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By email to: PanelSecretary@elexon.co.uk

Email: ESOperformance@Ofgem.gov.uk

Date: 4 October 2022

Dear Michael,

Decision on the request to treat BSC Modification P447 'Avoiding impact of winter contingency actions on cash-out prices' as an Urgent Modification Proposal

BSC Modification Proposal P447 was raised by National Grid Electricity System Operator ('NGESO') on 29 September 2022. The proposal seeks to prevent negative impacts to the cash-out price that may occur under the current Balancing and Settlement Code ('BSC') if NGESO's winter contingency service ('WCS') is used. NGESO requested that P447 be treated as an Urgent BSC Modification Proposal.

On 29 September 2022, the BSC Panel requested that Ofgem¹ treat P447 'Avoiding impact of winter contingency actions on cash-out prices' as an Urgent Modification Proposal. The BSC Panel considered that P447 should be treated as an Urgent Modification because it believes that P447 is linked to an imminent or current issue that if not urgently addressed may cause significant commercial impact on parties, consumers, or other stakeholders.²

This request followed an Urgent BSC Panel Meeting on 29 September 2022 when the BSC Panel unanimously agreed to this recommendation.

We have decided that BSC Modification P447 should be progressed on an urgent basis for the reasons set out in this letter.

Background

Following a request from government,³ NGESO contracted several coal plants to provide a WCS. Due to the nature of the contracts agreed with the coal plants, a risk arose to the calculation of cash-out price for imbalance. Circumstances could arise whereby the cash-out price is set at £0/MWh in situations where this is an incorrect price signal. This would set a perverse incentive for market participants and / or reduce the incentive for providers to assist in the stressed circumstances faced by a system requiring the WCS to be activated.

¹ The terms "we", "us", "our", "Ofgem" and "the Authority" are used interchangeably in this document and refer to the Gas and Electricity Markets Authority. Ofgem is the office of the Authority.

² Ofgem's published guidance on [Code Modification Urgency Criteria \(August 2022\)](#) appears on our website.

³ BEIS' request to NGESO can be accessed here:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1078685/sos-national-grid-eso-letter-25-may-2022.pdf

The proposal

BSC Modification Proposal P447 was raised by NGESO on 29 September 2022, seeking to prevent negative impacts to the cash-out price if NGESO's WCS is used that may occur under the current BSC. The modification proposes to allow offers from the Balancing Mechanism Units identified as delivering the WCS ('Winter Contingency BM Units') to be treated as having a very high price for the purposes of, and only of, calculating imbalance prices. This aims to 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.

Request for urgency

At the Urgent Panel Meeting on 29 September 2022, the BSC Panel unanimously requested that Ofgem treat P447 as an Urgent Modification Proposal because it is related to an imminent or current issue and will have a significant commercial impact upon Parties and consumers.⁴ The request for urgency from the proposer determined that this modification does not impact the terms and conditions relating to balancing, and hence did not propose the consultation period that would be triggered had that been the case.

Our decision on the urgency of P447

In reaching our decision on the urgency of P447 we have considered the details within the P447 proposal form, the justification for urgency, the views of the Panel, and we have assessed the request against the urgency criteria set out in Ofgem's published guidance.

We are satisfied that progressing P447 is related to an imminent or current issue. In particular, the criterion in our guidance that is relevant to our decision on urgency is 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).

In our view, P447 seeks to address a potential issue with cash-out prices. The 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 (and so we anticipate that this modification will only address issues in this timeframe). Therefore, addressing this issue in an urgent manner minimises the risk. However, we are keen that market parties be consulted on the proposed solution to the problem given the wide-ranging and sizable impact associated to it.

We therefore agree to the Panel's request to give urgent consideration to P447 in accordance with the following urgent timetable:

- A 5 working day urgency 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.

For the avoidance of doubt, in granting this request for urgency, we have made no assessment of the merits of the Modification and nothing in this letter in any way fetters our discretion in respect of this Modification proposal.

⁴ The imminent issue may be date related.

Yours sincerely,

James Hill
Senior Policy Manager
Energy Systems Management and Security
Duly authorised on behalf of the Authority