





BSC Modification Proposal Form		At what stage is this document in the process?
<h1>P470</h1> <p>Mod Title: Protecting the Imbalance Price from IOLC related distortions</p>		<div> <div>01 Modification</div> <div>02 Workgroup Report</div> <div>03 Draft Modification Report</div> <div>04 Final Modification Report</div> </div>
<p>Purpose of Modification:</p> <p>This Modification seeks to reprice Offer prices in the Imbalance Settlement Price calculation where those Offers were impacted by price restrictions introduced by the Inflexible Offers Licence Condition (IOLC).</p>		
<p>Is this Modification likely to impact any of the European Electricity Balancing Guideline (EBGL) Article 18 Terms and Conditions held within the BSC?</p> <p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p>		
	<p>The Proposer recommends that this Modification should:</p> <ul style="list-style-type: none"> be assessed by a Workgroup and submitted into the Assessment Procedure <p>This Modification will be presented by the Proposer to the BSC Panel on 14 March 2024. The Panel will consider the Proposer's recommendation and determine how best to progress the Modification.</p>	
	<p>High Impact:</p> <p>National Grid as Electricity System Operator (NG ESO), who will be required to introduce new processes for identifying and flagging Offers (or Offer Acceptances) to which the IOLC applied.</p>	
	<p>Medium Impact:</p> <p>BSCCo, as changes will be required to Settlement Administration Agent (SAA) and Balancing Mechanism Reporting Agent (BMRA) systems to reprice Offers in the price stack that have been flagged as subject to the IOLC.</p> <p>Trading Parties, due to potentially increased Imbalance Prices (that are no longer suppressed as a result of the IOLC reducing certain Generators' Offer Prices).</p>	
	<p>Low Impact:</p>	

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Timetable		 Contact: Anshu Choudhary  Proposer: VPI Immingham LLP  Proposer's representative: Peter Frampton  Contact: Anshu.choudhary@ele xon.co.uk  +44 207380 4171  +44 (0) 7548 836 207
The Proposer recommends the following timetable:		
Initial Written Assessment presented to Panel	14 March 2024	
Initial consideration by Workgroup	W/C on 15 April 2024	
Assessment Procedure Consultation (15 WD)	01 October 2024 - 22 October 2024	
Workgroup Report presented to Panel	14 November 2024	
Report Phase Consultation (1 month)	18 November 2024 - 18 December 2024	
Draft Modification Report presented to Panel	09 January 2025	
Final Modification Report submitted to Authority	15 January 2025	

1 Why Change?

What is the issue?

The Inflexible Offers Licence Condition (IOLC) came into force on 26 October 2023 following an Ofgem decision. The IOLC restricts the Offer prices that generators can submit if they revised their Physical Notification (PN) from positive to 0MW within an operational day, if that generator has a Minimum Zero Time (MZT) in excess of 60 minutes. If this is the case, the Offer prices submitted for that generator cannot result in 'excessive benefit', which means profit should not be 'significantly more' than the generator would have made had their PN remained in place. Because of this price restriction, generators which are affected may not be able to price in line with the competitive level set by the rest of the market. As a result, if the Offers were accepted by National Grid ESO, the Imbalance Price Offer Stack would contain prices lower than would have been submitted if they were able to price freely. In the event that one of these Offer prices is marginal, the Imbalance Settlement Price would be artificially low.

Desired outcomes

That the Imbalance Settlement Price is representative of the freely formed price of power in a given settlement period.

2 Solution

Proposed Solution

The proposed solution is to flag IOLC-impacted Offer prices in the price stack, and to reprice them up to the next most expensive non-flagged Offer price. The flagging of IOLC-impacted Offers would be done by National Grid ESO, with any re-pricing of impacted Offer actions being a new step in the Settlement Administration Agent (SAA) process when calculating the Imbalance Price.

The flagging of IOLC impacted Offers (i.e. those that have revised their PNs from a positive MW value to 0MW within the operational day, and which have an MZT of more than 60 minutes) could be done one of two ways:

- The ESO could flag all electricity generators Offers received that meet the criteria, irrespective of whether these Offers are accepted; or
- The ESO could flag only accepted Offers that meet the criteria.

The first option would aid transparency as it would show all potential IOLC impacted Offers, rather than only those that have been accepted, and could allow the flagging classification to occur in advance of any offers being accepted. However the second option is the minimum level of flagging required to correct the potential price distortions.

Example of how this would work in practice for both options is:

- Party submits positive PNs for period(s) within the operation day for each BMU(s).
- Party then submits revised PNs for period(s) which takes them from a positive MW value to 0MW, during the operational day, for each BMU(s).
- As IOLC applies when the PN for a given Settlement Period is revised from positive to zero during the Operational Day, any Offers that meet this criteria would need to be flagged before being submitted to BSCCo. using one of the suggested methods above.
- Any Accepted Offers received by BSCCo. which have been IOLC flagged will be repriced up to the next most expensive non-flagged Offer price.

System flagged Offers may result in the Offer being repriced to the next cheapest action, which is in opposition to the proposed solution for IOLC flagged Offers. How System and IOLC flagged actions interact with one another, along with the order of flagging and tagging actions, will need to be considered when agreeing how to reprice IOLC actions in the Imbalance Price calculation.

This Modification may impact the EBGL Article 18 terms and conditions as BSC Section T4 (Settlement Calculations) is specified in the mapping given in Section F Annex F-2. BSC Section T4.4 (Determination of Energy Imbalance Prices (SBPj and SSPj)) refers to Annex T-1, which details how the Final Ranked Set of System Actions is created, and it is this process which will be impacted by this Modification.

Benefits

The primary benefit is that the Modification will ensure that the Imbalance Settlement Price better reflects the marginal cost of energy imbalances. This will result in more efficient market balancing, better expose value to flexible capacity and encourage efficient investments in and operation of capacity, including interconnectors. It will also improve signals to parties to improve balancing performance, reducing the total costs of balancing, and support liquidity by providing greater confidence in wholesale markets, improving overall market efficiency.

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	Neutral
(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	Neutral
(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	Positive
(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 change will positively impact BSC Objective (c) by ensuring that the imbalance price continues to reflect the competitive cost of balancing the system, in the face of price restrictions on participants. This ensures that wholesale markets are pricing against an effective and efficient counterfactual, and that operators are efficiently paid or paying prices which reflect their contribution or detriment to the system via their imbalance volumes.

This change will also positively impact BSC Objective (e), by better maintaining compliance with the Electricity Regulation; in particular Article 3 (a) which requires that 'prices shall be formed on the basis of demand and supply'. Submitted prices which are restricted under the IOLC are required to be capped at a level which means they do not earn significantly more profit than the unit had achieved by dispatching on a PN, which may not always be reflective of supply and demand based on within day fundamentals.

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 type="checkbox"/> Other (please specify)	

No other codes impacted.

Impacts on BSC Systems

Impacted Systems				
<input type="checkbox"/> CRA	<input type="checkbox"/> CDCA	<input type="checkbox"/> PARMS	<input checked="" type="checkbox"/> SAA	<input checked="" type="checkbox"/> BMRS
<input type="checkbox"/> EAC/AA	<input type="checkbox"/> FAA	<input type="checkbox"/> TAAMT	<input type="checkbox"/> NHHDA	<input type="checkbox"/> SVAA
<input type="checkbox"/> ECVAA	<input type="checkbox"/> ECVAA Web Service	<input type="checkbox"/> Elexon Portal	<input type="checkbox"/> Other (Please specify)	

Please provide rationale to support the identified impacts. Elexon will be able to support you with this.

There will be impacts on the SAA system and the Insights solution (which will be delivering the Balancing Mechanism Reporting Service once the legacy BMRS system is decommissioned). Specifically the impacts will be:

- Change to the processes for loading Offer Data (option 1) or Offer Acceptances (option 2), to load the new IOLC flag provided by NGESO;
- Changes to processes for reporting Offer Data (option 1) or Offer Acceptances (option 2), to load the new IOLC flag provided by NGESO; and

Changes to the price calculation to reprice IOLC-flagged Offers.

Impacts on BSC Parties

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

By repricing IOLC-impacted Offer Acceptances this Modification will potentially raise Imbalance prices (and, indirectly, wholesale market prices) to a level that more accurately reflects market conditions. This will potentially impact Trading Parties (including Suppliers, Generators, Interconnector Users, Non-Physical Traders and, following implementation of BSC Modification P415, Virtual Trading Parties).

Impacts on consumers and the environment

Impact of the Modification on consumer benefit areas:	
Consumer benefit area	Identified impact
Improved safety and reliability	Neutral
Lower bills than would otherwise be the case	Neutral
Reduced environmental damage	Neutral
Improved quality of service	Neutral
Benefits for society as a whole Overall, an efficient imbalance settlement price drives correct asset optimisation behaviours in real time and correct investment decisions over longer timescales. This results in the most efficient operation and development of the electricity system, delivering security of supply and decarbonisation objectives at the lowest overall cost.	Positive

Legal Text Changes

Sections of BSC/Legal text that may need to change (likely to include but not limited to):

- Section Q (submission of Acceptance Data by ESO for the purposes of Section T and Section V)
- Section T (calculation of Imbalance Prices)
- Section X (and associated Annex X-1 and X-2)

Note Section V may also need to be updated following changes made to Section Q, although reporting is likely to remain largely unchanged.

5 Governance

Self-Governance

<input checked="" type="checkbox"/> Not Self-Governance – A Modification that, if implemented:	
<input type="checkbox"/> materially impacts the Code's governance or Modification procedures	<input 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"/> Self-Governance – A Modification that, if implemented:	
Does not materially impact on any of the Self-Governance criteria provided above	

This Modification will mitigate the impact of the IOLC on Imbalance Prices (and, indirectly, wholesale prices), so that they better reflect market conditions. This will potentially have a material effect on competition, and therefore the Modification does not qualify for a Self-Governance route.

Progression route

<input checked="" type="checkbox"/> Submit to assessment by a Workgroup – A Modification Proposal which:	
does not meet any criteria to progress via any other route.	
<input type="checkbox"/> Direct to Report Phase – 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"/> Fast Track Self-Governance – 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 type="checkbox"/> Urgent – A Modification Proposal which is linked to an imminent issue or current issue that if not urgently addressed may cause:	
<input 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.

☐ a significant impact on the safety and security of the electricity and/or gas systems

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

We do not believe this Modification is linked to any open SCRs. Therefore, we would request Ofgem that this Modification be exempted from the SCR process.

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

This Modification may impact the EBGL Article 18 terms and conditions as BSC Section T4 (Settlement Calculations) is specified in the mapping given in Section F Annex F-2. BSC Section T4.4 (Determination of Energy Imbalance Prices (SBPj and SSPj)) refers to Annex T-1, which details how the Final Ranked Set of System Actions is created, and it is this process which will be impacted by this Modification.

Implementation approach

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 NGESO and Ofgem 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.