

## P389 'Resolution of Capacity Market and Balancing Mechanism registration conflicts'

There is a conflict between the rules in the Balancing and Settlement Code (BSC) and the Capacity Market (CM) rules regarding how Balancing Mechanism (BM) Units are registered. Removing this conflict from the BSC will clarify the arrangements and ensure BSC Parties remain compliant with both the BSC and CM rules.



ELEXON recommends P389 is progressed directly to the Report Phase with an initial recommendation to approve

This Modification is expected to impact:

- Capacity Market participants (Capacity Providers)
- Suppliers

## Contents

<b>1</b>	<b>Why Change?</b>	<b>3</b>
<b>2</b>	<b>Solution</b>	<b>6</b>
<b>3</b>	<b>Proposed Progression</b>	<b>8</b>
<b>4</b>	<b>Likely Costs and Impacts</b>	<b>10</b>
<b>5</b>	<b>Recommendations</b>	<b>12</b>
	<b>Appendix 1: Glossary &amp; References</b>	<b>13</b>

## About This Document

This document is an Initial Written Assessment (IWA), which ELEXON will present to the Panel on 8 August 2019. The Panel will consider the recommendations and agree how to progress P389.

There are four parts to this document:

- This is the main document. It provides details of the Modification Proposal, an assessment of the potential impacts and a recommendation of how the Modification should progress.
- Attachment A contains the P389 Proposal Form.
- Attachments B - C contain the draft-redlined changes to the BSC and Code Subsidiary Document for P389.



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293/08

P389

Initial Written Assessment

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1 August 2018

Version 1.0

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Page 2 of 14

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# 1 Why Change?

## Background

Generators are deploying more and more non-traditional configurations of Plant and Apparatus as the market evolves. These configurations of Plant and Apparatus are not only used to provide Balancing and/or Settlement Services but to provide CM services too.

In October 2013 the former Department of Energy and Climate Change (DECC<sup>1</sup>) consulted on their proposed implementation for Electricity Market Reform (EMR) implementation (which included the CM), and published their [response](#) in June 2014. On 1 August 2014, the [Secretary of State directed](#) the BSC to be amended to include provisions to support EMR. [BSC Section K 'Classification and Registration of Metering Systems and BM Units'](#) Paragraph 3.1.8(b) was included to protect Capacity Providers who were relying on having their CM Assets in a dedicated BM Unit and for these BM Unit Metered Volumes to be provided by ELEXON to EMR Settlement for CM Settlement purposes<sup>2</sup>.

This caused potential issues at the time for CM Units with Settlement Metering registered in both the Supplier Meter Registration Service (SMRS) and Central Meter Registration Service (CMRS). It put a requirement on a Supplier to register an Additional BM Unit (ABMU) solely for the CM Units registered in SMRS. Normally an ABMU would consist of several Metering points and associated Generating Units but, K3.1.8(b) states a BM Unit [ABMU] can only consist of CM Assets. Therefore, any other Assets (Generation or Supply) that are not part of the same Capacity Agreement cannot be included in the same ABMU.

It is possible for CMRS registered BM Units to have multiple Generating Units in the same BM Unit and the CM rules and design required that they be split into separate BM Units.

In September 2014, DECC consulted on Capacity Market supplementary design proposals. The [outcome of the consultation](#) was published in January 2015 and changes came into force on 23 March 2015, introducing a number of new Metering options for Capacity Providers:

- Three new 'Metering Configuration Solutions', which provide capacity providers with alternatives to registering a BM Unit corresponding to the CM Unit; and
- Metering options for a CM Unit that is a subset of a BM Unit<sup>3</sup>.

DECC also introduced BSC Metering Options where the CM Unit was not required to have its own BM Unit, creating an inconsistency between the BSC and CM Rules, negating the original reason for including BSC Section K3.1.8(b) in the BSC.

## BSC requirements for BM Units with CM Assets

A BM Unit may be comprised of multiple Generating Units, some of which may constitute a CM Asset. This could be done for a number of reasons including commercial decisions.

K3.1.8(b) states: 'A BM Unit comprised of: ...CM Assets shall be comprised solely of the CM Assets specified in the Capacity Agreement relating to that BM Unit and shall not include any other Plant or Apparatus.' For K3.1.8(b) to apply, the BSC definition of CM Assets must be met, specifically 'the Capacity Provider has elected to use a BSC metering option'.

<sup>1</sup> Now subsumed into the Department for Business, Energy & Industrial Strategy (BEIS)

<sup>2</sup> So that the BM Unit Metered Volume could also be used to settle their CM Unit

<sup>3</sup> e.g. where the BM Unit contains Generating Units that form a CM Unit, and additional renewable Generating Units that are not part of the CM Unit



### What is Electricity Market Reform

Electricity Market Reform (EMR) is a government policy to incentivise investment in secure, low-carbon electricity, improve the security of Great Britain's electricity supply, and improve affordability for consumers.

The Energy Act 2013 introduced two key mechanisms: A Capacity Market; and Contracts for Difference (CFD)



### What is the Capacity Market

The Government introduced the Capacity Market to provide an insurance policy against the possibility of future blackouts – for example, during periods of low wind and high demand – to ensure that consumers continue to benefit from reliable Electricity supplies at an affordable price.

The Capacity Market is designed to ensure sufficient reliable capacity is available by providing payments to encourage investment in new capacity or for existing capacity to remain open.

293/08

P389

Initial Written Assessment

1 August 2018

Version 1.0

Page 3 of 14

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There is no definition of 'BSC metering option' but is interpreted to mean a situation where a Metering System used for Settlement purposes is also used for CM purposes. Where a BSC Metering Option is used, the Capacity Provider will provide Metered data via a BSC Agent (Settlement Administration Agent (SAA)) for CMRS registered Meters or their Supplier's Party Agent (e.g. Half Hourly Data Aggregators (HHDA)s) for SMRS registered Meters.

## Capacity Market Rules for Metering

The Capacity Market Rules allow for four types of Metering configuration solution:

1. BM Unit Metering (BSC Metering option<sup>4</sup>) – data provided by Settlement Administration Agent;
2. Supplier Settlement (non-BM Unit) (BSC Metering option<sup>4</sup>) – data provided by a Supplier's HHDA;
3. Existing Balancing Services (Capacity Provider) Metering (i.e. non-BSC metering option<sup>5</sup>) – data provided by the Capacity Provider or their nominated representative and
4. Bespoke (Capacity Provider) Metering) – data provided by Capacity Provider or nominated representative and does not have to comply with the BSC or its CoPs (non-BSC metering Option)

These Metering configurations are approved by the CM Settlement Body<sup>6</sup>. Each Generating Unit's CM Unit component must have a Metering System capable of measuring the net output of the Generating Unit. The net output is the gross generation less the demand used by the Generating Unit to produce that generated electricity (the auxiliary load). The auxiliary load is the demand directly used by the Generating Unit during its operation and is the minimum that must be netted off gross generation.

All CM Unit components are required to be metered by a Half Hourly Meter or equivalent<sup>7</sup>. Some CM Units may require additional Metering (a bespoke Solution) behind the Boundary Point Meter to demonstrate their capacity obligation. Any situation falling outside the BSC will be covered by the relevant Balancing Services agreement or bespoke technical requirements; these include splitting out circuits from existing BM Units and difference metering<sup>8</sup>.

## What is the issue?

K3.1.8(b) hampers Capacity Providers and Suppliers in how they can configure their CM Units in relation to their relevant BM Units. K3.1.8(b) could cause confusion in whether Plant and Apparatus configurations are compliant, which could lead to delays in decision making when considering appropriate configurations (we are not aware of any operational issues caused by the existing BSC provisions, but a strict application of the obligations could unnecessarily constrain the configuration of BM Units with CM Assets).

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<sup>4</sup> Means that the Meter is configured in accordance with [BSC Section L 'Metering'](#) and the relevant [Codes of Practice \(CoP\)](#)

<sup>5</sup> The configuration of the metering does not have to comply with BSC Section L or relevant CoPs but, does have to comply with Balancing Services requirements

<sup>6</sup> the Low Carbon Contracts Company (LCCC)

<sup>7</sup> e.g. a Meter pulsing to an outstation that converts to Half Hourly Settlement Periods

<sup>8</sup> Simply, the 'difference' between an Asset's Meter and Boundary point Meter to determine respective liabilities

There are two specific examples where the current provisions could cause issues for participants to comply with the BSC and the CM rules:

1. Where a Capacity Provider elects to provide data via the Supplier's HHDA (option 2 above), the Meter will likely be in the Supplier's Base BM Unit. This is contrary to K3.1.8(b) as the Meter may be in a BM Unit with non-related assets. This does not create a problem for BSC or EMR Settlement, but does technically create a non-compliance; and
2. Where a Capacity Provider elects to provide data via a BSC Agent (option 1 above), the BM Unit may contain non-CM Assets for shared station demand. This is contrary to K3.1.8(b), but is legitimate under the intent of the BSC and CM rules.

## 2 Solution

### Proposed solution

The proposed solution is to delete BSC Section K3.1.8(b) in its entirety. This would remove a conflict and ambiguity between the BSC and CM rules without impacting the BSC or CM Settlement.

### Capacity Market provisions

EMR Services Limited (EMRS) provides substantial [guidance](#) to Capacity Providers covering how the energy flow to and/or from CM Assets is to be Metered so that Capacity Provider's obligations can be fulfilled. This enables accurate measurement of a CM Asset's Generation, making BSC Section K3.1.8(b) superfluous.

### Integrity of Settlement

The BSC has sufficient measures elsewhere<sup>9</sup> to ensure there isn't opportunity for a Generating Plant to be (re-)configured so that Electricity to and/or from the Total System is not accurately accounted for in Settlement, meaning that K3.1.8(b) is not required for Settlement purposes.

### Preventing inadvertent non-compliance

Removing K3.1.8(b) removes a risk that a BM Unit Lead Party will become inadvertently non-compliant if the Capacity Provider changes which of the Generating Units in the associated BM Unit are part of the CM contract.

### Government policy

This proposal is not suggesting an amendment to EMR policy, merely that ambiguity is removed from the BSC. By removing K3.1.8(b), the EMR policy intent is still being delivered by the CM rules, rather than the BSC but, confusion and needless worries over compliance would be removed and as such, the proposed solution should be seen as an operational change in stakeholders' interests rather than a change of policy.

## Consideration of Contracts for Difference

### Background

BSC Section K3.1.8(a) is worded almost identically to K3.1.8(b) but refers to 'Relevant CFD<sup>10</sup> Assets' instead of 'CM Assets'. K3.1.8(a) was introduced to the BSC at the same time as K3.1.8(b) with the same intent. In discharging our critical friend analysis obligation<sup>11</sup> when reviewing the draft Proposal Form we considered advising whether K3.1.8(a) should also be removed.

<sup>9</sup> E.g. K3.1.9 requires that the BM Unit's Lead Party reports any changes to BM Unit configuration

<sup>10</sup> Contracts for Difference

<sup>11</sup> Principle one of the Code Administration Code of Practice ([CACoP](#))



### What is Contracts for Difference

A CFD is a contract between a low carbon electricity generator and the Low Carbon Contracts Company (LCCC), a government-owned company.

A CFD Generator is paid the difference between the 'strike price' – a price for electricity reflecting the cost of investing in a particular low carbon technology – and the 'reference price' – a measure of the average market price for electricity in the GB market.

It gives greater certainty and stability of revenues to Generators by reducing their exposure to volatile wholesale prices, whilst protecting consumers from paying for higher support costs when electricity prices are high

293/08

P389

Initial Written Assessment

1 August 2018

Version 1.0

Page 6 of 14

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There are provisions within the CFD framework to allow for scenarios where Relevant CFD Assets are in the same BM Unit as other Plant and Apparatus in the same Generating Plant not subject to a CFD. The CFD refers to these Sites as a 'Dual Scheme Facility' (DSF) where the 'scheme' referred to in DSF is the [Renewables Obligation \(RO\)](#) and the DSF provision was introduced in 2014 as part of the transition from RO to CFD.

### Policy intent and recommendation

Although there are provisions in place to ensure CFD energy flow is measured separately from non-CFD energy flow within the same BM Unit, suggesting no need for K3.1.8(a) as there would be no need for the BSC to have provisions to safeguard the CFD, this is not the case.

DECC's [policy intent](#) was for DFS only to be used where biomass co-firers<sup>12</sup> accredited under the RO were seeking to convert Generating Units from fossil-fuel to solid biomass. In this circumstance, a CFD could be entered into for each fully converted Generating Unit or, the Generating Plant as a whole.

Given this very limiting restraint (there is only one CFD Generator that we are aware of that this applies to) it becomes obvious that the wording of K3.1.8(a) is still required and should not be deleted as part of the P389 solution.

### Applicable BSC Objectives

The Proposer believes that this Modification will better facilitate Applicable BSC Objectives (d) and (f).

#### Applicable BSC Objective (d)

Removing potential confusion and an unnecessary constraint from the BSC, with no impact on Parties or other industry participants, will make the BSC more efficient to navigate.

#### Applicable BSC Objective (f)

By removing ambiguity from the BSC it will make it easier for Capacity Providers to engage in the CM as well as making EMRS's checks and controls simpler, thus making it easier to administer the operation of a CM pursuant to EMR legislation.

### Implementation approach

The Proposer has requested that P389 should be implemented as soon as reasonably practicable within the standard Release cycle. This is an operational change to remove ambiguity so there is no immediate rush to change the BSC but nothing to be gained from waiting either. We do not anticipate there being any lead-time required by industry. We therefore suggest an implementation date of:

- 7 November 2019 as part of the November 2019 BSC Release



### What are the Applicable BSC Objectives?

(a) The efficient discharge by the Transmission Company of the obligations imposed upon it by the Transmission Licence

(b) The efficient, economic and co-ordinated operation of the National Electricity Transmission System

(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

(d) Promoting efficiency in the implementation of the balancing and settlement arrangements

(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]

(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

(g) Compliance with the Transmission Losses Principle

293/08

P389  
Initial Written Assessment

1 August 2018

Version 1.0

Page 7 of 14

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<sup>12</sup> The combustion of biomass alongside another material, in this case – fossil fuel

## 3 Proposed Progression

### Next steps

This Modification should:

- Be sent directly into the Report Phase.

As it is evident what changes need to be made there is nothing that a Workgroup will be able to offer, so there is no reason not to proceed directly to Report Phase.

### Secretary of State approval

We have been liaising with BEIS on this change as it relates to BSC provisions introduced for EMR. These provisions (see BSC Section F1.1.9) can only be amended with prior written consent of the Secretary of State. BEIS has initially indicated that it does not consider this a change to CM policy, but rather an operational issue.

We intend to formally request Secretary of State approval during the Report Phase, as the solution cannot be materially altered at this stage. We will not implement P389 unless approved by the Panel (subject to Self-Governance decision – see below) and Secretary of State.

### Governance

As P389 is an operational change to remove ambiguity, there would be no need to make changes to existing arrangements. Nor will planned configurations need to be reconsidered. Given the nature of the proposed change there is no reason why the Authority would need to consider this proposal. The following is added for clarification:

- As there will be minimal impacts on Capacity Providers and Suppliers, and no one else, existing or future consumers will not be materially affected;
- Given the minimal impacts, and that CM Assets will not need to be configured any differently, there will be no competition issues arising;
- This proposal will not affect how the Total System is operated as configurations of BM Units and CM Assets will not be affected;
- There will be no effect on matters relating to sustainable development, safety or security of Supply or network emergencies. As this is an operational change to remove ambiguity, there will be no effect on the management of the market;
- The BSC's governance procedures will not be impacted in anyway; and
- Given that nothing will change in how BM Units and CM Assets are configured because of this proposed Change, its implementation will not result in discrimination between Parties.

The Proposer therefore recommends that P389 be treated as a Self-Governance Modification Proposal.



#### What is the Self-Governance Criteria?

A Modification that, if implemented:

- (a) is unlikely to have a material effect on:
- (i) existing or future electricity consumers; and
  - (ii) competition in the generation, distribution, or supply of electricity or any commercial activities connected with the generation, distribution, or supply of electricity; and
  - (iii) the operation of the national electricity transmission system; and
  - (iv) matters relating to sustainable development, safety or security of supply, or the management of market or network emergencies; and
  - (v) the Code's governance procedures or modification procedures; and
- (b) is unlikely to discriminate between different classes of Parties.

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293/08

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P389  
Initial Written Assessment

---

1 August 2018

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Version 1.0

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Page 8 of 14

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## Timetable

Proposed Progression Timetable for P389	
Event	Date
Present Initial Written Assessment to Panel	8 August 2019
Report Phase Consultation (10 Working Days)	12 August – 23 August 2019
Present Draft Modification Report to Panel	12 September 2019
Issue Final Modification Report	16 September 2019
Self-Governance Appeal Window closes	3 October 2019
Implement changes	7 November 2019

293/08

P389  
Initial Written Assessment

1 August 2018

Version 1.0

Page 9 of 14

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## 4 Likely Costs and Impacts

### Estimated central implementation costs of P389

ELEXON's costs to implement P389 are approximately £360. This cost is two day's effort to implement document changes to the BSC and BSCP15.

EMRS will require three Working Days to update their guidance 'G1 – Capacity Market Metering'

### Indicative industry costs of P389

We do not expect P389 to impact industry in any way and therefore there will be no associated implementation costs.

Impact on BSC Parties and Party Agents	
Party/Party Agent	Potential Impact
Generators that are also Capacity Providers	Simpler registration process and more configuration options
Suppliers	Increases BM Unit configuration options
Suppliers acting on behalf of CM Generators	Simpler registration process and more configuration options

Impact on Transmission Company
Nil expected impact

Impact on BSCCo	
Area of ELEXON	Potential Impact
Implement P389 legal text	

Impact on BSC Settlement Risks
Nil impact

Impact on BSC Systems and processes	
BSC System/Process	Potential Impact
Nil impact on BSC Systems or processes	

Impact on Code	
Code Section	Potential Impact
BSC Section K	Remove paragraph K3.1.8(b)

### Impact on Code Subsidiary Documents

CSD	Potential Impact
BSCP15	Amend paragraph 1.9 to remove reference to K3.1.8(b) constraints

### Impact on a Significant Code Review (SCR) or other significant industry change projects

No impact on SCRs expected – we requested Ofgem treat P389 as an SCR Exempt Modification on 1 August 2019

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293/08

P389  
Initial Written Assessment

---

1 August 2018

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Version 1.0

---

Page 11 of 14

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## 5 Recommendations

We invite the Panel to:

- **AGREE** that P389 progresses directly to the Report Phase;
- **AGREE** that P389:
  - **DOES** better facilitate Applicable BSC Objective (d); and
  - **DOES** better facilitate Applicable BSC Objective (f);
- **AGREE** an initial recommendation that P389 should be **approved**;
- **AGREE** an initial Implementation Date of:
  - 7 November 2009 as part of the November 2019 BSC Release
- **AGREE** the draft legal text;
- **AGREE** the draft changes to BSCP15;
- **AGREE** an initial view that P389 should be treated as a Self-Governance Modification; and
- **NOTE** that ELEXON will issue the P389 draft Modification Report (including the draft BSC legal text) for a 10 Working Day consultation and will present the results to the Panel at its meeting on 12 September 2019.

## Appendix 1: Glossary & References

### Acronyms

Acronyms used in this document are listed in the table below.

Acronym	
Acronym	Definition
ABMU	Additional BM Unit
BM	Balancing Mechanism
BSC	Balancing and Settlement Code
BSCCo	BSC Company
CFD	Contracts for Difference
CM	Capacity Market
CMRS	Central Meter Registration Service
CSD	Code Subsidiary Document
DECC	Department for Energy and Climate Change
DSF	Dual Scheme Facility
EMR	Electricity Market Review
EMRS	EMR Services Limited
HHDA	Half Hourly Data Aggregator
IWA	Initial Written Assessment
LCCC	Low Carbon Contracts Company
RO	Renewables Obligation
SAA	Settlement Administration Agent
SCR	Significant Code Review
SMRS	Supplier Meter Registration Service

### External links

A summary of all hyperlinks used in this document are listed in the table below.

All external documents and URL links listed are correct as of the date of this document.

External Links		
Page(s)	Description	URL
3	CM Supplementary Design Proposals	<a href="https://www.gov.uk/government/consultations/consultation-on-on-capacity-market-supplementary-design-proposals-and-transitional-arrangements">https://www.gov.uk/government/consultations/consultation-on-on-capacity-market-supplementary-design-proposals-and-transitional-arrangements</a>
3	DECC direction to amend the BSC	<a href="https://www.elexon.co.uk/ord/ord005-electricity-market-reform/">https://www.elexon.co.uk/ord/ord005-electricity-market-reform/</a>
3	BSC Section K	<a href="https://www.elexon.co.uk/the-bsc/bsc-section-k-classification-and-registration-of-metering-systems-and-bm-units/">https://www.elexon.co.uk/the-bsc/bsc-section-k-classification-and-registration-of-metering-systems-and-bm-units/</a>

293/08

P389

Initial Written Assessment

1 August 2018

Version 1.0

Page 13 of 14

© ELEXON Limited 2019

External Links		
Page(s)	Description	URL
3	DECC's CM supplementary design consultation decision	<a href="https://www.gov.uk/government/consultations/consultation-on-on-capacity-market-supplementary-design-proposals-and-transitional-arrangements">https://www.gov.uk/government/consultations/consultation-on-on-capacity-market-supplementary-design-proposals-and-transitional-arrangements</a>
4	BSC Section L 'Metering'	<a href="https://www.elexon.co.uk/the-bsc/bsc-section-l-metering/">https://www.elexon.co.uk/the-bsc/bsc-section-l-metering/</a>
4	Metering Codes of Practice	<a href="https://www.elexon.co.uk/bsc-and-codes/bsc-related-documents/codes-of-practice/">https://www.elexon.co.uk/bsc-and-codes/bsc-related-documents/codes-of-practice/</a>
6	EMRS Guidance	<a href="https://www.emrsettlement.co.uk/publications/guidance/">https://www.emrsettlement.co.uk/publications/guidance/</a>
6	Code Administration Code of Practice	<a href="https://www.elexon.co.uk/documents/about-elexon/code-of-practice-cacop/cacop-principles-v4-1-2/">https://www.elexon.co.uk/documents/about-elexon/code-of-practice-cacop/cacop-principles-v4-1-2/</a>
7	Renewables Obligation (RO)	<a href="https://www.ofgem.gov.uk/environmental-programmes/ro">https://www.ofgem.gov.uk/environmental-programmes/ro</a>
7	Decision to introduce DSF	<a href="https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/289356/CfD_Metering_-_Baseload_Duel_Scheme_Facilities_and_BioConversions_finalised.pdf">https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/289356/CfD_Metering_-_Baseload_Duel_Scheme_Facilities_and_BioConversions_finalised.pdf</a>