292/05 - IMPACT OF POTENTIAL TERRE DEROGATION ON IMPLEMENTATION OF MODIFICATION P344

MEETING NAME	BSC Panel

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Summary	National Grid acting as National Electricity Transmission System Operator (NETSO) has requested a derogation from Ofgem to delay GB participation in TERRE until 2020 (keeping GB aligned with France), but still intends to implement wider access to the Balancing Mechanism in December 2019. ELEXON has looked at the implications for the BSC and we are looking into the implications for BSC Systems. This is because BSC Modification P344 was designed to implement TERRE and wider access together. Our assumption remains that the BSC Systems and processes for both will become effective in December 2019 (even if Ofgem approves the derogation). The TERRE-related functionality would remain mostly dormant until GB began participating in TERRE (and there were therefore RR Bids and Auction Results for BSC Systems to report and settle).

1. Possible Delay to GB Participation in Project TERRE

1.1 BSC Modification P344 ('Project TERRE implementation into GB market arrangements') was approved by Ofgem on 24 August 2018. It introduces into the BSC the obligations and processes required to support both:

- "Project TERRE" i.e. participation by GB market participants in a new cross-border market for the Replacement Reserve (RR) balancing product, with auctions carried out by the LIBRA platform (currently under development by ENTSO-E); and
- "Wider access" i.e. participation in the GB Balancing Mechanism by "Virtual Lead Parties" (VLPs) such as customers and independent aggregators.

1.2 BSC Modification P344 was implemented on 28 February 2019, and some P344 obligations (such as those relating to Accession and Qualification of VLPs) are already effective. However, BSC Section H2.5 specifies that many of the obligations and processes introduced by P344 will not come into effect until the date and time specified by the NETSO in the "**P344 Final Implementation Date Notice**". The NETSO has not yet issued this Notice, but we have been planning on the assumption that it will specify a date in December 2019 (allowing TERRE to go live within two years of the EBGL coming into force, as legally required).

1.3 On 21 June 2019, the NETSO published an open letter explaining that RTE (the French TSO) has submitted a derogation request to delay French participation in TERRE until December 2020 at the latest, with a view to implement in June 2020. Although it would be possible for GB to begin participating in TERRE before France, the NETSO believes that doing so would incur additional costs and bring little benefit to GB consumers. The NETSO has therefore submitted its own derogation request to Ofgem, requesting that GB participation in TERRE is delayed to match the start of French participation.

1.4 There is of course no guarantee that Ofgem will approve the derogation request. If they do not, GB will be required to start GB participation in December 2019, as currently planned.

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1.5 Regardless of whether or not Ofgem approves the derogation request, the open letter states that the NETSO remains committed to implementing wider access in 2019. If Ofgem does approve the derogation request, this means that wider access will come into effect earlier than TERRE.

2. P344 is designed to implement TERRE and wider access together

2.1 Both the legal text for Modification P344 and the systems and processes to deliver it have been designed on the assumption that TERRE and wider access will come into effect on the same date:

- BSC Section H2.5 envisages that all the remaining P344 provisions (including those for TERRE and for wider access) will come into effect on a single date (specified in the P344 Final Implementation Date Notice issued by the NETSO). It does not expressly allow for a staged implementation of the remaining P344 provisions; and
- Our service providers are developing new versions of BSC Systems and processes that include both TERRE and wider access. The agreed designs allow all TERRE and wider access functionality to become effective on a yet-to-be-specified date (but do not support finer-grained control of the dates on which individual pieces of functionality become effective).

2.2 Because TERRE and wider access are linked in this way, our assumption (subject to the considerations discussed in section 4 below) is that BSC Systems and processes relating to both TERRE and wider access will be implemented in December 2019, as planned (even if Ofgem approves the derogation request to delay GB participation in TERRE). This means that, with effect from the implementation date in December 2019:

- BSC Systems will contain functionality for both TERRE and wider access (although much of the TERRE-related functionality will remain unused until there are GB-related RR Bids and Auction Results to report and settle);
- All BSC obligations related to TERRE will come into effect. For example, we will be required to appoint a Financial Service Provider to provide a Settlement Exchange Rate, to be published each day on the Balancing Mechanism Reporting Service (BMRS), in accordance with Section V7 of the BSC; and
- BSC Parties will be required to send data flows to and receive data flows from BSC Systems in the formats developed for Modification P344 (which include data items relating to both TERRE and wider access). For example, the Settlement Administration Agent (SAA) will publish amended versions of the SAA-I014 Settlement Reports (containing data related to both TERRE and wider access). TERRE-related data will be set to default values or omitted entirely (in accordance with the agreed specification of each interface).

3. Impact on industry testing

3.1 If the TERRE derogation is granted, we would expect some elements of TERRE end-to-end testing to be pushed back into 2020. However the impact of this is currently hard to assess, as the GB plan for end-to-end testing of TERRE systems remains at a fairly high level.

3.2 On 30 April 2019 (at the IS Change Forum) ELEXON and the NETSO shared with industry a high-level plan for testing of TERRE and wider access. This proposed that:

- In August 2019, integration testing of interfaces between Settlement and the NETSO begins; and
- In September 2019, the NETSO begins E2E market testing of TERRE and wider access, leading up to TERRE parallel run testing in October.

3.3 We continue to work closely with the NETSO to further develop this plan, but have not so far achieved clarity on the required timing of ELEXON involvement in industry testing. The derogation request may further

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complicate this (until we know whether it has been approved). Continued uncertainty over the test plan will pose an increasing risk to our ability to prepare the necessary test environments and other resources (particularly if the derogation request is not approved, and GB remains required to join TERRE in December 2019).

4. Is there an option to decouple wider access from TERRE?

4.1 As described in paragraph 2.2 above, the default approach (in the absence of any Modification to Section H2.5 of the BSC) is that BSC obligations and processes relating to TERRE will be implemented at the same time as wider access, in December 2019, even if actual GB participation in TERRE has been delayed. We have not yet had the opportunity to discuss the implications of this in detail with our service providers or the NETSO. It therefore remains possible that, when we get into the detail, aspects of this approach prove problematic. If this is the case we may have to consider ways of allowing TERRE and wider access to become slightly less tightly coupled. For example:

- The NETSO could raise a Modification Proposal to amend BSC Section H2.5, allowing them to activate some P344 provisions in December 2019, while allowing others to remain 'switched off' until GB participation in TERRE commences; and/or
- We could request our service providers to change the design of BSC Systems to allow finer-grained control over when individual P344 obligations become active. This might (for example) allow wider access to become effective without simultaneously requiring BMRA to publish the Settlement Exchange Rate, or requiring the NETSO to send us data using amended TERRE file formats.

4.2 If we do have to make changes to loosen the coupling between TERRE and wider access, we will realistically need to take a 'least change' approach, making only changes that are absolutely vital or bring substantial cost savings. The BSC Systems for P344 are now designed and built, with much of the unit testing completed, and system testing about to begin. By the time Ofgem makes a decision on the derogation, testing is likely to be even further advanced, so that any significant redesign would endanger implementation of wider access in December. Any wholesale decoupling of TERRE and wider access is therefore unlikely to be possible. For example, we do not envisage any change to the current plan of implementing in December 2019 a revised format of the SAA-I014 Settlement Report that includes data items for both TERRE and wider access.

5. Recommendations

5.1 We invite you to **NOTE** that:

a) The NETSO has requested a derogation from Ofgem to delay GB participation in TERRE until 2020 (keeping GB aligned with France), but still intends to implement wider access in December 2019;

b) BSC Section H2.5 requires the TERRE and wider access elements of Modification P344 to become effective together, and therefore by default the BSC systems for both will come into operation in December 2019 (even if Ofgem approves the derogation); and

c) We will continue to investigate whether there would be benefits in amending BSC Section H2.5 and/or BSC Systems to allow certain TERRE-related BSC processes to come into effect at a later date (should the derogation be approved), but that only fairly minor changes are likely to be possible (or desirable) at this late stage.

For more information, please contact:

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