

P415 Cost Benefit Analysis Options

BSC Panel

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Summary **This paper summarises the work to date on the cost-benefit analysis options suitable for P415, and seeks a decision on which cost-benefit analysis option the Panel would like Elexon to tender for.**

1. P415 Introduction

1.1 BSC Modification [P415 'Facilitating access to wholesale markets for flexibility dispatched by Virtual Lead Parties'](#) was raised by Enel X UK Ltd on 30 September 2020. It seeks to allow Virtual Lead Parties (VLP) to participate in the GB wholesale market. Currently customers (consumers of electricity) who are able to be flexible about their consumption cannot currently obtain value from that flexibility from the Wholesale Energy Market, except if they work with their Supplier to do so. This is because the BSC assigns all flexibility delivered by a customer to their Supplier, with the exception of flexibility instructed by National Grid in the Balancing Mechanism, which can be assigned to a third party (referred to in the BSC as a "Virtual Lead Party").

As a result, customers can only access power exchanges (and other markets that require notification of contracts under the BSC) through their Supplier. This contrasts with Balancing Services and the Capacity Market, all of which allow a customer's flexibility to be offered by an aggregator without the involvement of the Supplier. Rectifying this defect will remove a barrier to customers offering flexibility, and hence should increase participation and the level of effective competition in the wholesale market.

2. P415 Cost Benefit Analysis Options Paper

2.1 During consideration of the P415 Initial Written Assessment on 8 October 2020 ([307/05](#)) the BSC Panel agreed that this Modification could be a profound and fundamental change to the market arrangements and recommended that a cost-benefit analysis exercise be undertaken. The Workgroup also supported this approach and Elexon engaged with CEPA in June/July 2021 to produce a cost-benefit analysis options paper, detailing five options differing in analytical sophistication, cost and impact, for Workgroup and Panel consideration.

3. P415 Workgroup Cost Benefit Analysis Discussion

- 3.1 On 29 July 2021, the P415 Workgroup met to review and determine which cost-benefit analysis option is most suitable for P415, ahead of presenting this view to the BSC Panel for their consideration.
- 3.2 CEPA presented five P415 cost-benefit analysis options that outlined the scope, methodology, costs and timelines associated with a range of options that differed in analytical sophistication, outputs and overall impact:
1. High-level CBA to develop 'order of magnitude' assessment of benefits with indicative assessment of costs.
 2. Case studies of CBAs conducted for similar proposals in other jurisdictions plus indicative assessment of costs.

3. A non-modelled CBA featuring a mix of qualitative and quantitative analyses – e.g., ‘Breaking Point’ analysis.
 4. Market modelling to capture wholesale market dynamics but with non-modelled analysis of network impacts.
 5. Combination of market and network modelling to capture wholesale market dynamics and network expansion.
- 3.3 The group noted that many of the benefits for P415 were well suited to quantification and considered the more sophisticated modelling options to be most suitable for the cost-benefit analysis. The prevailing sentiment is that P415 is a sizeable market change, introducing a new player into it, so worth taking the time to assess thoroughly. CEPA agreed that the nature of P415 was more suited to a greater level of quantification and modelling than the previous cost—benefit analysis that was conducted for [P379 ‘Multiple Suppliers through Meter Splitting’](#).
- 3.4 The Workgroup considered that options 1 ‘High-level CBA’ and 2 ‘Case Studies’ were felt to be unlikely to meet stakeholder requirements for more detailed quantitative analysis.
- 3.5 As Ofgem will be the decision maker on whether to approve P415, their input was sought on the level of analysis they would like to see. Ofgem noted that they are content to let P415 build the case for making the change or not as the Workgroup sees fit, with more information helpful to make an informed decision on the merits of the Modification.
- 3.6 The group noted that Options 5 ‘Market Modelling – Wholesale and Network Impacts’ offers additional benefits to Option 4 ‘Market Modelling – Wholesale Impacts only’ by unlocking analysis of deferred network investment and capacity, providing an opportunity to draw out this argument in support of P415.
- 3.7 The group noted that analysis of CO₂ emissions would be most viable under the 4th or 5th option which allow for modelling and believe this would be beneficial to assess via the cost-benefit analysis.
- 3.8 Noting that P415 may develop an alternative solution in relation to the mechanism for compensation to be paid to Suppliers (a reimbursement for wholesale market costs that Supplier’s cannot recover due to VLP action under P415), the group noted that this could be reflected in the cost-benefit analysis through different scenarios. Further discussions on Supplier compensation are likely to occur before the cost-benefit analysis is fully formulated and distributed, so the group’s preference is to explore variants of the P415 solution within the cost-benefit analysis to help them come to a decision, as they believe analysis of the mechanisms is needed to assess their impact on the costs and benefits.

4. P415 Workgroup Recommendation

- 4.1 The Workgroup recommends to the Panel by majority that Option 5 ‘Market Modelling – Wholesale Impacts and Network Modelling’ be taken forward for Elexon to tender a cost-benefit analysis.

5. P415 Next Steps

- 5.1 The BSC Panel will consider this at their meeting on 9 September 2021; the expectation is that Elexon will then begin procurement activities for the eventual CBA.
- 5.2 Elexon have held initial discussions with five service providers to understand capabilities within the market so that procurement activities can start in earnest once a decision has been made.
- 5.3 Elexon will undertake a Request for Proposal (RFP) process to ensure an appropriate provider is selected through a fair and competitive evaluation.

6. Recommendations

- 6.1 We invite the Panel to:
- a) **AGREE** that Elexon submits a competitive tender for a cost-benefit analysis of P415 with Option 5 ‘Market Modelling – Wholesale and Network Impacts’

Attachments

Attachment A contains the P415 CBA Options paper.

Appendices

For more information, please contact:

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APPENDIX 1 – Indicative timescales

The following is an indicative timescale for the Request for Proposal and procurement process.

RFP Activities	Timeline
Issue RFP to selected Suppliers	21 September 2021
Suppliers submit RFP response to Elexon	20 October 2021
Shortlisted bidder presentations (as required)	10 November 2021 to 12 November 2021
Legal Discussions	16 November 2021 to 7 December 2021
Contract Award	9 December 2021