

By email:
Chris.Thackeray@ofgem.gov.uk

13 September 2019

Dear Chris Thackeray,

At its meeting on Thursday 12 September 2019, the Balancing and Settlement Code (BSC) Panel discussed the Demand Control Event (DCE) which occurred on Friday 9 August 2019. Concerns were raised over the cost effectiveness of ELEXON and industry undertaking the bottom-up calculations to redistribute volumes for Settlement mandated by the requirements introduced by Modification [P305](#) 'Electricity Balancing Significant Code Review Developments'. The BSC Panel was concerned that while ELEXON had recognised that this exercise would likely not be a good use of industry time and resource, Ofgem had issued a statement to ELEXON directing it to operate these processes as required under the BSC.

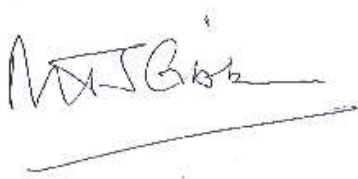
The BSC Panel raised and discussed various specific and anecdotal examples which illustrated that the value of the Settlement volumes to be redistributed (which was estimated to sit between £15k and £30k smeared across the entire market) would be far outweighed by the costs of calculating the volumes for redistribution. ELEXON estimates that the costs to ELEXON and the market of undertaking these calculations could be well in excess of £300k following Party Agent feedback. This is due to procedures that include the manual recalculation of consumption for each half hourly metered site that was disconnected.

On the basis of the following assumptions, the BSC Panel has instructed ELEXON to cease operation of these processes pending further consideration and guidance from Ofgem, ideally accompanied by clear advice indicating why resuming operation of the processes, if that remains your view, would be in the best interest of consumers, the industry or efficiency. It is the Panel's view that:

1. Operating this process would not be in the best interest of consumers, who would likely be impacted to a greater extent by the costs of operating this process than from not doing so;
2. The intention of P305 was to correct metered positions and in cases with a significantly high System Price, prevent windfall gains by Suppliers from such a DCE. In this instance there is very limited impact to Settlement from windfall gain as a result of the Friday 9 August 2019 DCE; and
3. A de-minimis threshold was not considered when the P305 solution was implemented which has meant that in this instance there is little value in operating the solution which would ultimately result in higher costs to the consumer.

To ensure that processes are efficient for future operation, ELEXON will raise a BSC Issue to work with industry in identifying changes to improve the current processes. This will give consideration to introducing a de-minimis threshold for DCE and the impact to embedded Generators.

Yours sincerely,



Michael Gibbons CBE FEI, BSC Panel Chair