ELEXON

P462 Workgroup Meeting 1 Summary

Summary

1. Meeting Objectives

The Chair welcomed attendees and presented the meeting objectives:

- Introduction and explanation of the BSC Modification process
- Explanation of the issue and proposed solution
- Review of ToR and Workgroup discussion

2. Introduction to the BSC Modification Process

2.1 The Lead Analyst presented slides outlining the BSC Modification Process, more specifically on the Assessment Procedure and the role of the Workgroup.

2.2 There was one question on how the Workgroup voting works and what is expected from voting members. The Lead Analyst has taken this action away and will provide some more details on the role of BSC Modification Workgroup Voting members.

3. P462 Issue and initial Workgroup feedback

3.1 National Grid Electricity System Operator (NGESO) presented slides 7, 8 and 9 on the issue identified, why the BSC Change is appropriate and the desired outcomes of the Modification.

3.2 One Workgroup member asked NGESO what the issue is with the BSC which this Modification is trying to fix as they believe this to be a subsidy issue. They highlighted that NGESO would need to demonstrate how P462 would [positively] impact the BSC Objectives as part of the Assessment Procedure and the Assessment Report for Panel.

3.3 NGESO believe that P462 would positively impact Applicable BSC Objectives b)[1] and c)[2] as covered in their proposal form.

3.4 Another Workgroup member shared a similar view that this is a government policy issue. They wanted to know what level of responsibility a Workgroup member should hold for interacting with government policy. They stated Support Mechanisms (SM) give a competitive advantage which is their intention, also, the Contract for Difference (CfD) and Renewable Obligation Certificate (ROC) subsidies will still be paid for by consumers. Elexon took an action to explore this further with Department of Energy Security and Net Zero (DESNZ).

3.5 NGESO presented slide 10 on a worked example of how P462 proposes to impact subsidised generation units, demonstrating that a unit's total BM cashflow would remain the same.

3.6 A Workgroup member queried if NGESO have done this level of analysis with the Renewable Obligation (RO) as well. They had concerns that the analysis shown is oversimplified and that the CfD is very different to ROCs. Additionally there is the ROC recycle price which is not directly recovered from consumers and would need consideration. Secondly, they raised a potential issue that the example on the right hand side in Slide 10 may cause reduced renewable output and increase carbon emitting forms of generation as it would mean more renewable generators (which hold SMs) would switch off. They asked how that would be considered in the decision making by NGESO in the control room.

3.7 NGESO noted that only support payments directly related to the generator's metered output (in the Settlement Period the Bid is accepted) are in scope of this Modification, therefore the ROC recycle price may not be part of P462. They stated that for the RO, it is not a consistent price for every [generation] unit. NGESO have looked at the potential impact for units that receive ROCs, significantly taking into account the ROC buyout price – they

[1] b) the efficient, economic and co-ordinated operation of the national electricity transmission system
[2] 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

have noted some units are being extremely competitive with the pricing of their bids. Regarding reduced renewable and increased carbon, it is the expectation that units which have fuels would largely have more positive bid prices than those units which have a subsidy to recover (as they do not need to input fuel costs). P462 aims to reorder the bid stack to be more in line with the consumer merit order. Those that do not hold a SM that are renewable will also be pushed up the bid stack thus increasing competition.

3.8 The Workgroup member felt that it is more complex than explained by NGESO, as units are also pricing based on curtailment and they will put that on the buyout [price]. NGESO noted that, presently, P462 is an imperfect solution and welcomes thoughts on how to address any issues identified by the Workgroup. Another Workgroup member echoed support and stated that something is needed on what the impact P462 would have on specifically wind curtailment and that this should be called out as part of the ToR. NGESO noted this as a potential impact and stated that this can be included in the Cost-Benefit Analysis (CBA).

3.9 A Workgroup member queried if fuel based generators are putting in excessively low bids. NGESO confirmed that they were not suggesting this and noted that units with fuel costs will typically include these saved costs in the bid price, a renewable [in particular wind or solar with no fuel] would not be doing that, however, they are recovering their subsidy via the bid price.

3.10 Another Workgroup member, noted that the Renewable Electricity Guarantees Origin (REGO) value has been increasing recently and therefore may also need to be considered. They also queried if NGESO had been looking at adjusting the volumes rather than through the subsidy replacement price. NGESO confirmed they had not considered REGOs to this point and stated that they had not been specifically looking at volumes. Instead they have been looking at explicitly paying back the [lost] subsidy price to SM holders. P462 aims to enable NGESO to take account of all the different SM regimes [e.g. ROCs and CfD strike price].

3.11 NGESO presented on slide 11 regarding the impact expected from P462.

3.12 They outlined that P462 would aim to change pricing behaviours of units which form the bid stack. A unit with a fuel cost would normally submit a positive bid price [as they would save money on fuel would have been used otherwise] whereas a unit accredited to the RO scheme submit a negative bid price and include their ROC price [ROC £60 as per example] which is an excess cost paid for by the consumer. NGESO would take the positive bid first with the unit next in the merit order being the ROC unit. NGESO stated that this happens regularly in the bid stack and NGESO take units who do not hold a subsidy, however, there may be a more cost competitive option created by P462.

3.13 A Workgroup member queried NGESO about the impact of P462 on battery or other forms of storage and requested that as part of P462 a worked example should be done on the impact(s) to storage units. They also queried the behaviours that P462 aims to instil, as they could adversely impact battery storage – e.g., would NGESO want to put storage up against a constraint.

3.14 NGESO stated that 50% of the time a battery is either charging or discharging and the net effect of P462 would be zero. The Workgroup member, stated that this would still impact the investment case for storage and requested that this impact is included as part of P462's assessment.

3.15 A Workgroup member highlighted that as this is an interaction between government policy and the market, DESNZ would need to provide a steer on this. They also raised the point that there is an interaction with the Transmission Constraint Licence Condition (TCLC) which aims to get generators to price correctly and therefore there is also an interaction with Ofgem policy. They urged NGESO to be careful, as P462 could impact storage import and export and would mean NGESO would not take storage during a constraint.

3.16 NGESO acknowledged the points made and stated they would need DESNZ steer. Also, regarding pricing correctly as per the TCLC, P462 is not intending to change specifically on pricing 'correctly'. It aims to allow units to reflect their marginal costs. E.g., if a CfD unit were to pass on the Low Carbon Contracts Company (LCCC) revenue via a high bid price, then they would be curtailed more often than Combined Cycle Gas Turbine (CCGT) units. All P462 aims to do is amend the BM Market framework and not inform price in any way.

3.17 Elexon confirmed that potential impacts on the investment case for storage could be assessed in the CBA. They noted that it is important that the Workgroup's analysis does consider any unintended consequences of the Modification.

3.18 A Workgroup member echoed the previous point and wanted to make sure flexible demand is considered as part of P462. The chair noted that this will also be considered.

3.19 NGESO presented slides 12 and 13 on cost model of an example issue and the proposed BSC change.

3.20 Their model included various scenarios with assumed strike prices, day ahead scenarios and how these would impact incremental consumer costs out to 2030.

3.21 One Workgroup member highlighted that the generator decides what goes into their bid price. They noted there are the Transmission Loss Multiplier (TLM) and Balancing Service Use of System (BSUoS) strike price adjusters and queried who will do that adjustment – noting that this is another thing to consider, with NGESO also needing further talks with LCCC. They note that it all seems confusing and certain things have been left out.

3.22 Another Workgroup member stated that they can see this as Electricity Market Reform Settlement (EMRS) having some responsibility. There will be a cost passed on to LCCC to do any additional adjustments. P462 will also need to consider the EMRS plans for the next few years. The Chair noted this as a potential impact.

4. Terms of Reference

Specific ToR:

4.1 The Lead Analyst and the Workgroup went through the Specific Terms of Reference for P462:

a) What are the impacts of P462 on existing CfD contracts?

4.2 There was no Workgroup feedback specifically on ToR a).

b) Should the distribution of subsidy replacement costs go to intended cost centres? (E.g., not BSUoS?)

4.3 Elexon explained further that ToR b) is helping to determine whether it's appropriate that all of the costs would go through BSUoS charges or if there were some other route(s) that would be more appropriate.

4.4 One Workgroup member raised a potential issue that, this proposal could create a disconnect between the Balancing Mechanism and the Wholesale Market as the cost needs to be recovered via some route in the market. They suggested adding Impact on the Wholesale Market to the ToR with impacts specifically on pricing and liquidity forming part of the CBA.

4.5 Another Workgroup member also highlighted that it may be clearer once there is steer on the Review of Electricity Market Arrangements (REMA) from DESNZ, as some things may make P462 unimplementable as there is potential that CfDs will be changed as part of REMA.

c) What data should be reported on BMRS/IO14 to support this Modification?

4.6 The Lead Analyst, noted that more reporting would be required on Elexon's systems, including the Balancing Mechanism Reporting Service (BMRS) and SAA-I014 Settlement Report.

d) What is the scope for the CBA to ensure that wider impacts to industry and end consumers are considered? Is it appropriate that this these wider impacts are considered in the CBA?

4.7 The Lead Analyst noted that the Workgroup is still in its early stages and the CBA work will pick up once the solution and impacts are scoped.

e) What are the wider impacts of this Modification? Are the Workgroup comfortable with the wider consequences from implementing this Modification?

4.8 One Workgroup member suggested that the interaction with the TCLC should be considered too.

4.9 As per previous and later discussions in the meeting other areas to consider include:

i Impacts on wind curtailment
ii Impacts on storage
iii Impacts on flexibility
iv Carbon impact
v Impacts on the BM and Wholesale market interaction
vi Interaction with the TCLC

f) Consider actions already in place when cash-out goes negative. What happens when there are negative BM prices?

4.10 One Workgroup member suggested it would be helpful to make this broader to consider the impact on cash-out price in general. The Lead Analyst noted that this will be changed to be broader as per the suggestion.

g) 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)?

4.11 As previously mentioned by NGESO, P462 would concern itself with support payments directly related to metered output in the Settlement Period the Bid was accepted. The Lead Analyst also noted that REGOs were mentioned by a Workgroup member as potentially another SM to consider.

h) Consider interaction with REMA.

4.12 It was noted that DESNZ's consultation on REMA is due to be released within the next month and will be considered as part of P462.

i) Consider the process and governance required for additional data requirements for settlement.

4.13 There was no Workgroup feedback specifically on ToR i).

j) Would the solution have the desired effect on bidding behaviour?

4.14 One Workgroup member raised a concern that there is nothing to stop a BM unit with an SM from getting double their subsidy.

k) How would this solution interact/deal with supplier BMUs?

4.15 A Workgroup member highlighted there would be difficulty due to the specific activities from specific assets within the Supplier BM Unit being very different.

4.16 Elexon clarified that there was a potential issue with BMUs containing a mix of assets receiving different SM payments (or none at all), and this was more likely to happen with Supplier BM Units (which can contain portfolios of assets from different sites within a GSP Group).

4.17 One Workgroup member noted that this may not just be limited to supplier BMUs and therefore should be expanded. Another Workgroup member stated it may be worth considering Virtual Lead Parties (VLPs) too and how they fit in to this.

4.18 Another Workgroup member highlighted a recent DESNZ publication on hybrid metering, querying about multiple assets behind a BMU.

4.19 Another Workgroup member queried if it is possible to demonstrate if there were no impact on BMUs, AMVLPs. This should be covered as part of the wider points about storage and flexibility.

4.20 Elexon stated that a VLP is treated as a secondary BMU, and one would assume they would be affected by P462. The Workgroup agreed to expand k) to include all BMUs (Primary or Secondary, and transmission-connected or distribution-connected) that contain multiple assets.

l) Consider the potential tax implications of P462 for the Electricity Generator Levy

4.21 A Workgroup member clarified that if one changes the way that subsidised Generators are remunerated, then there will be tax implications that will need to be considered by the Workgroup.

m) Is the BSC an appropriate route to amend the issue identified in P462?

4.22 One Workgroup membered voiced disappointment that this was not raised as a BSC Issue and is not sure that P462 is a good solution to the problem posed by NGESO. Another Workgroup member agreed and stated that currently we do not know of any showstoppers that would make the Modification impossible to implement. They suggested, possibly in the initial stages of the P462, the Workgroup should do further examining before diving into a specific solution. Another Workgroup member wanted to reinforce this point and stated NGESO could just adjust the renewable assets' prices by amending NGESO systems which would have the same effect [without modifying the BSC].

4.23 Another Workgroup member mentioned that P462 is very complex and there may be another way of resolving the issue outside of the BSC.

4.24 The Proposer acknowledged the feedback on the Mod being an Issue and informed the Workgroup that they had explored different options and concluded on a BSC Modification being the best route. The motivation for P462 is ultimately driven by the consumer costs caused by SMs' interactions with bid prices. They acknowledged that relevant consultations have come out and will come out during the Modification process, for example REMA, may impact P462 and vice versa. They agreed that, based on the information from the Workgroup, they do not have a problem in principle of structuring the next Workgroup meeting in the style of an Issue Group, in order to explore other potential solutions (as required by ToR m).

4.25 A Workgroup member, echoed support of this and felt there was arguably no point in progressing with P462 until there is clarity on TCLC and REMA. One Workgroup member, noted that these types of consultations, such as REMA, can take some time and wondered if there is value in exploring any short wins from P462 in the meantime.

4.26 One Workgroup member suggested, could the Workgroup define whether the equation in Section T 3.11 is defective. Add this as a first ToR and consider whether the BSC is the most effective route.

4.27 One Workgroup member mentioned P412, which provided 5 options, which weren't in the BSC – this is now on hold. If there is an issue, we want to be confident it is being dealt with in the right place. Another Workgroup member stated that the problem was it would cost the NGESO £billions.

4.28 The Market Design lead, noted that cost was one of the reasons for the BSC proposal from NGESO in solving the issue they identified. The BSC modification would not have much of an impact on NGESO systems. They confirmed that it would not impact the stack directly but would change the order within the stack in terms of pricing.

Standard ToR:

4.29 The Lead Analyst then went through the Standard Terms of Reference. Due to the time constraint of the meeting and focus on the specific ToR, Workgroup feedback was not captured at this meeting. Feedback to ToR r) had been provided earlier in the meeting:

n) How will P462 impact the BSC Settlement Risks?

4.30 There was no Workgroup feedback specifically on ToR n).

o) 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?

4.31 The Lead Analyst noted that this captures all the changes required to BSC documents and systems to help implement the change and their associated costs and implementation timeframes. As per NGESO's proposal, a change to BSC Section T 'Settlement and Trading Charges' would be required.

p) Are there any Alternative Modifications?

4.32 There was no Workgroup feedback specifically on ToR p).

q) Should P462 be progressed as a Self-Governance Modification?

4.33 As noted in the Initial Written Assessment (IWA), it is not envisaged that P462 is a candidate for Self-Governance.

r) Does P462 better facilitate the Applicable BSC Objectives than the current baseline?

4.34 As per previous discussions in the meeting, Workgroup members had queried if P462 is fixing a defect within the BSC itself, also what P462's interaction with government policy is. In summary, is the problem identified by the proposer a BSC issue and how would P462 impact Applicable BSC Objectives.

4.35 As previously mentioned NGESO believe P462 would positively impact Applicable BSC Objectives c) and d).

s) Does P462 impact the EBGL provisions held within the BSC, and if so, what is the impact on the EBGL Objectives?

4.36 As per the IWA it is envisaged EBGL provisions would be impacted due to changes to Section T3 of the BSC.

t) Does P462 impact on the consumer benefit criteria

4.37 As highlighted by the Lead Analyst, the proposer believes there to be a positive impact on consumers.

Actions

Actions noted during P462 Workgroup meeting 1 are provided below.

No.	Workgroup raised	Action	Owner	Due by	Status
1.	WG1	To consider ToR (m) 'Is the BSC an appropriate route to amend the issue identified in P462?' in more detail at WG2. NGESO to show other routes considered prior to raising P462. Along with their impacts. To allow Workgroup feedback on these other solutions to the issue identified as part of P462.	NGESO/Workgroup	WG2	Open
2.	WG1	NGESO to provide a detailed list of the assumptions in the analysis presented at WG1.	NGESO	TBC	Open
3.	WG1	NGESO to present back an issues case illustrating the carbon impact of the proposal and what percentage of transactions might displace conventional units in the same settlement period (as opposed the renewable generators with support mechanisms). To consider this has a Wider Impact as per ToR (e).	NGESO	TBC	Open
4.	WG1	Review of the Wider Impacts as per ToR (e). This includes suggestions raised prior to the Workgroup. Along with issues raised from WG1. WG1 Issues raised: • Impacts on Wind curtailment • Impacts on Storage • Impacts on Flexibility markets • Impacts on the interaction between the Wholesale market and Balancing Mechanism • Potential Carbon impact (as per Action 3) • Interaction with TCLC (as per action 6)	NGESO/Workgroup	WG2	Open
5.	WG1	To review the potential REMA impacts once the consultation is published by DESNZ	NGESO/Workgroup	TBC – After the REMA consultation is published	Open
6.	WG1	Consider if the issue identified is covered as part of TCLC.	NGESO/Workgroup	WG2	Open
7.	WG1	Elexon to engage with DESNZ on how P462 interacts with government policy.	Elexon	TBC	Open