BSC Modification Proposal Form	At what stage is this document in the process?

Request to Raise a Modification

Mod Title: Correction to P415 legal text

01 Modification
02 Workgroup Report
03 Draft Modification Report
04 Final Modification Report

Purpose of Modification:

This Modification is required to correct an error in the approved legal drafting for P415. This Proposal will ensure that Credit Cover requirements for Virtual Trading Parties (VTPs) correctly take into account the energy volumes ('Deviation Volumes') that VTPs trade in wholesale markets, which was the intention of the P415 Workgroup.

Does this Modification impact any of the European Electricity Balancing Guideline (EBGL) Article 18 Terms and Conditions held within the BSC?

☐ Yes ☒ No

The Proposer recommends that this Modification should:

- be raised by the BSC Panel in accordance with Section F2.1.1(d)(i)
- be sent directly into the Report Phase

Elexon will present this Modification to the BSC Panel on **9 November 2023**. The Panel will consider Elexon's recommendation and determine whether to raise the Modification and progress it as a Self-Governance Modification

High Impact:

None

Medium Impact:

Virtual Trading Parties (VTPs)

Low Impact:

None

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Timetable

The Proposer recommends the following timetable:

Modification raised by BSC Panel	09 November 2023
Report Phase Consultation	13 November – 27 November 2023
Presentation of Draft Modification Report to Panel	14 December 2023
Handover of Final Modification Report to Ofgem	18 December 2023
Implementation Date	07 November 2024

Any questions?

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1 Why Change?

What is the issue?

Modification P415 'Facilitating access to wholesale markets for flexibility dispatched by Virtual Lead Parties' seeks to allow independent aggregators to sell customers' flexibility into wholesale markets. Independent aggregators wishing to do this will be required to accede to the BSC in the new role of Virtual Trading Party (VTP). Ofgem has approved this Modification for implementation on 7 November 2024.

Elexon is working with service providers to design the system changes required to implement Modification P415, and this work has revealed that the P415 legal text does not correctly describe the intended solution for calculating VTP's Credit Cover requirements. The P415 Modification Report states that VTP's Secondary BM Units should be treated as non-Credit Qualifying BM Units, which means that:

1) For those days that have had an Interim Information (II) Settlement Run, but not yet had an Interim Information (II) Settlement Run, the **Actual Energy Indebtedness** (AEI) will be determined from the outputs of the II run;

2) For those days that have not yet had an II Settlement Run, indebtedness will be estimated using Credit Assessment Load Factor (CALF), Generation Capacity (GC) and Demand Capacity (DC). In the context of Secondary BM Units this approach produces a Credit Assessment Credited Deviation Volume ($CAQDE_{iaj}$), which is an estimate of the Deviation Volume traded by the VTP in each Settlement Period. This method is used to determine both:

    a) The **Metered Energy Indebtedness**, for days that have had a Credit Assessment Volume Allocation Run; and

    b) The **Credit Assessment Energy Indebtedness**, for days that have not yet had a Credit Assessment Volume Allocation Run.

The legal text correctly implements this intention for AEI and CEI, but it does not include the necessary drafting to include CAQDE values in the MEI calculation. As a result, the MEI calculation does not take into account any Deviation Volumes delivered by the VTP. If we were to implement changes to the Energy Contract Volume Aggregation Agent (ECVAA) system in line with the currently-drafted legal text the implications would be:

- **Inaccurate Credit Cover calculations for VTPs**, for those days failing within the MEI calculation. For example, if a VTP had instructed a customer to reduce their demand (and sold that flexibility into the wholesale market) the MEI calculation would take into account the energy they sold, but not the Deviation Volume delivered by the customer. This would potentially lead to the VTP being required to post additional and unnecessary Credit Cover; and
- **Additional development cost**. The solution intended by the P415 Workgroup treats Secondary BM Units in a similar way to other non-Credit Qualifying BM Units (which simplifies development and testing). The error in the legal text requires MEI to be calculated differently for Secondary BM Units, which will increase the effort required for testing and development (although the increase is likely to be relatively small).

How did this error in the legal text arise?

We believe the P415 business requirements were drafted in the mistaken belief that MEI is not relevant to non-Credit Qualifying BM Units (e.g. the document states that for non-Credit Qualifying BM Units "*the MEI*

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doesn't apply and these days are part of their CEI"). In fact, MEI does apply for all BM Units, but for non-Credit Qualifying BM Units the legal text specifies that MEI should be calculated in the same way as CEI.

Because of this misunderstanding the P415 business requirements did not state that MEI for Secondary BM Units needs to be calculated in the same way as CEI (using CAQDE values), and this was therefore not included in the legal text

Desired outcomes

The desired outcome is to allow MEI values for VTPs to calculated in the manner intended by the P415 Workgroup and described in the P415 Modification Report (as opposed to the calculation currently specified in the legal text, which is inaccurate and not what was intended).

2 Solution

Proposed Solution

The proposed solution is to clarify that CAQDE values calculated for Secondary BM Units should be included in the calculation of MEI as well as CEI.

BSC Section M will be amended to:

- Define the **Metered Credit Assessment Credited Deviation Volume** (MAQDEiaj) as being equal to the **Credit Assessment Credited Deviation Volume** (CAQDEiaj)
- Include MAQDE in the equation for MEIpj as follows in paragraph 1.2.4A:

$$MEI_{pj} = - ((\sum_{a,i} MAQCE_{iaj} + \sum_{a,i} MAQDE_{iaj}) - \sum_{a} QABC_{aj})$$

This change is correcting an error in the P415 legal text, in order to bring it in line with the intended P415 solution, which is that Credit Cover for Virtual Trading Parties should be calculated using an estimate of their exposure.

As explained in, this error arose because of a misunderstanding that MEI is not relevant to non-Credit Qualifying BM Units (including Secondary BM Units), and therefore Deviation Volumes did not need to be included in the calculation of MEI. Elexon believes that the desirability of correcting this misunderstanding is self-evident and it is suitable therefore to process straight to the Report Phase, without the need for an industry Workgroup.

Benefits

This change will:

- Avoid inaccuracies in the calculation of Credit Cover requirements for VTPs;
- Ensure that Credit Cover requirements for Secondary BM Units are comparable with those of other non-Credit Qualifying BM Units (which was the intended solution); and

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- Avoid additional expense in amending the ECVAA system to calculate MEI for Secondary BM Units in a different way to other non-Credit Qualifying BM Units.

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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	Positive
(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]	Neutral
(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 Modification will have a positive impact on objective (d), as it will avoid the inefficiency of Elexon having to procure changes to the ECVAA system that are more expensive but less desirable than those the P415 Workgroup intended.

Potentially it also has a positive impact on objective (c), as it re-establishes the intention of the P415 Workgroup that (as far as possible) VTPs should have similar Credit Cover requirements to other Parties e.g. Suppliers. In the absence of this Modification VTPs could potentially be exposed to erroneous Credit Cover requirements that other parties were not, and removing this risk could be seen as better facilitating competition in the sale and purchase of electricity in wholesale markets.

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4 Potential Impacts

Impacts on Core Industry Documents

Impacted Core Industry Documents			
☐Ancillary Services Document	☐Connection and Use of System Code	☐Data Transfer Services Agreement	☐Use of Interconnector Agreement
☐Retail Energy Code	☐ Transmission License	☐System Operator Transmission Owner Code	☐Supplemental Agreements
☐Distribution Code	☐Grid Code	☐ Other (please specify)	

This Modification aims to correct an error in BSC legal text, there are no additional impacts on Code Industry Documents.

Impacts on BSC Systems

Impacted Systems				
☐CRA	☐CDCA	☐PARMS	☐SAA	☐BMRS
☐EAC/AA	☐FAA	☐TAAMT	☐NHHDA	☐SVAA
☒ECVAA	☐ECVAA Web Service	☐Elexon Portal	☐Other (Please specify)	

This Modification corrects an error in the P415 requirements for calculation of MEI, which will be implemented in the ECVAA system.

Impacts on BSC Parties

Impacted Parties			
☐Supplier	☐Interconnector User	☐Non Physical Trader	☐Generator
☐Licensed Distribution System Operator	☐National Electricity Transmission System Operator	☐Virtual Lead Party	☒Other (Virtual Trading Party)

This Modification is intended to avoid unintended inaccuracies in the calculation of Credit Cover requirements for Virtual Trading Parties.

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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 This Modification reduces Elexon costs that are ultimately funded by consumers, but the saving is sufficiently small that it's highly unlikely to have any actual impact on tariffs.	Neutral
Reduced environmental damage	Neutral
Improved quality of service	Neutral
Benefits for society as a whole	Neutral

This Modification is correcting a technical error in the P415 legal text. Although it does have benefits (reduced Elexon costs, potential to avoid VTPs having to post additional unnecessary Credit Cover in certain circumstances), and it would theoretically be possible to argue that these could indirectly benefit consumers, the materiality is so low that in practice there is unlikely to be any discernible benefit.

Legal Text Changes

To address this issue, BSC Section M should be amended to:

- Define the **Metered Credit Assessment Credited Deviation Volume** ($MAQDE_{iaj}$) as being equal to the **Credit Assessment Credited Deviation Volume** ($CAQDE_{iaj}$)
- Include MAQDE in the equation for MEIpj as follows:

$$MEI_{pj} = - ((\sum_{a,i} MAQCE_{iaj} + \sum_{a,i} MAQDE_{iaj}) - \sum_{a} QABC_{aj})$$

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5 Governance

Self-Governance

☒ **Not Self-Governance –** A Modification that, if implemented:	
☐ materially impacts the Code's governance or modification procedures	☐ materially impacts sustainable development, safety or security of supply, or management of market or network emergencies
☒ materially impacts competition	☐ materially impacts existing or future electricity consumers
☐ materially impacts the operation of national electricity Transmission System	☐ is likely to discriminate between different classes of Parties
☐ 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	
☐ **Self-Governance –** A Modification that, if implemented:	
Does not materially impact on any of the Self-Governance criteria provided above	

Elexon do not believe that the solution meets the Self-Governance Criteria as, while the P415 Workgroup's intention is documented in the written report, the Final Modification Report is comprised of, amongst other things, the requirements document which contains the error that is reflected in the legal text and so proceeding as a Self-Governance Modification could introduce a risk that can be avoided by seeking an Authority decision instead.

Removing this error (and implementing what the P415 Workgroup intended) does have a competition benefit (by removing an unintended error that disadvantages VTPs specifically).

Progression route

☐ **Submit to assessment by a Workgroup** –:A Modification Proposal which:	
does not meet any criteria to progress via any other route.	
☒ **Direct to Report Phase** – A Modification Proposal whose solution is typically:	
☐ of a minor or inconsequential nature	☒ deemed self-evident
☐ **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:	
☐ updating names or addresses listed in the Code	☐ correcting minor typographical errors
☐ correcting formatting and consistency errors, such as paragraph numbering	☐ updating out of date references to other documents or paragraphs

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☐ **Urgent –** A Modification Proposal which is linked to an imminent issue or current issue that if not urgently addressed may cause:	
☐ a significant commercial impact on Parties, Consumers or stakeholder(s)	☐ 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	

This change is correcting an error in the P415 legal text, in order to bring it in line with the intended P415 solution, which is that Credit Cover for Virtual Trading Parties should be calculated using an estimate of their exposure.

As explained in Section 1, this error arose because of a misunderstanding that MEI is not relevant to non-Credit Qualifying BM Units (including Secondary BM Units), and therefore Deviation Volumes did not need to be included in the calculation of MEI. Elexon believes that the desirability of correcting this misunderstanding is self-evident.

Elexon believe the solution to be self-evident and reflective of the stated intention of P415, therefore Elexon recommend that it be progressed directly to the Report Phase, without the need for an industry Workgroup.

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 request that this Modification be exempt from the SCR process.

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

This Modification will not impact the EBGL Article 18 terms and conditions as BSC Section M1.2.4A is not specified in the mapping given in Section F Annex F-2.

Implementation approach

To avoid the unintended consequences associated with implementing the current P415 solution Elexon believes that the Implementation Date for this Modification should be aligned with Implementation Date for P415 which is 7 November 2024 (November 2024 BSC Release).

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