P462 ‘The removal of subsidies from Bid Prices in the Balancing Mechanism’

ELEXON

Phase

- Initial Written Assessment
- Definition Procedure
- Assessment Procedure
- Report Phase
- Implementation

This Modification aims to reduce consumer cost potentially caused by the interaction between the BM and support mechanism arrangements. This shall be done by removing distortion of support mechanisms (such as Contracts for Difference (CfDs) and the Renewables Obligation (RO) schemes) to reduce actions being taken outside of consumer cost order when following the Bid stack merit order.

The proposed solution for consideration by an industry Workgroup is to modify the equation BSC Section T ‘Settlement and Trading Charges’ paragraph 3.11 to pay the lost support mechanism.

Elexon recommends P462 is progressed to the Assessment Procedure for an assessment by a Workgroup

Elexon considers it likely that P462 will impact the European Electricity Balancing Guideline (EBGL) Article 18 terms and conditions held within the BSC

This Modification is expected to impact:

- All BSC Parties who hold support mechanism arrangements (such as CfDs or RO)
- Trading Parties
- Elexon as the Balancing and Settlement Company (BSCCo)
- National Grid Electricity System Operator (NGESO)

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About This Document

You can find the definitions of the terms and acronyms used in this document in the BSC Glossary[1].

This document is an Initial Written Assessment (IWA), which Elexon will present to the Panel on 9 November 2023. The Panel will consider the recommendations and agree how to progress P462.

There are 2 parts to this document:

- This is the main document. It provides details of the Modification Proposal, an assessment of the potential impacts and a recommendation of how the Modification should progress, including the Workgroup's proposed membership and Terms of Reference.
- Attachment A contains the P462 Proposal Form.

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Not sure where to start?

We suggest reading the following sections:

- Have 5 minutes? Read section 1
- Have 15 minutes? Read sections 1, 4, 5 and 6
- Have 30 minutes? Read all sections
- Have longer? Read all sections and the annexes and attachments.

[1] https://www.elexon.co.uk/glossary/?show=all

1 Summary

Why change?

Due to current market arrangements, generation units which hold support mechanisms through Contracts for Difference[2] (CfD) or Renewable Obligation Certificates[3] (ROCs) need to price recover an expected subsidy in their Bid Prices. This prevents Generator units from pricing on equal terms with un-subsidised units and means that their Bid Price is not reflective of the consumer cost or savings of this transaction.

The Proposer believes that this is a structural issue with the interaction between the Balancing Mechanism (BM) and support mechanism arrangements because all subsidies are currently based upon metered output recovery, whilst a BM Bid Acceptance will reduce output and thus lead to the subsidies being lost. This means transactions taken in Bid Price order are not in line with consumer cost order and could lead to less cost-effective actions being taken.

The Proposer believes if not addressed, there could be continued consumer cost caused by the interaction between the BM and support mechanism arrangements.

Solution

The proposed Solution is to amend the BSC to make a Balancing Mechanism Unit (BMU) whole for any lost support mechanism value, by changing the formula for the BM Unit Cashflow, as outlined in Figure 3 in Section 3 'Solution'. Currently the support mechanism is included implicitly within the Bid Price which not only effects the merit order stack but is also driving negative pricing as seen in Figure 4 & 5 in Section 3 'Solution' and the clustering behaviour described in Section 2 'Background'. The Proposer's aim from P462 is to pay the lost support mechanism explicitly in order to remove the need for BMU Bid Prices to include it.

Impacts and costs

This Modification is expected to most significantly impact Generators who are part of support mechanism schemes, such as the CfD or the RO scheme, with wider impacts on Trading Parties. P462 aims to bring savings to end consumers via the removal of costs identified through the BM and support mechanism Arrangement interactions.

P462 is also likely to impact EBGL provisions held within the BSC, as Annex F-2 EBGL Article 18 Terms and Conditions[4] outlines that any changes to Section BSC T3 may impact articles 18.5.e, 18.5.h and 18.5.i. Initial estimated impacts to Elexon, NGESO and Industry have been provided in Section 6 'Likely Impacts & Costs' but will be investigated and considered as part of the Assessment Procedure once the Solution has been sufficiently developed and considered by an industry Workgroup.

[2] https://www.gov.uk/government/collections/contracts-for-difference#:~:text=A%20Contract%20for%20Difference%20(CfD,%2C%20a%20government%2Downed%20company.
[3] https://www.ofgem.gov.uk/environmental-and-social-schemes/renewables-obligation-ro
[4] https://bscdocs.elexon.co.uk/bsc/bsc-section-f-modification-procedures#annex-f-2

What are Bids?

Bid
A Bid is a proposal to reduce generation or increase demand.

Bid Price
The amount in £/MWh associated with a Bid and comprising part of a Bid-Offer Pair

Bid-Offer Pair
Data submitted in relation to a BM Unit for a Settlement Period.

Bid Offer Acceptance
This is an instruction issued by National Grid when they accept a Bid Offer from a BSC Party.

Bids and Offers
The Balancing Mechanism allows BSC Parties (if they wish) to submit Offers to sell energy (by increasing generation or decreasing consumption) to the system and Bids to buy energy (by decreasing generation or increasing consumption) from the system, at prices of the BSC Party's choosing.

Implementation

The Proposer recommends a year is given before implementation to allow for the necessary aspects of the P462 solution to be worked through and appropriate communications disseminated across subsidised units to allow consideration of any impacts on their current commercial strategies. The eventual implementation date will be developed, considered and consulted on as part of the Assessment Procedure. This Modification is likely not suitable for Self-Governance due to impacts on the EBGL provisions along with potential impacts to Self-Governance criteria (b)(i) and (b)(ii). Elexon and Proposer therefore initially recommend that P462 is sent to the Authority for decision.

Recommendation

The Proposer recommends that the BSC Panel agree that P462 progresses to the Assessment Procedure for consideration by an industry Workgroup, to develop the solution, consider its impacts and provide views as to whether P462 better facilitates BSC Objective (b) and (c).

2 Why Change?

What is the issue?

Due to current market arrangements, generation units which hold support mechanisms through CfD or RO Certificates (ROCs), need to price recover an expected subsidy in their Bid Prices. This prevents them from pricing on equal terms with un-subsidised units and means that their Bid Price is not reflective of the consumer cost or savings of this transaction.

The Proposer believes that this is a structural issue with the interaction between the Balancing Mechanism (BM) and support mechanism arrangements because all subsidies are currently based upon metered output recovery, whilst a BM Bid Acceptance will reduce output and thus lead to the subsidies being lost. This means transactions taken in Bid Price order are not in line with consumer cost order and could lead to less cost-effective actions being taken.

Furthermore, the Proposer notes that the current system can create clustering pressures at levels undercutting specific support mechanism recovery tranches. Units with different support mechanism levels and merchant units compete at these price points rather than competing with the wider Balancing Mechanism.

Under current market structures, the direct consumer cost of accepting a Bid for a unit holding a support mechanism corresponds only to any marginal cost added to this price beyond the expected subsidy revenue itself. For example, if a unit would have received a £60 payment due to their support mechanism, then a £65 bid payment (-£65/MWh Bid Price) leads to a marginal £5 consumer cost because the unit gets paid £65 through the BM but loses the £60 which would have been paid out under its support mechanism.

Conversely a merchant unit which seeks a £50 bid payment (-£50/MWh Bid Price) has a £50 marginal consumer cost as there is no support mechanism to recover. This means when an action is taken in cost order in the BM (Bid Price stack), it is not always equivalent to the consumer cost order.

The Proposer believes if the issues outlined above are not addressed, there could be continued consumer cost caused by the interaction between the BM and support mechanism arrangements.

Background

Worked Examples

In their submitted Proposal form the Proposer notes the interaction of the BM and support mechanism arrangements are most commonly observed between BM Units with CfDs, whose Bid Price vary based upon a Day Ahead market reference price, and BM Units which are subsidised via ROCs. The lower the market price, the greater the support mechanism revenue that the CfD unit must recover. In order to do this, the CfD unit must continually reduce their Bid Price, as the Day Ahead market clears at a lower price to recover its support mechanism.

Support mechanism arrangements

Contracts for Difference
A Contract for Difference (CfD) is a private law contract between a low carbon electricity generator and the Low Carbon Contracts Company (LCCC), a government-owned company.

Developers are paid a flat (indexed) rate for the electricity they produce over a 15-year period; the difference between the 'strike price' (a price for electricity reflecting the cost of investing in a particular low carbon technology) and the 'reference price' (a measure of the average market price for electricity in the GB market).

Renewable Obligation
Renewable Obligation Certificates (ROCs) are issued to operators of accredited renewable generating stations for the eligible renewable electricity they generate. Operators can trade ROCs with other parties or sell them directly to a supplier.

The Renewables Obligation scheme closed to all new generating capacity 1 April 2017.

This means a ROC unit which has a high marginal consumer cost, but a lower support mechanism level becomes cheaper in the BM. This disincentivises both BM Units from competing, as the CfD unit cannot reasonably increase their Bid Price to above the ROC unit, whilst the ROC unit is not incentivised to seek a lower marginal rate as there is less competition. Similarly, if Day Ahead Prices are very high, a CfD unit may have a negative support mechanism level (payment owed to the Low Carbon Contracts Company (LCCC)) meaning that the ROC unit cannot reasonably increase their bid price to above the CfD unit, whilst the CfD unit is not incentivised to seek a lower marginal rate.

Clustering Pressures

The figure below reviews the Bid Price stack across a constraint boundary using volume weighted average figures from 1 January 2021 to 31 December 2022 and every unit which can resolve the SCOTEX (B6) constraint, demarked by fuel types. This constraint boundary is for energy export out of Scotland where there is a large concentration of wind units and therefore large presence of subsidised units with a regular requirement to compete for downwards energy transactions to manage the thermal congestion.

The figure shows distinct groupings of units with specific subsidies, but also the negative Bid Price pressure exerted by this long tail of increasingly negative prices. Highlighted is a cluster of units which have support from ROCs. For every 1MWh of energy produced these units receive 1 ROC, these certificates have been priced at approximately £59/MWh across this period meaning that the Bid Price of this cluster starts just below -£59/MWh with a small distribution depending on the units marginal cost and profit targets.

However, it shows that there is another cluster of units which are unsubsidised and priced slightly above this level. The direct consumer cost of taking actions on these unsubsidised units is the full £55+/MWh whereas the consumer cost of accepting the units holding ROCs, is only their marginal Bid Price beyond -£59/MWh.

This means that, when an action is taken in merit order, the units which have the highest consumer cost are taken first on average until the units holding ROCs are reached, at which point they are bought in consumer cost order based on the marginal price beyond support mechanism recovery.

This results in an interaction that is anti-competitive as the best value units for the end consumer seeking the smallest marginal rates are not always those with the lowest price point.

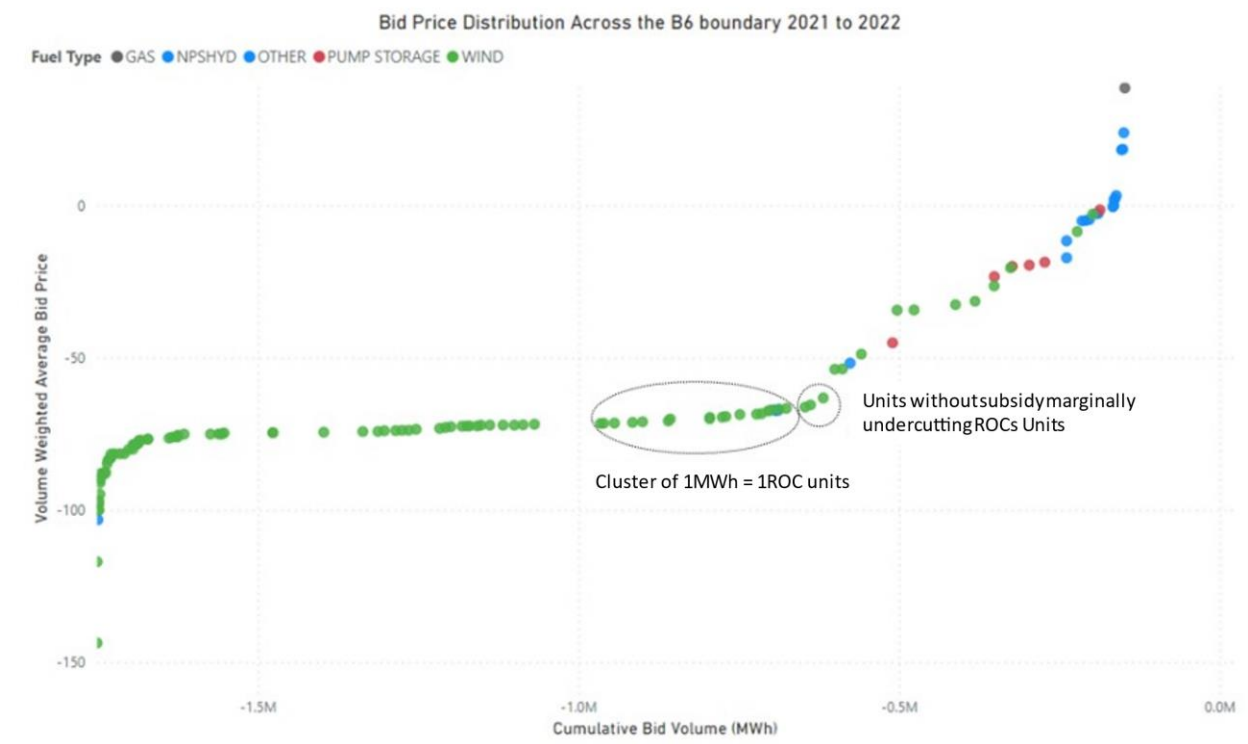

Figure 1: Volume weighted average accepted Bid Price distribution curve for the B6 (SCOTEX) constraint boundary from 1st January 2021 to 31st December 2022 plotted against each unit's cumulative total bid volume when taken to manage this constraint condition.

CfD units with high Day Ahead Prices

When specifically reviewing the Contracts for Difference (CfD) support mechanism regime, the current market structure does not incentivise passing on any savings that may be made in avoided payments to the LCCC, when the Day Ahead Price clears higher than their Strike Price.

Figure 2, below, demonstrates how a CfD generator may price given current competitive pressures, by setting its Bid Price against ROC units as the principal competition in the BM bid stack under high day ahead price scenarios and bidding at reduced prices when the reference price falls below the Strike Price to recover lost support mechanism payments.

This combined approach would maximise income while the reference price is greater than the Strike Price and, avoids any loss in the BM when the reference price is less than the Strike Price whilst keeping the unit competitive in the wider bid stack. This form of competitive pressure against specific subsidy recovery thresholds is not in consumers' interests and can lead to excess costs.

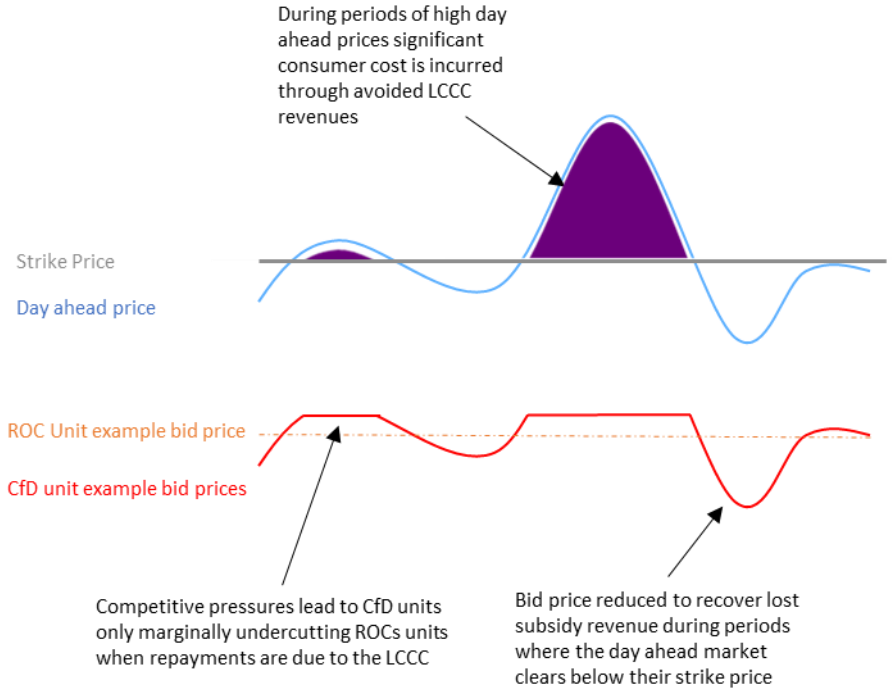

Figure 2: Illustration of the structural BM issue as occurring across 2022 with interactions between CfD units and ROCs units bid prices shown. Day Ahead Price (Blue), Bid Price (Red), Approximate excess consumer cost when if a bid were accepted (Purple)

Summary

Due to current market arrangements, subsidised units need to price recover their subsidies in their Bid Price. However, the market structure does not create an environment for suitable competition between subsidised units and may not enable them to compete with units operating without a support mechanism based on their marginal costs.

The Proposer believes that this is a structural issue with the market and can create problems such as actions taken out of consumer cost merit order, clustering pressures and offering no commercial incentive to reflect any repayment obligations within the Bid Price.

Desired outcomes

The Proposer believes that this issue should be resolved through changes to the market via a Modification to the BSC.

The desired outcome of this Modification is to reduce costs to the end consumer by reflecting consumer costs in the wider BM merit order and reducing out of overall merit order transactions. Further benefits may be anticipated via limiting the imbalance price volatility as this could reduce the imbalance risk premium that is built into units pricing, improving market efficiency.

In addition, allowing all units to compete based on marginal costs without the distortion of subsidies could create a more efficient BM and may reduce the tendency for clustering behaviours.

The change aims to ensure that the subsidised unit receives the payment it was due had they generated and remove the current interaction that creates excess consumer cost from taking actions in bid price merit order which are not in consumer merit order by making this

interaction transparent. It should lead to improvement in transparency of costs for both BM prices and subsidies.

3 Solution

Proposed solution

The proposed Solution for assessment by a Workgroup is to amend the BSC to make a BMU whole for any lost support mechanism value, by changing the formula for the BM Unit Cashflow, as outlined in Figure 3.

Under the status quo the support mechanism is included implicitly within the Bid Price which not only effects the merit order stack but also drives negative pricing as seen in Figure 4 & 5 and clustering behaviour as described in the problem statement.

The proposed Solution should pay the lost support mechanism explicitly to remove the need for BMU Bid Prices to include it. This is represented through the amendments to the BMU cashflow calculation. In its simplest form:

BSC T3.11[5] BMU cashflow would be amended as follows:

$$CBM_{ij} = \Sigma^{n}CO^{n}_{ij} + \Sigma^{n}CB^{n}_{ij} + [NQB_{ij}] * [SRP_{ij}]$$

Figure 3

Where:

- **CBM** is Period BM Unit Cashflow;
- Where $\sum^{n}$ represents the sum over all Bid-Offer Pair Numbers for the BM Unit;
- **CO^{n}** is Period BM Unit Offer Cashflow; and
- **CB^{n}** is Period BM Unit Bid Cashflow**.**

For the avoidance of doubt the Bid Price (**CB^{n}**) itself remains set at the operator's discretion and should continue to reflect reasonable recovery of costs and profits in line with wider market rules on pricing. This Modification does not establish any new limitations on bid prices.

- **NQB** is the bid volume net of unwind offers, i.e., the sum of bids and offers for pairs where n < 0. NQB is zero or negative; and
- **SRP** is the support mechanism replacement price. As appropriate:
    - RO: buy-out price multiplied by the banding rate (e.g. 0.9); and
    - CFD: difference between Market Reference Price and Strike Price.

The sign of Subsidy Replacement Price (SRP) aligns with that for Bid Prices and will usually be negative. When the (negative) bid volume is multiplied by the SRP, the sign of the resulting cashflow will align with the other cashflow terms, i.e. a positive cashflow indicates cash to the BMU.

The industry Workgroup will confirm whether it may be appropriate to make other changes to ensure that the implementation of this Modification (if approved) achieves the intent.

[5] https://bscdocs.elexon.co.uk/bsc/bsc-section-t-settlement-and-trading-charges#section-t-3-3.11

This may include, for example, inserting additional redlining to BSC documents to calculate the new terms above and ensuring future support mechanism arrangements are able to be appropriately settled.

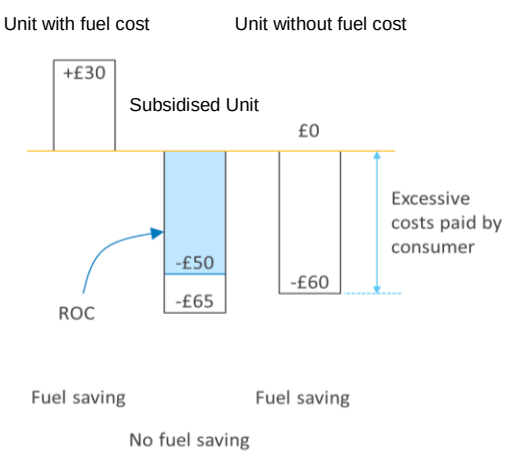

Figure 4

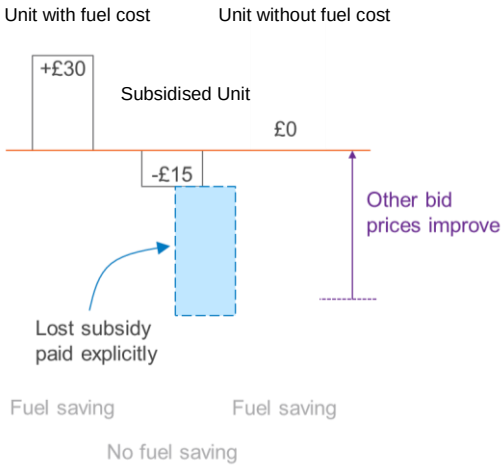

Figure 5

If a unit has a support mechanism agreement, they can expect to receive a specific payment from generating, for example under CfD, which is regulated through an LCCC payment of the difference between the Strike Price and the Market Reference Price.

When the support mechanism Replacement Price is negative (ie CFD with market reference price greater than Strike Price) the generator will be required to make (rather than receive) an additional payment in relation to the Bid.

Benefits

1. Consumer Benefit

The Proposer has identified that savings to end consumers are expected from the removal of costs identified through CfD to BM interactions and unsubsidised unit clustering behaviours, further savings would be expected for improving the transparency of marginal prices beyond subsidy recovery and enabling greater competition between ROCs units, CfD units and merchant units.

This would be achieved through the enablement of units with a support mechanism to compete, creating greater competition for units which do not hold a support mechanism, providing greater transparency, and the limiting imbalance risks.

2. Fair Competition

The Proposer believes that the proposed Modification facilitates fairer competition by allowing subsidised and unsubsidised units to compete against each other based on consumer cost, without external influence. The units will be able to set their Bid Price without the distortion of the subsidies creating a level playing field between subsidised and unsubsidised units.

3. Increased efficiency

The Proper believes that by restricting the price volatility, Generators should be able to reduce their imbalance risk premium in their pricing strategy, which should in turn lead to

reduced prices being offered across the board. This would aim to have the effect of improved market efficiency.

4. Increased Transparency

The Proposer believes that, whilst the true cost of all BM transactions can be derived from public data, it is currently not transparent. This will remove implicit costs and show the direct cost of transactions clearly.

Solutions considered and not progressed

Make changes to contracts

Whilst changes to support mechanism contracts have the potential to take account of Balancing Mechanism volumes, the Proposer notes that most contracts would not allow for retrospective changes to be made. Furthermore, whilst this might remove the consumer cost, it does not bring the same degree of transparency.

Make changes to the bid stack itself

The Proposer considered an option which could create similar outcomes without changes to the market itself would be for control room actions to be in consumer cost merit order rather than Bid Price order with a re-pricing algorithm estimating any subsidies to create the stack. However, from the market perspective this could significantly reduce transparency and add complexity to pricing strategies, whilst also resulting in erratic imbalance and BSUOS prices which would become more difficult to forecast.

Do nothing

The Proposer notes that this option becomes less viable over time as more units move to support mechanism contract arrangements that will be crucial in enabling net zero. Deferring action will result in continued consumer costs and continuation of issues described in the problem statement.

The proposer noted their analysis of using “worst case” modelling of persistently high Day Ahead Prices, low CfD Strike Prices and industry-leading FES scenario data, up to £16bn of consumer costs may be incurred by 2030 under a do-nothing scenario. However, even best-case modelling for this specific issue shows £518M in consumer costs by 2030 under the scenario of low Day Ahead Prices, high Strike Prices and the falling short scenario.

Applicable BSC Objectives

The Proposer believes that the Modification is likely to better facilitate the following Applicable BSC Objectives:

Objective (b) - Identified as a positive impact as if this issue is resolved, it could lead to more efficient Balancing Mechanism actions by ESO, reducing costs to end consumers.

Objective (c) - This Modification may facilitate fairer competition by allowing subsidised and unsubsidised units to compete against each other based on consumer cost. The units marginal price can be reflected in their Bid Price without the distortion of the subsidies and

What are the Applicable BSC Objectives?

(a) The efficient discharge by the Transmission Company of the obligations imposed upon it by the Transmission Licence

(b) The efficient, economic and co-ordinated operation of the National Electricity Transmission System

(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

(d) Promoting efficiency in the implementation of the balancing and settlement arrangements

(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]

(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

(g) Compliance with the Transmission Losses Principle

thus levelling the playing field between units with a support mechanism and those units without.

Implementation approach

As the Proposer believes there to be a potentially high impact from this Modification and potential high cost to end consumers if not implemented, the Proposer's desired timeline would aim for implementation within a year to allow for sufficient time for communications to be disseminated across subsidised units to allow consideration of any impacts on their current commercial strategies. Considerations will also need to be made on impacts to any BSC, NGESO and Industry systems.

Given the proposed progression timeline for this proposal, potential impact on BSC Parties and BSC Systems and the need for an industry Workgroup to assist with solution development and the currently understood pipeline of planned deliveries in 2024, Elexon believe delivery will likely be in 2025 at the earliest however this will be assessed and verified following assessment.

During the Assessment phase Elexon also propose continued engagement with policy stakeholders at LCCC and DESNZ to ensure transparency throughout the Modification lifetime and ensure there is opportunity for their views to be captured.

The exact implementation approach will be considered by the Workgroup as part of the Assessment Procedure, following completion of solution development and impact assessment.

4 Areas to Consider

In this section we highlight areas which we believe the Panel should consider when making its decision on how to progress this Modification Proposal, and which a Workgroup should consider as part of its assessment of P462. We recommend that the areas below form the basis of a Workgroup's Terms of Reference (ToR), supplemented with any further areas specified by the Panel.

Areas to consider

Further to the Standard ToR Elexon have suggested additional areas to consider, particularly seeking assessment into impacts to current CfD contracts. As this Modification is likely to have a significant impact on Generators with support mechanisms, we feel it is appropriate to discuss and affirm whether a Cost-Benefit Analysis (CBA) is required to help inform views on the positive and/or negative impacts and the overall case for change. We also wish to ascertain the likelihood unintended consequences could result from this Modification.

The table below summarises the areas we believe a Modification Workgroup should consider as part of its assessment of P462:

Areas to Consider
What are the impacts of P462 on existing CfD contracts?
Should the distribution of subsidy replacement costs go to intended cost centres? (E.g., not BSUoS?)
What data should be reported on BMRS/IO14 to support this Modification?
Is a CBA proportionate and appropriate?
Are the Workgroup comfortable that there will be no unintended consequences from implementing this Modification?
How will P462 impact the BSC Settlement Risks?
What changes are needed to BSC documents, systems and processes to support P462 and what are the related costs and lead times? When will any required changes to subsidiary documents be developed and consulted on?
Are there any Alternative Modifications?
Should P462 be progressed as a Self-Governance Modification?
Does P462 better facilitate the Applicable BSC Objectives than the current baseline?
Does P462 impact the EBGL provisions held within the BSC, and if so, what is the impact on the EBGL Objectives?

5 Likely Impacts and costs

Estimated costs of P462

Costs will be assessed during the Assessment Procedure. However, for those roles we believe will be impacted, we have indicated in the impacts section 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

Implementation costs estimates			
Organisation	Item	Implementation costs (£)	Comment
Elexon	Systems	Medium	There may be some system changes required to the BMRS, CRA and SAA, dependent on the eventual scope of the solution.
	Documents	Low	There may be documents that need amending to reflect the aims of P462. In particular BSC Sections K and T, along with BSCP15.
NGESO	Systems	Low	Unlikely to impact ESO systems as processes will not be changed.
Industry	Systems	Medium/High	There may be system/process impacts to industry as the result of P462. However, these will be explored as part of the Assessment Procedure.
	Total	Medium	

On-going costs estimates		
Organisation	On-going costs (£)	Comment
Elexon	N/A	Once implemented there should not be ongoing costs. However, this is to be explored as part of the Assessment Procedure.
NGESO	N/A	None stated.
Industry	Low	Once implemented there should be Low ongoing costs. However, this is to be explored as part of the Assessment Procedure.

On-going costs estimates			
Organisation	On-going costs (£)	Comment	
Total	Low		

P462 Impacts

Impact on BSC Parties and Party Agents	
Party/Party Agent	Potential Impact
Generators who hold support mechanism arrangements (e.g., those parties who hold a CfD or are part of the RO scheme)	There would be an expected impact on all Balancing Mechanism participants who hold support mechanism arrangements. This proposed Modification provides them with the ability to compete with unsubsidised units on a consumer cost base but also means existing bid pricing policies may need to be reviewed in line with wider market rules.
Trading Parties	The proposed Modification aims to change behaviour in the Balancing Market, hence, Trading Parties participating may be impacted.

Impact on the NETSO	
Potential Impact	Potential cost
No impact expected on NETSO systems	NA

Impact on BSCCo	
Area of Elexon	Potential Impact
Analysis and Insight	Medium - There may be changes required to BM Reporting to report on the support mechanisms
Settlement and Invoicing	Medium - Changes to the systems, in particular SAA, would impact Settlement and Invoicing.
Participation Management	Medium – May need to make changes to BSCP15 ‘BM Unit Registration’ to support identification of whether the BMU is an RO or CfD site.

Impact on BSC Settlement Risks
None identified, however this will be explored as part of the Assessment Procedure.

Impact on BSC Systems and processes	
BSC System/Process	Potential Impact
BMRS	There may be additional reporting requirements for the Insight Platform (used by the Balancing Mechanism Reporting Agent to report data relating to the Balancing Mechanism).

Impact on BSC Systems and processes	
BSC System/Process	Potential Impact
CRA	The Customer Solution (which is the system used by the Central Registration Agent to hold BM Unit registration data) would need to be amended to identify BM Units eligible for CFD or RO payments, and store related standing data (CFD Strike Price, number of ROCs per MWh).
SAA	The SAA will need to be amended to implement the revised calculation of Period BM Unit Cashflow (CBMij), and report details of the calculation on the Settlement Report (SAA-I014).

Impact on Code	
Code Section	Potential Impact
BSC Section T 'Settlement and Trading Charges'	Equation in 3.11 Determination of Period BM Unit Cashflow (CBMij), is likely to be amended to pay the lost support mechanism explicitly, to remove the need for BM Unit Bid Prices to include it.
BSC Section K 'Classification and Registration of Metering Systems and BM Units'	There may be a change to input a requirement for BSC Parties who receive subsidies to notify BSCCo of the subsidies they receive.

Impact on MHHS
None anticipated as this proposal will amend how Bid Prices are calculated, which are not in scope for MHHS. However, any impacts on MHHS will be considered during the Assessment Procedure.

Impact on EBGL Article 18 terms and conditions
Yes, likely impact on EBGL Article 18 terms and conditions. Annex F-2 'EBGL Article 18 Terms and Conditions' outlines that any changes to Section BSC T3 may impact articles 18.5.e, 18.5.h and 18.5.i.

Impact on Code Subsidiary Documents
Impacts will be assessed as part of the Assessment Procedure. There may be a need to change BSCP15 to support the identification of whether a BMU is an RO or a CfD site.

Impact on Core Industry Documents and other documents
None identified. However, to be confirmed as part of the Assessment Procedure.

Impact on a Significant Code Review (SCR) or other significant industry change projects
None identified. We have therefore requested that Ofgem treat this Modification as an SCR Exempt Modification Proposal.

Impact of the Modification on the environment and consumer benefit a reas:	
Consumer benefit area	Identified impact
1) Improved safety and reliability	Neutral
2) Lower bills than would otherwise be the case Savings to end consumers are expected from the removal of costs identified just through CfD to BM interactions and unsubsidised wind unit clustering behaviours. Further savings would be expected for ROCs. This would be achieved through the enablement of units with a support mechanism to compete, greater competition for units which do not hold a support mechanism, greater transparency, and the limitation of imbalance risks.	**Positive**
3) Reduced environmental damage	Neutral
4) Improved quality of service Identified as positive as it provides greater transparency in how consumer money is being split between different support mechanism regimes. This allows for the whole industry to become more efficient as they are competing on level terms without this distortion. This can also reduce the complexity of bid structures.	**Positive**
5) Benefits for society as a whole Identified as a positive impact as if this issue is resolved, it would lead to more efficient Balancing Mechanism actions by ESO, reducing costs to end consumers. It should lead to improvement in transparency of costs for both BM prices and subsidies.	**Positive**

The Proposer noted in their Proposal form their analysis of using “worst case” modelling of persistently high Day Ahead Prices, low CfD Strike Prices and industry-leading FES scenario data, up to £16bn of consumer costs may be incurred by 2030 under a do-nothing scenario. They noted, even best-case modelling for this specific issue shows £518M in consumer costs by 2030 under the scenario of low Day Ahead Prices, high Strike Prices and the falling short scenario.

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.

6 Proposed Progression

Next steps

Elexon and the P462 Proposer recommend this Modification is submitted to the Assessment Procedure for consideration by an industry Workgroup.

The Proposer and Elexon recommend that the Modification is not treated as Self-Governance. This Modification is expected to impact industry and benefit consumers, however, further impacts need to be scoped out, and therefore, we recommend moving to the Assessment Phase where the ToR can be considered by a Workgroup.

Workgroup membership

We will invite all BSC Parties and non-BSC parties that may be directly/indirectly impacted by this Modification or who can provide expertise as part of the Assessment Procedure. In particular we welcome the views of:

- Generators;
- Suppliers;
- The LCCC and DESNZ; and
- Parties with expertise in EBGL matters

Timetable

The proposed progression for P462 is presented in the table below. This is subject to the requirement of a CBA, as determined by the Workgroup, which may extend timescales within the Assessment Procedure.

Proposed Progression Timetable for P462	
Event	Date
Present Initial Written Assessment to Panel	9 November 2023
Workgroup Meeting	W/C 12 December 2023
Assessment Procedure Consultation	7 May – 29 May 2024
Present Assessment Report to Panel	11 July 2024
Report Phase Consultation	17 July – 19 August 2024
Present Draft Modification Report to Panel	12 September 2024
Issue Final Modification Report to Authority	19 September 2024

What is the Self-Governance Criteria?

A Modification that, if implemented:
(a) does not involve any amendments whether in whole or in part to the EBGL Article 18 terms and conditions; except to the extent required to correct an error in the EBGL Article 18 terms and conditions or as a result of a factual change, including but not limited to:
(i) correcting minor typographical errors;
(ii) correcting formatting and consistency errors, such as paragraph numbering; or
(iii) updating out of date references to other documents or paragraphs;
(b) is unlikely to have a material effect on:
(i) existing or future electricity consumers; and
(ii) competition in the generation, distribution, or supply of electricity or any commercial activities connected with the generation, distribution, or supply of electricity; and
(iii) the operation of the national electricity transmission system; and
(iv) matters relating to sustainable development, safety or security of supply, or the management of market or network emergencies; and
(v) the Code's governance procedures or modification procedures; and

(b) is unlikely to discriminate between different classes of Parties.

7 Recommendations

We invite the Panel to:

- **AGREE** that P462 progresses to the Assessment Procedure;
- **AGREE** the proposed Assessment Procedure timetable;
- **AGREE** the proposed membership for the P462 Workgroup; and
- **AGREE** the Workgroup's Terms of Reference.