









BSC Modification Proposal Form		At what stage is this document in the process?
<h1>P447</h1> <h2>Avoiding impact of Winter Contingency actions on cash-out prices</h2>		<div> <div>01 Modification</div> <div>02 Workgroup Report</div> <div>03 Draft Modification Report</div> <div>04 Final Modification Report</div> </div>
<p><b>Purpose of Modification:</b></p> <p>This Modification would prevent negative impacts to the cash-out price if the Winter Contingency service is used.</p>		
<p><b>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 checked="" type="checkbox"/> No</p>		
	<p>The Proposer recommends that this Modification should:</p> <ul style="list-style-type: none"> <li>be treated as urgent and progressed under a timetable agreed by the Authority</li> <li>not be a Self-Governance Modification Proposal</li> </ul> <p>This Modification will be presented by the Proposer to the BSC Panel on <b>Thursday 29 September 2022</b>. The Panel will consider the Proposer's recommendation and determine how best to progress the Modification.</p>	
	<p>High Impact: None, however the impact from not implementing this Modification could be high on Trading Parties</p>	
	<p>Medium Impact: Generators, Trading Parties</p>	
	<p>Low Impact:</p> <p>Implementation: NGESO, Elexon</p>	

Contents		?	Any questions?
1	Why Change?	3	Contact: Ivar Macsween
2	Solution	4	 ivar.macsween
3	Relevant Objectives	7	 020 7380 4270
4	Potential Impacts	9	Proposer: NGESO
5	Governance	13	Proposer's representative: Jamie Webb
Timetable			Jamie.Webb@national grideso.com
The Proposer recommended the following urgent timetable:			07768537317
Modification presented to Panel	29 September 2022		
Submitted to Authority for decision on urgency and decision to approve/reject	29 September 2022, following Panel meeting		
Proposed implementation	If an Ofgem approval is received by 11am on Friday 30 September 2022, Elexon can implement P447 on the same Working Day. If a decision to approve is received after 11am, Elexon can implement 1 WD after the Ofgem decision		
Ofgem approved 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.			
There is a risk that cash-out could be impacted from 1 October 2022. This requested timetable reflects that risk. We recognise the importance of good governance, which would normally include a public consultation. A consultation could be issued following implementation of this Modification and subject to views received, a Workgroup could be formed to consider whether any alternative Modification would be better (in accordance with F 2.9.6).			

# 1 Why Change?

## 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 cashout and restrict payments to the providers of the service which would create unnecessary cash flows between parties.

Initial industry concerns were raised in the responses to our C16 additional consultation for winter contingency issued on the 8th of August 2022 to 5 September 2022, 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.

Additionally the service needs to be dispatched at £0 per MWh as and have the BOA removed to stop any risk of double payment to the generator providing the service.

## Background

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.

The new Winter Contingency contracts will only be used as a last resort and to ensure resilience and security of supply.

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).

## 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 is that the Generator doesn't receive an offer payment at a non-zero price.

## 2 Solution

### Proposed Solution

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. We have 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 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.

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

## Implementation Approach

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 [BSC Procedure BSCP18 \(Corrections to Bid-Offer Acceptance Related Data\)](#).
- 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.

- NGESO intend to submit a letter to Ofgem to allow them to either derogate away from the C16 28 day consultation or have the timeframe significantly reduced to allow the BSC changes to be put in place as soon as possible to minimise the risk of the issue being realised in the very unlikely event these services are needed in early October.

## 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 this service.

### 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

This Modification will allow the ESO to dispatch the Winter Contingency service if required as a last resort in the correct way as agreed in the bi-lateral contracts, preventing any double payment to the Winter Contingency Providers, whilst also being accurately reflected into the Cashout calculation to send the right market signals.

#### Applicable BSC Objective (b)

In the view of the Proposer this Modification will better facilitate Applicable BSC Objective (b) as it will facilitate the use of the Winter Contingency contracts in a way that does not impact the wider market thereby supporting the efficient, economic and co-ordinated operation of the System.

#### Applicable BSC Objective (c)

In the view of the Proposer this Modification will better facilitate Applicable BSC Objective (c) as it will enable accurate reflection of the cash-out calculation and avoid double payments to the Winter Contingency Service generators (Payment under the contract and payment for an offer), to avoid adverse impacts in the absence of this Modification.

**Applicable BSC Objective (d)**

In the view of the Proposer this Modification will better facilitate Applicable BSC Objective (d) as it will enable accurate reflection of the cash-out calculation and avoid any market distortion or risk of the cash out price being set at £0 through the utilisation of this service.



## 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 checked="" type="checkbox"/> 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.

The licence states NGESO should consult on any changes for 28 days with BSC parties, However, as the Winter Contingency Service commences on 1 October 2022, and Elexon will be unable to meet the desired outcomes of this modification without Ofgem approving it, we intend to request Ofgem direct that no C16 consultation is needed on this occasion.

Should a consultation be required by Ofgem for this C16 change, we do not believe this BSC Modification could proceed without the C16 change in place, so would recommend that it proceeds in parallel with this BSC Modification.

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

Part B, Section 1: Background to system Flagging

## 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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## Impacts on BSC Systems

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 have intend to operate a workaround process to deliver the effect of the BSC Modification, as described in the Solution section of this document.

At time of writing, these arrangements are only needed for the coming winter and it remains unclear whether they will be needed beyond this period. In the case that more enduring arrangements are needed, we will work to implement a more robust and enduring technical solution upon receipt of direction to do so.

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.

## Impacts on BSC Parties

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

The intention of this Modification is not to impact Parties, but for awareness it 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 BOAs from Settlement and include the corresponding volumes in their BSAD and ABSVD files when required.

## Impacts on consumers and the environment

Impact of the Modification on consumer benefit areas:	
Consumer benefit area	Identified impact
<u>Improved safety and reliability</u> 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 leading to generation	Positive
<u>Lower bills than would otherwise be the case</u> 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	Positive
<u>Reduced environmental damage</u> N/A	Neutral
<u>Improved quality of service</u> 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 on consumers and security of supply.	Positive
<u>Benefits for society as a whole</u>  N/A	Neutral

This change will allow the Winter Contingency service to be more accurately reflected in cash out and send the right market signals whilst fulfilling the Winter Contingency Service contractual obligations.

## Legal Text Changes

Proposed legal text is included in Attachment A. Changes are required to BSC Sections:

- Section T and Annex T-1;
- Section X, Annex X-1; and
- BSCP18.

## 5 Governance

### Self-Governance

<input checked="" type="checkbox"/> <b>Not Self-Governance</b> – A Modification that, if implemented:	
<input type="checkbox"/> materially impacts the Code's governance or modification procedures	<input checked="" type="checkbox"/> materially impacts sustainable development, safety or security of supply, or management of market or network emergencies
<input checked="" 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	

This Modification should not be treated as Self-Governance. It will materially impact competition and security of supply as it will adjust the BOAS received from NETSO for BM Units related to the Winter Contingency Service. If Ofgem agree that this proposal is urgent, Urgent Modification Proposals must be approved by Ofgem. This proposal should therefore be submitted to Ofgem for decision.

### Progression route

<input 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 checked="" 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 checked="" 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 checked="" type="checkbox"/> a significant impact on the safety and security of the electricity and/or gas systems	

Considering Ofgem's Urgency Criteria, we believe this Modification should be treated as urgent as the Winter Contingency Service goes live on the 1<sup>st</sup> October 2022 and whilst not having these changes in places wouldn't stop the ESO using the service, if required, it would lessen the risk of the service impacting cash-out in a negative way.

More specifically, this Modification is linked to an imminent issue, that will become a current issue from 1 October 2022 that if not urgently addressed may cause a significant commercial impact on BSC Trading Parties. The impact would be caused by the risk that the dispatch of the Winter Contingency Service BM Units could result (in certain circumstances described above) in the cash-out price being incorrectly calculated. This could send perverse incentives for Parties not to make generation available to the market, further exacerbating likely tight margins on 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.

Due to the nature of the urgency, the Proposer recommends an urgent timetable that does not feature a consultation period, as this reduces risks around the Winter Contingency Service, which is going live on 1 October 2022. While the likelihood that this service is used in October is low, should it be called upon before the P447 solution can be implemented, the cash out price could be unadjusted if the right parameters are met as detailed in the issue to be, set at £0/MWh and send the wrong signals to the market. Therefore, the Proposer believes it is in the interest of the market to not include a consultation period, but welcome Ofgem direction in its response to the urgency request.

NGESO has already consulted on C16 changes to this service and the overwhelming feedback from industry has been we need to set the price higher, therefore the proposer believes we are fulfilling what industry want, but recognise there hasn't been the opportunity to explain how we will do that.

BSC Section F 'Modification Procedures' allows for Workgroups to be established following the implementation of an urgent Modification (See [Section F2.9.6](#)). In the case that industry is not consulted before a decision is made on P447, an option may be for Elexon to conduct a post-event consultation to ensure that parties are comfortable with the solution if it is approved and, subject to consultation responses raise a Workgroup to consider alternative solutions. If feedback is received that industry are not comfortable with the solution, a new Modification can be raised to build a more optimal Solution.

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

No impacts on any active SCR have been identified by the Proposer and so it is requested that it be treated as an SCR-exempt Modification Proposal.

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

This Modification will not impact the EBGL Article 18 terms and conditions as BSC Section T Annex T-1 is not specified in the mapping given in Section F Annex F-2. It is not anticipated to extend the EBGL terms or conditions. The proposed legal text would not need to change, were

the Winter Contingency Service to be extended and a system change deemed more appropriate.

### Implementation approach

This Modification should be implemented as soon as possible, as the Winter Contingency Service will be live from 1 October 2022. We request the Modification on Friday 30 September 2022 if an Ofgem approval is received by 11am on Friday 30 September, or otherwise +1 Working Day after Authority approval as a special BSC Release.