
Updated P462 Workgroup Terms of Reference

BSC Panel 345

Date of meeting **14 December 2023**

Paper number **345/08**

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Purpose of paper **For Decision**

Classification **Public**

Document version **1.0**

Summary **We [Elexon as BSCCo] invite the Panel to approve the updated P462 Workgroup Terms of Reference detailed in this paper.**

1. Introduction and Background

- 1.1 [Modification P462](#)¹ 'The removal of subsidies from Bid Prices in the Balancing Mechanism' was raised by NGESO on 27 October 2023. The [Initial Written Assessment](#)² (IWA) was presented to the BSC Panel on 9 November 2023 ([344/05](#)³).
- 1.2 At its meeting on 9 November 2023, the Panel agreed that P462 should progress to the Assessment Procedure. However, they recommended that the Terms of Reference (ToR) are updated before holding the first P462 Workgroup meeting on the basis that the original ToR was not considered extensive enough to cover the potential impacts and scope of expected discussions on P462. The Panel also noted that the originally proposed progression of a 6 month Assessment Procedure would be too short, due to expected volume of discussions plus the likely requirement for a Cost-Benefits Analysis (CBA), therefore it has been extended to 12 months.
- 1.3 NGESO and Elexon will present the updated ToR to the Panel at its meeting on 14 December 2023. If the Panel agree the updated Terms of Reference, the first Workgroup will be held in the W/C 8 January or 15 January 2024.

2. P462 Workgroup Feedback

- 2.1 Since the Panel first considered P462, Elexon contacted Workgroup members to gather initial feedback on the ToR and any additional specific ToR to consider, to which 7 responded. Workgroup members suggested considering the following questions regarding P462 as part of its assessment:
- What will be the impact of P462 on the volume of wind curtailment?
 - How would the Modification support future ESO ancillary service market development and improve its operability in the future net-zero system?
 - What are the impacts of P462 on cashout prices?

¹ <https://www.elexon.co.uk/mod-proposal/p462/>

² <https://www.elexon.co.uk/documents/change/modifications/p451-p500/p462-initial-written-assessment/>

³ <https://www.elexon.co.uk/meeting/bsc-panel-344/>

- What are the implications of P462 and any expected changes to cashout prices on wholesale prices, particularly Day Ahead?
 - What are the impacts on the business case for flexibility investment (BESS, EVs, DSR etc)?
 - What are the impacts of P462 on existing PPA contracts?
 - Consider whether the changes introduce a distortion within the wholesale power market?
 - What happens when it moves to fixed price ROCs? What will be the interaction with ROC mutualisation fund? Likewise CfD includes adjustment for losses, so how will this be captured?
 - What are the impacts of P462 on large flexible (e.g. hydrogen electrolyzers and power to heat projects) electricity end users in constrained areas?
 - Consequential impacts due to current EGL terms and consideration of alternative arrangements
- 2.2 The questions outlined above will be considered in the Workgroup meetings. To ensure that the ToR remain well defined, the proposal is to maintain the suggested updated ToR in Section 3, but consider the additional questions as part of the wider impacts as per ToR #5.
- 2.3 The Low Contracts Carbon Company (LCCC) also provided feedback on ToR #1 and ToR #16 which will be considered as part of the Assessment Procedure.

3. Updated P462 ToR

- 3.1 Based on the Panel discussion on 9 November 2023, there have been five additional ToR added for consideration for the Workgroup, these are ToR #6-11 and highlighted as **[New]**. These aim to answer queries that the Panel raised regarding P462.
- 3.2 The Panel recommended a CBA will be required as part of the P462 Assessment Procedure. Therefore, ToR #4 has been updated to reflect that a CBA is required and will capture the impacts of P462.
- 3.3 ToR #5 has also been amended to be more extensive where previously it was “are the Workgroup comfortable that there will be no unintended consequences from implementing this Modification?”. ToR #5 will try to identify the wider impacts from P462 and also will gather Workgroup views on whether they are comfortable with them.

#	P462 ToR (Specific)
1	What are the impacts of P462 on existing CfD contracts?
2	Should the distribution of subsidy replacement costs go to intended cost centres? (E.g., not BSUoS?)
3	What data should be reported on BMRS/IO14 to support this Modification?
4	What is the scope for the CBA to ensure that wider impacts to industry and end consumers are considered? Is it appropriate that these wider impacts are considered in the CBA? [Amended]
5	What are the wider impacts of this Modification? Are the Workgroup comfortable with the wider consequences from implementing this Modification? [Amended]
6	Consider actions already in place when cash-out goes negative. What happens when there are negative BM prices? [New]

7	Which subsidies are in scope of this Modification? What would be the appropriate pricing for each type of subsidy (assuming interaction with subsidy calculated on metered output)? [New]
8	Consider interaction with REMA. [New]
9	Consider the process and governance required for additional data requirements for settlement. [New]
10	Would the solution have the desired effect on bidding behaviour? [New]
11	How would this solution interact/deal with supplier BMUs? [New]

- 3.4 As with other Modifications subject to an Assessment Phase with an industry Workgroup, it is possible that new or amended ToR's may be suggested or proposed based on the discussions with the P462 group as they progress. In this event (as per the standard Modification process), Elexon would return to the BSC Panel to agree any subsequent changes to the Workgroup's ToR as and when they are recommended.
- 3.5 As per all BSC Modifications in their Assessment Phase, the standard ToR will also be considered, these are outlined in the table below for reference.

#	P462 ToR (Standard)
12	How will P462 impact the BSC Settlement Risks?
13	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?
14	Are there any Alternative Modifications?
15	Should P462 be progressed as a Self-Governance Modification?
16	Does P462 better facilitate the Applicable BSC Objectives than the current baseline?
17	Does P462 impact the EBGL provisions held within the BSC, and if so, what is the impact on the EBGL Objectives?

4. Approved Progression Plan for P462

- 4.1 As there will be a requirement for a CBA, the BSC Panel recommended that the Assessment Procedure last a minimum of 12 months. This is reflected in the updated Proposed Progression below.

Proposed Progression Timetable for P462	
Event	Date
Present Initial Written Assessment to Panel	9 November 2023
Updated ToR presented to the Panel	14 December 2023
Workgroup Meeting	W/C 8 or 15 January 2024
Assessment Procedure Consultation	15 December 2024 – 03 January 2025
Present Assessment Report to Panel	13 February 2025

Proposed Progression Timetable for P462	
Event	Date
Report Phase Consultation	17 February – 17 March 2025
Present Draft Modification Report to Panel	10 April 2025
Issue Final Modification Report to Authority	14 April 2025

5. Recommendations

5.1 We invite the Panel to :

- a) **AGREE** the P462 Workgroup Terms of Reference.

Attachments

Attachment A – P462 Workgroup Terms of Reference

For more information, please contact:

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