mindful of Ofgem's Urgency Criteria and believes that this Modification Proposal is linked to an imminent or current issue that if not urgently addressed may cause a significant commercial impact on Parties, Consumers or stakeholders. Without P447, there is a risk that if the Winter Contingency Service is dispatched it could adversely and inappropriately set the system price to £0/MWh. The Winter Contingency Service starts on 1 October 2022. There is therefore an urgent need to implement this Modification by 1 October 2022 or as soon as possible thereafter.

If, in the absence of this Modification, cash-out prices went to 0 in the middle of an emergency, then there would be no incentives to make extra plant available which would have a detrimental effect security of supply and consumers.

## Desired outcomes

The Proposer intends that the Winter Contingency service, if called upon, is fairly reflected in the cash-out calculation so that it is not distorted in any way.

An additional desired outcome of P447 is that the Generator doesn't receive an Offer payment at a non-zero price.

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### Bid Offer Acceptances

This is an instruction issued by National Grid when they accept a Bid Offer from a BSC Party (in the BM).



### Imbalance Pricing

The Imbalance Price is used to settle energy imbalance volumes. At the end of a Settlement Period, BSC Systems compare a Party's contracted (traded) volume with the metered volume of energy used in the Settlement Period. If a Party is in imbalance of its contracted volume, then it will be subject to imbalance charges.

## Proposed Solution

The proposed solution would require changes to BSC Sections T 'Settlement and Trading Charges', X Annex X-1 'General Glossary' and BSCP18 'Corrections to Bid-Offer Acceptance Related Data' to allow Offers from certain BM Units ("Winter Contingency BM Units") to be treated (for purposes of calculating Imbalance Prices only) as having a very high price (£99,999/MWh).

These Bid Offer Acceptances (BOAs) should also be System Flagged, to ensure that the price of £99,999/MWh (which does not reflect actual balancing costs) cannot set the Imbalance Price.

The P447 solution requires Elexon to publish the Winter Contingency Service BMUs, as provided from ESO on the BSC Website. P447 provisions will be end-dated to coincide with the end date of the WCS contracts of 31 March 2023.

Normally, the Bid Offer Price for a BOA is used both to calculate a payment to (or from) the Lead Party, and to calculate Imbalance Prices. However, to achieve the desired outcomes described above, these two usages must be uncoupled:

- The Lead Party should not receive any additional utilisation payments for the BOA i.e. any BM Unit Cashflow calculated under the BSC must be calculated using a zero price; but
- The BOA cannot be priced at zero for purposes of calculating Imbalance Prices, as this would potentially lead to an Imbalance Price of £0/MWh at a time when margins on the electricity system were very tight. This would create perverse incentives for Parties not to make generation available to the market.

Prior to proposing this Modification NGESO have investigated a number of different solutions to this issue:

- NGESO have investigated the possibility of despatching the units through some mechanism other than a BOA, in order to avoid triggering a BM Unit Payment to the Lead Party, but this is not an option as contractually the service needs to sit in the BM at £0/MWh as a last resort offer when all other actions have been exhausted.
- NGESO have investigated whether System Flagging the BOA (through the System Methodology Action Flagging process contained within the [C16 suite of documents](#)) would be sufficient to prevent the £0/MWh Offer Price from setting the Imbalance Price. NGESO concluded that it is not sufficient, as the System Flagging mechanism was designed to prevent an expensive System-related BOA from setting the Imbalance Price. The interaction between System Flagging and NIV Tagging is such that it remains possible for an inexpensive (£0/MWh) System Flagged action to set the Imbalance Price under some circumstances.

Having discarded these options, NGESO and Elexon believe the only mechanism that can correctly settle these Winter Contingency contracts is a Modification to the BSC that allows Offers from certain BM Units ("**Winter Contingency BM Units**") to be treated (for purposes of calculating Imbalance Prices only) as having a very high price (£99,999/MWh).

These BOAs should also be System Flagged, to ensure that the price of £99,999/MWh (which does not reflect actual balancing costs) cannot set the Imbalance Price.

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This solution is reflected in the proposed legal text, which amends BSC Section T to:

- explain that NETSO can identify certain BM Units as "Winter Contingency BM Units"; and
- state that the System Action Price for an Offer from a Winter Contingency BM Unit is £99,999 £/MWh.

### Approach for delivery without System change

Given sufficient time, NGESO would expect Elexon to deliver this change to the Imbalance Price calculation by procuring, developing, testing and implementing changes to the BSC Systems operated by the Balancing Mechanism Reporting Agent (BMRA) and Settlement Administration Agent (SAA). However, such a process would normally be expected to take 6-9 months.

Even if Elexon was asked to take extreme measures to speed up delivery (e.g. reducing or eliminating quality assurance activities, procuring additional service provider teams to allow more activities to take place in parallel) delivery would not be possible in time for this winter.

Due to the nature of the urgency, Elexon have therefore investigated whether they could operate a workaround process to deliver the effect of the BSC Modification, without requiring these system changes. It appears that such a workaround is feasible, and would have to take the following form:

- Any Offers accepted by the Winter Contingency BM Units would have to be removed from the Settlement system prior to the calculation of Trading Charges. This is because leaving the BOA in the system would create the wrong outcomes: if it was priced at £0/MWh it could set the Imbalance Price, and if it was priced at a non-zero price the Lead Party would receive a payment. NGESO can achieve this using the existing process for *ex post* amendments to BOA data in BSCP18.
- NGESO would then include the energy volumes associated with the Offer in the Balancing Services Adjustment Data (BSAD) and Applicable Balancing Services Volume Data (ABSVD) NGESO submitted to Settlement. The BSAD item would be System Flagged and have a price of £99,999/MWh, as required by this Modification.

The effect of this workaround is that both Imbalance Prices and Imbalance Charges would be calculated correctly; but because the volumes have been reported to Settlement as BSAD/ABSVD rather than a BOA the Generator would not receive an additional payment relating to the BOA.

This solution also has the benefit that it maintains transparency in the market. The units will be dispatched at £0/MWh via an offer in the Balancing Mechanism. This dispatch will be reported on the BMRS (as all BOAs are). This information, will allow industry to know that the near real-time system prices calculated on BMRS may not be accurate, as the actual system prices will have these BOAs removed from the price calculation.

This workaround solution does not require system changes, but should (for reasons of transparency) be reflected in appropriate documentation:



- A statement should be added to BSC Procedure BSCP18 to clarify that the process can be used to remove BOAs relating to Winter Contingency BM Units from Settlement (where it is not appropriate to settle them as BOAs); and
- Statements should be added to the appropriate C16 Licence Statements to clarify that these acceptances (although despatched as BOAs) may be included in the BSAD and ABSVD submissions where necessary for Settlement purposes; and that any such BSAD item would be System Flagged.

## Implementation Approach

The Panel recommended P447 be implemented **1WD following Authority decision**, as part of a special BSC Release. This will ensure the Modification is implemented as soon as possible.

## Benefits

The principal benefit offered by this Modification is that it removes the risk that the cash-out price is set at £0/MWh and also removes the risk that there will be a double payment to the providers of the Winter Contingency Service.

## Legal Text Changes

To give effect to P447, amendments are required to:

- BSC Section T 'Settlement and Trading Charges'
- BSC Section X Annex X-1 'General Glossary'
- BSCP18 'Corrections to Bid-Offer Acceptance Related Data'

These changes can be seen in the proposed redlining in Attachment A.

## 4 Impacts & Costs

For the roles that have been identified as impacted, we have indicated whether we believe the costs are likely to be high, medium or low based on the following categories:

- High: >£1 million
- Medium: £100-1000k
- Low: <£100k

These estimates have been validated via the urgent P447 consultation.

### Estimated implementation costs of P447

No existing BSC Central System changes required to implement this Modification. Given sufficient time, we would expect Elexon to deliver this change to the Imbalance Price calculation by procuring, developing, testing and implementing changes to the BSC Systems operated by the Balancing Mechanism Reporting Agent (BMRA) and Settlement Administration Agent (SAA).

This would require amendments to the Participant Management Platform (PMP), which is the system the CRA uses to manage BM Unit registrations, so that it can record which BM Units are Winter Contingency BM Units. It would also be necessary to amend the SAA system so that any Offers from those BM Units are included in the Imbalance Price calculation at a price of £99,999/MWh (rather than their Offer Price).

However, such a process would normally be expected to take 6-9 months.

Even if Elexon was asked to take extreme measures to speed up delivery (e.g. reducing or eliminating quality assurance activities, procuring additional service provider teams to allow more activities to take place in parallel) delivery would not be possible in time for this winter. We intend to operate a workaround process to deliver the effect of the BSC Modification, as described in the Solution section of this document.

Implementation cost estimates			
Organisation	Item	Implementation	Comment
Elexon	Documents	<£3k	Minor changes are required to two BSC Sections and one BSCP to implement this Modification.
	Systems	No impact	In absence of time requirements and nature of urgency, changes to the BSC Systems operated by the Balancing Mechanism Reporting Agent (BMRA) and Settlement Administration Agent (SAA) would be procured, developed, tested and implemented. However this is not possible.
	Other	£0	

Implementation cost estimates			
Organisation	Item	Implementation	Comment
Industry	Systems & processes	£0	There are no expected costs for market participants to implement this Modification.
<b>Total</b>		<b>&lt;£3k</b>	

## Estimated on-going costs of P447

On-going annual cost estimates		
Organisation	On-going	Comment
Exelon	Low	At time of writing, these arrangements are only needed for the coming winter and time out in March 23. We do not anticipate any operational impact on BSCCo or BSC Agents, other than a possible increase in BSCP18 forms, as NGESO will submit the BSCP18 form to remove the Winter Contingency BOAs from Settlement and include the corresponding volumes in their BSAD and ABSVD files. We will also perform some validation checks on any amended BSAD/ABSVD files received from NETSO to ensure the relevant actions are system flagged and set at £99,999/MWh.
Industry	£0	There are no expected costs for market participants for the on-going operation.
<b>Total</b>		<b>&lt;£100k</b>

## P447 impacts

Impact on BSC Parties and Party Agents		
Party/Party Agent	Impact	Estimated impact
Suppliers, Generators and Trading Parties	This Modification will positively impact Suppliers, Generators and Trading Parties by removing impact the Winter Contingency service would have in the absence of this Modification.	Positive

Impact on the NETSO	
Impact	Estimated cost
<p>As needed, NGESO will submit the BSCP18 form to remove the Winter Contingency BOAs from Settlement and include the corresponding volumes in their BSAD and ABSVD files when required under P447.</p> <p>Following Panel feedback, NGESO will also publish an obligation to publish transparency related information on the BSC Website. To fulfil a request from a Panel member, National Grid agreed that it will publish an information sheet, specifying the contracts key details and BM Units involved in the Winter Contingency Service to make this information visible and transparent to industry.</p>	Low

Impact on BSCCo		
Area of Elexon	Impact	Estimated cost
Settlement and Invoicing	Ongoing management of the BSCP18 process and the service provider, expected to be within BAU thresholds of form submission	L
BSC Website	Transparency related information on the Winter Contingency service will be published on the BSC Website, which may include a list of BM Units. This list will be able to be added to by National Grid, and National Grid will notify the Panel of any changes.	L

Impact on BSC Settlement Risks
In the absence of this Modification the impact, were the system price be set to zero, would be high. Any emerging risks to Settlement will be catalogued under Performance Assurance and discussed by PAB as necessary.

Impact on Code	
Code Section	Impact
BSC Section T & Annex T-2:	<p>Section T1.15 added, allowing NETSO to identify BM Units as "Winter Contingency BM Units"</p> <p>Changes to Annex T-1 paragraph 1.2(e) to price Offers from Winter Contingency BM Units at £99,999/MWh (for purposes of the Imbalance Price calculation only)</p>
BSC Section Section X Annex X-1:	Definition of "Winter Contingency BM Unit" added to Annex X-1

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#### Impact on EBGL Article 18 terms and conditions and objectives

The Panel believe that this Modification does not impact or expand the BSC provisions that constitute EBGL Article 18 Terms and Conditions, as described in BSC Section F, Annex F-2.

#### Impact on Code Subsidiary Documents

CSD	Impact
BSCP18	Amended to reference new Winter Contingency Process.

#### Impact on Core Industry Documents and other documents

Document	Impact
Other	C16

There will need to be a consequential C16 change to the System Management Action Flagging (SMAF) statement to identify the Winter Contingency Service as System Flagged, in addition to wording added to the Balancing Services Adjustment Data (BSAD) statement and Applicable Balancing Services Volume Data Methodology (ABSVD) statement.

In accordance with Standard Condition C16 of its Electricity Transmission Licence, whenever National Grid considers that a modification should be made to the C16 Licence Statements to more accurately reflect their intended purpose, National Grid should review the statements and promptly seek to establish revised statements approved by the Authority. The purpose of the review and consultation is to ensure that each of the applicable documents remains current by seeking industry views on any proposed changes.

Ofgem has issued a [direction to Standard Licence Conditions](#)<sup>7</sup> C16.9(a)(ii) and (iii) on October 4th, 2022. This decision letter provides the ESO a direction to deviate from the minimum 28-day period for consultation, instead allowing a period of at least 7 days for this consultation. Additionally, reflecting the urgent nature of implementing these changes, the 7 days set out in the C16 licence condition allowed for NGESO to prepare its final report to Ofgem is reduced to 4 days by this decision.

The current versions of the C16, this consultation, industry responses and the consultation report are published at [this location](#)<sup>8</sup>.

#### **Proposed C16 changes are as follows within the SMAF Methodology statement:**

Part B, Section 1: Background to system Flagging

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<sup>7</sup> <https://www.ofgem.gov.uk/publications/direction-national-grid-electricity-system-operator-limited-pursuant-standard-licence-conditions-c169aii-and-iii>

<sup>8</sup> <https://www.nationalgrideso.com/balancing-services/c16-statements-and-consultations>

## System Management

System Management means:

1. any balancing service used by NGESO that partially or wholly resolves a transmission constraint;
2. any system-to-system balancing service used by NGESO in respect of electricity flows over an interconnector, to avoid adverse effects arising on the National Electricity Transmission System from significant load profile changes;
3. any system-to-system balancing service used by a Transmission System Operator (TSO) other than NGESO, for the purposes of resolving a system operation issue in a connected transmission system;
4. any balancing action used by NGESO primarily to manage the Rate of Change of Frequency (RoCoF) or to manage Fault Levels;
5. any automatic Low Frequency Demand Disconnection relay demand control action.

5.6. any balancing action taken by NGESO through the Winter Contingency contracts to manage system security.

Part B, Section 2: The Balancing Services that will be SO flagged

### Winter Contingency Service Contracts

All dispatch action of units under the 2022/23 winter contingency service will be tagged as system actions through BSAD.

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**Proposed C16 changes are as follows within the BSAD Methodology statement:**

Part B Balancing Services Adjustment Data (BSAD), section 2.1 Balancing services included within Balancing Service Adjustment Actions

### Winter Contingency Services

Volumes delivered under the 2022/23 Winter Contingency Services will be submitted in the BSAD.

Volumes will be system flagged and priced at £99,999 MWh.

**Proposed C16 changes are as follows within the ABSVD Methodology statement:**

Part B Applicable Balancing Services Volume Data for BM participants, section 1.2 Balancing Services for inclusion in the ABSVD

- Winter Contingency Services - Volumes delivered under the 2022/23 Winter Contingency Arrangements will be included in the ABSVD

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Impact on a Significant Code Review (SCR) or other significant industry change projects

This proposal is not within the scope of an active SCR. On 3 October 2022 Ofgem confirmed that they consider P447 to be outside the scope of any active SCRs.

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#### Impact of the Modification on the environment and consumer benefit areas:

Consumer benefit area	Identified impact
1) Improved safety and reliability	<b>Positive</b>
2) Lower bills than would otherwise be the case	<b>Positive</b>
3) Reduced environmental damage	Neutral
4) Improved quality of service	Positive
5) Benefits for society as a whole	<b>Neutral</b>

The Winter Contingency service is expected to improve safety and reliability, by having extra energy available in times of scarcity, however without this modification it runs the risk of setting the cash-out price to £0/MWh leading to less generation making itself available at times of system scarcity.

If the service set the cash-out price at £0/MWh this may not incentivise generators to make plant available which could lead to the ESO having to take more expensive actions to balance the system.

If, in the absence of this Modification, cash-out prices went to £0/MWh in the middle of an emergency, then there would be no incentives to make extra plant available which would have a detrimental effect on consumers and security of supply.

#### What are the consumer benefit areas?

**1)** 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?

**2)** Will this change lower consumers' bills by controlling, reducing, and optimising spend, for example on balancing and operating the system?

**3)** Will this proposal support:

i) new providers and technologies?

ii) a move to hydrogen or lower greenhouse gases?

iii) the journey toward statutory net-zero targets?

iv) decarbonisation?

**4)** Will this change improve the quality of service for some or all end consumers? Improved service quality ultimately benefits the end consumer due to interactions in the value chains across the industry being more seamless, efficient and effective.

**5)** Are there any other identified changes to society, such as jobs or the economy?



### Implementation Date

The Panel recommended P447 be implemented **1WD following Authority decision**, as part of a special BSC Release. This will ensure the Modification is implemented as soon as possible

### Urgent Progression Procedure and Timetable

Ofgem approved the below Progression Procedure and timetable for P447.

Event	Date
Modification presented to Panel	29 September 2022
Submitted to Authority for decision on urgency	29 September 2022
Urgent Modification Consultation (5WD)	The P447 Urgent Consultation will be issued on 5 October 2022, closing 5pm on 12 October 2022
Urgent Modification Report	To be presented to the BSC Panel at their meeting on 13 October 2022, where the Panel will consider responses and provide their final recommendations on P447.
Final Urgent Modification Report submitted to Authority	The Final Modification Report, containing the Panel's discussions and final recommendations, will be sent to Ofgem on 13 October, following the Panel meeting.
Modification implemented	1WD after Authority approval

The Proposer, National Grid Electricity System Operator (NGESO), requested P447 be treated urgently. The Panel agreed and recommended P447 be treated urgently at an urgent Panel meeting on 29 September 2022.

Following this meeting, we outlined the proposed urgent procedure and timetable below, which includes asking Ofgem to make a decision on P447, also as a result of this letter. This letter summarised the key requests and rationale.

Ofgem granted P447 'urgent status' on 4 October 2022. The Authority were satisfied that progressing P447 is related to an imminent or current issue. In particular, criterion (a), namely, an imminent issue or a current issue that if not urgently addressed may cause a significant commercial impact on parties, consumers, or other stakeholder(s).

P447 seeks to address a potential issue with cash-out prices. The Winter Contingency Service (WCS) went live on 1 October 2022, and thus the risk to cash-out exists from that date. The service ends on 31 March 2023, and thus the risk exists until that point. Therefore, addressing this issue in an urgent manner minimises the risk. However, the Authority are keen that market parties be consulted on the proposed solution to the problem given the wide-ranging and sizable impact associated to it. The Panel

recommended urgent timetable was therefore amended to include a 5WD urgent consultation and a subsequent Panel meeting to consider the consultation responses and gather Panel final views.

The Authority agreed to the BSC Panel's request to give urgent consideration to P447 in accordance with the following urgent timetable:

- A 5 Working Day Urgent Modification Consultation, beginning the day after the issue of this decision;
- The Urgent Modification Report would be presented to the Panel 1 Working Day following the end of the consultation;
- Submission of the Final Modification Report to the Authority on the same day, following the Panel's consideration and recommendation;
- Subject to approval, implementation of the Modification would take place on the next Working Day following Authority decision.

P447 was presented to the Panel at an urgent meeting on 29 September 2022, where the BSC Panel unanimously agreed to recommend to Ofgem that P447 should be treated as an Urgent Modification Proposal.

The Panel unanimously agreed that P447 better facilitates Applicable BSC Objective (b) and (d), and a majority agreed it better facilitates Applicable BSC Objective (c), for the reasons given by the Proposer. One Panel member felt that P447 is detrimental against (c). They believed that P447 was detrimental against Objective (c), believing that dispatching at zero, then removing the BOA from Settlement to then include in BSAD at a different price of £99,999 was misleading and confusing. You would have to know specifically about this process and therefore this does not support transparency which in turn facilitates effective competition.

The Panel unanimously agreed a recommendation to the Authority that P447 should be approved with an Implementation Date on the same Working Day as Authority decision, if that decision is received by 11:00 on 30 September 2022. If a decision to approve is received after 11:00 on 30 September 2022, implementation shall be +1WD after the Ofgem decision.

A Panel member suggested that the draft legal text changes to Section T-1 should be considered as impacting EBGL Article 18 terms and conditions held within the BSC. This was on the basis that the changes to Annex T-1 are a function of Section T paragraph 4. Another Panel member also suggested they believed there should be an EBGL impact, and another abstained on the basis of lack of expertise on the specifics in this instance. Elexon confirmed its view that the draft changes to Annex T-1 do not impact EBGL provisions. This was on the basis that the amendments to the BSC are not amending provisions that constitute EBGL. This mapping, which does not include T-1, was consulted on and approved by Ofgem. While a majority of Panel members agreed that P447 does not impact the EBGL Article 18 terms, those that disagreed wished to highlight this risk to Ofgem as part of the urgency request.

Elexon clarified that should Ofgem deem there is an impact on EBGL, a one-month consultation would be required, which Ofgem could include in the P447 directed urgent timetable.

The Panel unanimously approved the draft redlined Legal Text and CSDs for P447 subject to including an end date of 31 March 2023 and an obligation to publish transparency related information on the BSC Website, which may include a list of key contract details. This list will be able to be added to by National Grid, and National Grid will notify the Panel of any changes. The Panel also unanimously agreed that P447 should not be treated as Self-Governance for the reasons given in the Proposal Form by the Proposer. The Panel also noted that were urgency to be granted or Ofgem to decide P447 does impact EBGL, P447 has to go to Ofgem for decision.

To enable a careful, protective process surrounding System flagging, National Grid assured the Panel that it would pay particular operational scrutiny to the flagging process for Winter Contingency Services. Elexon also agreed it would perform validation checks on the relevant BSAD/ABSCD files.

To fulfil a request from a Panel member, National Grid agreed that it will publish an information sheet, specifying the contracts and BM Units involved in the Winter Contingency Service to make this information visible and transparent to industry.

Following discussion, and assuming P447 was progressed and implemented without a consultation, a majority of Panel members wished for Elexon to conduct a post-event industry consultation or workgroup to make sure the most appropriate solution is in place. The minority who disagreed felt that an additional consultation for industry was not proportionate or required during an extremely busy period.

The BSC Panel:

- **RECOMMENDED** unanimously to the Authority that this Modification should be treated as an Urgent Modification Proposal;
- **AGREED** the Urgent progression timetable and procedure for recommendation to the Authority;
- **AGREED** that P447:
  - **DOES** better facilitate Applicable BSC Objective (b);
  - **DOES** better facilitate Applicable BSC Objective (c) (majority); and
  - **DOES** better facilitate Applicable BSC Objective (d);
- **AGREED** that P447 **DOES NOT** impact the EBGL Article 18 Terms and Conditions related to balancing held within the BSC (majority);
- **AGREED** a recommendation that P447 should be **approved**;
- **APPROVED** an Implementation Date for P447 of:
  - The same Working Day as Authority decision, if that decision is received by 11am on 30 September 2022. If a decision to approve is received after 11am on 30 September 2022 then +1 WD after the Ofgem decision
- **APPROVED** the draft redlined Legal Text and CSDs for P447;
- **AGREED** that this Modification should not be treated as a Self-Governance Modification; and
- **DETERMINED** that, following implementation, Elexon should conduct a post-event industry consultation or workgroup to make sure the most appropriate solution is in place.

## 7 Urgent Modification Consultation Responses

This section summarises the responses to the Panel's Urgent Modification Consultation on its initial recommendations. You can find the full responses in Attachment C.

Summary of P447 Report Phase Consultation Responses				
Question	Yes	No	Neutral/ No Comment	Other
Do you agree with the Panel's unanimous recommendation that P447 should be approved?	3	0	0	0
Do you agree with the Panel that the redlined changes to the BSC deliver the intention of P447?	3	0	0	0
Do you agree with the Panel that the redlined changes to the Code Subsidiary Documents deliver the intention of P447?	3	0	0	0
Do you agree with the Panel's recommended Implementation Date?	3	0	0	0
Do you agree with the Panel's initial view that P447 should not be treated as a Self-Governance Modification?	3	0	0	0
Do you agree with the Panel's initial view that P447 does not impact the EBGL Article 18 Terms and Conditions related to balancing held within the BSC?	3	0	0	0
Do you have any comments on the impact of P447 on the EBGL objectives?	0	3	0	0
Will P447 impact your organisation?	2	1	0	0
How much will it cost your organisation to implement P447?	Minimal			
What will the ongoing cost of P447 be to your organisation?	Minimal			
Do you agree, subject to Ofgem approving P447, that a consultation or Workgroup following the implementation of P447 is no longer required as Ofgem directed this consultation be issued?	3	0	0	0

There were 3 responses received to the P447 Urgent Modification Consultation by Generators and Suppliers and including parties contracted to provide the Winter Contingency service. All respondents agreed that P447 should be approved and agreed with the Panel's initial recommendations.

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All respondents agreed that a further consultation or Workgroup following the implementation of P447 is no longer required as Ofgem directed this consultation be issued.

Respondents described minimal costs associated with the P447 solution, and the impacts identified were positive and associated with P447 preventing a potential distortion in market pricing.

One respondent highlighted a potential amendment to the Legal Text but acknowledged that it was related more to an enduring solution (rather than the workaround that P447 needs to enable due to the urgent nature) and Elexon agreed that this was not required to give effect to P447.

One respondent, although accepting that P447 does achieve its stated objectives as a Modification, felt that there were alternate ways the issue could have been addressed.

Rather than to contractually oblige the Winter Contingency counterparties to submit £0/MWh Offer priced volumes, the NGESO Winter Contingency contracts could alternatively have stipulated an Offer price at an appropriate £/MWh level (e.g. VoLL) and in the same Winter Contingency contracts, specified a reconciliation of the aggregate BOA cashflows to actual fuel costs.

The respondent stated that this latter approach would ensure that, if instructed, the accepted Contingency units' volumes would sit at the correct (higher) end of the accepted offer volumes in price order. In which case, the Winter Contingency volumes would only be secondary tagged into the cash-out calculation for a Settlement Period if a higher priced, energy tagged, offer accepted volume existed.

The respondent noted that the Modification Proposal would not properly address the distorting effect that the submitted £0/MWh Offer prices in the Winter Contingency Contracts will have on the Indicative Cash-Out (which are reported on the BMRS around 20mins past the closure of each Settlement Period) and noted that the following additional potential steps to 'correct' the BMRS could be considered.

1) the Offer Prices submitted for the Winter Contingency contract units and passed to the BMRS by NGESO could be updated in BMRS systems from £0/MWh to £99999/MWh by creating a Database Trigger (i.e. After Insert ...) on the relevant BMRS database table

This change of the Offer prices would mean that the BMRS Indicative Cash-Out calculation, when run, would then be correct since the Winter Contingency contract accepted volumes would now sit in the correct place in the accepted Offer volumes stack.

2) Similarly when the BMRS' Derived Cashflows are calculated using the updated £99999/MWh Offer price and presumably written back to the BMRS database, another Database Trigger could reset any Winter Contingency Contract cashflows to £0.

Elexon note that the scope of P447, as described in the Proposal Form and Section 2 of this paper, is limited to finding a solution under which Winter Contingency contracts are dispatched at £0/MWh Offer prices, also noting that changes to the BMRS would not be possible in the needed timeframes to implement P447.

## 8 Recommendations

We invite the Panel to:

- **AGREE** that P447:
  - **DOES** better facilitate Applicable BSC Objective (b);
  - **DOES** better facilitate Applicable BSC Objective (c); and
  - **DOES** better facilitate Applicable BSC Objective (d);
- **AGREE** that P447 does not impact the EBGL Article 18 terms and conditions held within the BSC;
- **AGREE** a recommendation that P447 should be **approved**;
- **APPROVE** an Implementation Date of:
  - 1 Working Day following Ofgem decision;
- **APPROVE** the draft legal text for P447;
- **APPROVE** the amendments to the Code Subsidiary Documents for P447; and
- **APPROVE** the P447 Modification Report.