

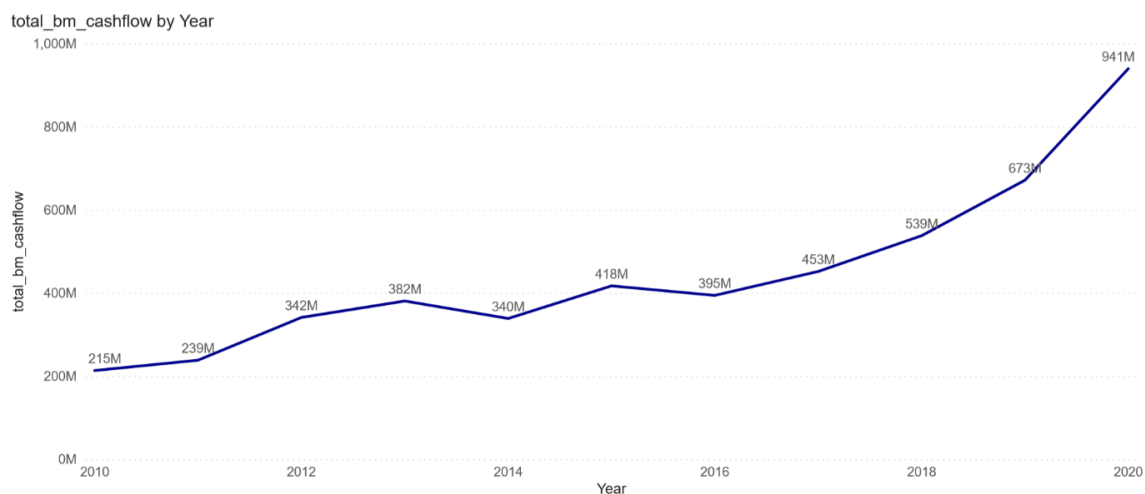
4.7 Issue Form

Issue Form - BSCP40/04	Issue Number <i>(mandatory by BSCCo)</i>
Issue Title <i>(Mandatory by originator)</i> Reserve Scarcity Pricing review	

Issue Description *(Mandatory by originator)*

Reserve scarcity pricing was introduced as part of the [Electricity Balancing SCR](#) via [P305](#) 'Electricity Balancing Significant Code Review Developments' to address several defects of the previous imbalance calculations: They excluded the costs borne by consumers during disconnection and voltage reduction and the previous method for pricing reserve costs into cash-out did not accurately reflect the real time value of the reserve, e.g. the value consumers would put on capacity in a tight system. Ofgem expected that P305 would incentivize the market to provide more flexibility (through price signals) when it was required. P305 was implemented in November 2015.

Whilst we agree and support Ofgem's decision to implement P305, since then the way the GB electricity system and how it is balanced has changed significantly. Over the past 5 years the volume of renewables on the system has increased dramatically as has new and planned interconnection with Europe. During the summer of 2020 the Covid 19 pandemic led to the lowest system demand observed over a summer in the UK in around 60 years. Managing the system has become more challenging as can be demonstrated through the rising BM costs, especially over the past 5 years (shown in the graph below).



We think that due to the changing system conditions the Reserve Scarcity Price (RSP) mechanism requires review. This should consider the issues RSP intended to solve, how they have evolved and if/what scarcity mechanism is required to incentivize market participants to support the system in tight margin situations. The electricity system in the UK has evolved leading to scarcity situations in both demand and generation. RSP addresses only generation scarcity, however impact on the signal to demand may also need to be considered.

We have received feedback and concerns from industry over reserve scarcity pricing. Additionally, our own analysis shows improvement potential for this mechanism. We have reviewed recent situations where high LOLP values have been published to understand the background system conditions. Our findings included identifying certain components that aren't included in the current calculation, issues related to the timing of the day ahead run, and other aspects of the calculation that could be updated or improved. Customers may sometimes be confused about the misalignment of different scarcity signals such as the RSP, the Capacity Market Notice (CMN) and the Electricity Margin Notice (EMN).

Consequently, we wish to be proactive and initiate an Elexon Issues Group that reviews the Reserve Scarcity Pricing mechanism to improve overall results for consumers.

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This will focus on:

- The problem statement that led to the creation of the RSP concept and initial development.
- How industry and system balancing have evolved since 2015 and whether this has impacted the problem statement
- Is a scarcity mechanism still required in the current environment as Industry moves to near time auctions?
- If yes, what could the methodology look like?
- What costs should feed into the mechanism and how?

Justification for Examining Issue *(Mandatory by originator)*

We understand and are supportive of Ofgem's initial intention to create a price signal to the market for situations where there is generation scarcity. We have received feedback from industry regarding concerns on the effectiveness of the RSP and we have identified a series of shortcomings of the existing mechanism:

- The margins in LOLP calculation may appear tighter than reality due to the de-rated margin methodology not taking into account all reserve and response options available to the ESO
- RSP can only apply in STOR windows when STOR is utilised, and to the STOR product
- There is a risk that the RSP signal may provide an inaccurate price signal to the market

We want to review the impact changed system conditions had on the objectives Ofgem intended to meet through the RSP mechanism and reassess the best way to resolve them:

- Cash out excluded the costs borne by the consumer during disconnection and voltage reduction
- The previous method for pricing reserve costs into cash-out does not accurately reflect the real time value of this reserve, and excludes the cost of some reserve products altogether, or does not fully recognise the total cost

Potential Solution(s) *(Optional by originator)*

To be considered by the Issues Group.

Proposer's Details

Name

Katharina Birkner

<i>Organisation</i> National Grid ESO
<i>Email Address</i> katharina.birkner@nationalgrid.com
<i>Telephone Number</i> 07773647025
<i>Date 05/11/2020</i>

4.8. Issue Form Guidelines

These guidelines are to be used to assist in the completion of the Issue Form, contained in Appendix 4.7. The guidelines state who should complete each item on the form and whether it is mandatory or optional. They also give a brief description of the information that should be given for each item. For further support on completing this Issue Form, please contact BSCCo. Once completed this form should be submitted to BSCCo.

- **Issue Number** –mandatory to be completed by BSCCo once the proposed issue has been received. This is a unique number.
- **Issue Title** – mandatory and is completed by the proposer of the Issue at the time the issue is raised. This should be unique where possible.
- **Issue Description** – mandatory and is completed by the proposer of the Issue. The description should include as much detail as possible of the issue being encountered.
- **Potential Solution(s) - optional** by originator – This is to be completed where the proposer of the Issue has potential solutions that they want to be discussed as part of a potential solution to the issue.
- **Justification for Examining Issue** – mandatory by proposer of the Issue – details of the business case for examining the issue. This section should also include a brief assessment of the risk associated with leaving the problem/issue unresolved, in terms of materiality and probability of occurrence.
- **Proposer's Details** – mandatory completion by proposer of the Issue – the name, organisation, email address and telephone number of the proposer. This should include details of any originators of the Issue, for example if BSCCo is raising an Issue on behalf of another participant.

4.9. BCA Registration Form

BCA Registration Form - BSCP40/05	<i>[Mandatory by applicant]</i>
<i>Part A – Categorisation (mandatory completion by Applicant)</i>	

	Generator
	Supplier
	BSC Auditor
	Distribution Business
	Other

	Core Industry Document Owner
	BSC Agent
	Interconnector User
	Citizens Advice

	Non-Physical Trading Party
	MRASCo
	NETSO
	Citizens Advice Scotland

<i>Part B - Nominated BCA Details (completed by applicant)</i>	
Name	
Organisation	
Position	
Telephone Number	
Fax Number	
Email Address	

<i>Part C - Authorisation (completed by Senior Manager in applicant Organisation)</i>	
Name	
Organisation	
Telephone Number	
Fax Number	
Signature	
Date	

4.10 BCA Registration Form Guidelines

These guidelines are to be used to assist in the completion of the BCA Registration Form, given in Appendix 4.9. The guidelines state who should complete each item on the form and whether it is mandatory or optional. They also give a brief description of the information that should be given for each item. For further guidance please contact BSCCo.

- **Categorisation** – mandatory completion by applicant – tick all of the categories of Qualifying Organisations that the BCA will be representing. Note that this may be more than one, e.g., an individual acting as the BCA for an organisation that is both a Supplier and Generator Party.
- **Specify qualifying date from which category applies** – completion by applicant where applicable - the date on which the BCA appointment is to take place. Where this is not completed, it is assumed that the BCA details will apply from the date the form is received by BSCCo.
- **Nominated BCA Details** – mandatory completion by applicant - name, qualifying organisation, email address, telephone and fax number to allow circulation of change issues from the qualifying date.
- **Authorisation** – mandatory completion by a senior manager in qualifying organisation - name, qualifying organisation, position, telephone and fax number.

NB: To submit a BCA Registration form via email, BSCCo require it to be sent from the named user account of the Senior Manager providing authorisation.

4.11 PACA Registration Form

PACA Registration Form BSCP40/06	<i>[Mandatory by applicant]</i>
<i>Part A – Categorisation (completed by Applicant)</i>	
Please tick one of the categorisations of Supplier Agents below:	

<input type="checkbox"/>	HHDC
<input type="checkbox"/>	NHHDC
<input type="checkbox"/>	HHDA

<input type="checkbox"/>	NHHDA
<input type="checkbox"/>	HHMOA
<input type="checkbox"/>	NHHMOA

<input type="checkbox"/>	PRS Provider
<input type="checkbox"/>	Meter Administration
<input type="checkbox"/>	Data Transfer Service Provider

Specify the qualifying date from when category starts (if appropriate).....

<i>Part B - Details of Nominated PACA (completed by Applicant)</i>	
Name	
Organisation	
Telephone Number	
Fax Number	
Email Address	

<i>Part C - Authoriser Details (completed by Senior Manager of Applicant Organisation)</i>	
Name	
Organisation	
Position	
Telephone Number	
Fax Number	
Signature	
Date	

4.12. PACA Registration Form Guidelines

These guidelines are to be used to assist in the completion of the PACA Registration Form, given in Appendix 4.11. The guidelines state who should complete each item on the form and whether it is mandatory or optional. They also give a brief description of the information that should be given for each item. For further guidance please contact BSCCo.

- **Categorisation** – mandatory completion by applicant. Tick all of the categories of Party Agents that the PACA will be representing. Note that an organisation may choose to have only one PACA to cover all of the agency services that it provides or is planning to provide. Conversely it may choose to have a separate PACA for any combination of these.
- **Specify qualifying date from which category applies** – completion by applicant where applicable - the date on which the PACA appointment is to take place. Where this is not completed, it is assumed that the PACA details will apply from the date on which the form is received by BSCCo.
- **Nominated PACA Details** – mandatory completion by applicant - name, organisation, telephone and fax number and email address to allow circulation of change issues.
- **Authorisation** – mandatory completion by a Senior Manager in Party Agent organisation – name, qualifying organisation, position, telephone and fax number.

NB: To submit a PACA Registration Form via email, BSCCo require it to be sent from the named user account of the Senior Manager providing authorisation.

4.13 Designation Request Form

Designation Request Form - BSCP40/07	Request Number (mandatory by BSCCo)
Title of proposed Modification (Mandatory by originator – please also attach draft Modification Proposal Form, which can be found on the BSC Website and must meet the requirement in Section F2.1.2 of the BSC, and the signed letter from section 4.15)	
Rationale for Requesting Designation (Mandatory by originator – this must include any information on what other steps, if any, have been taken to have the Code issue or defect addressed)	
Reasons why Applicant has an interest in the Code/issue (Mandatory by originator – this may include evidence of being materially affected by the issue)	
Additional Details which may support the application (Optional by originator)	
Proposer Name	
Organisation	
Email Address	
Telephone Number	
Date	

4.14. Designation Request Form Guidelines

These guidelines are to be used to assist in the completion of the Designation Request Form, given in Appendix 4.13. The guidelines state who should complete each item on the form and whether it is mandatory or optional. They also give a brief description of the information that should be given for each item. For further guidance please contact BSCCo.

- **Request Number** –mandatory to be completed by BSCCo once the request has been received. This is a unique number.
- **Title of Proposed Modification** – mandatory and is completed by the originator at the time the request is raised. This must match the title on the draft Modification Proposal Form that accompanies your Designation Request.
- **Rationale for Requesting Designation** – mandatory and is completed by the originator. You should include as much detail as possible on your reasons for requesting Designation. This should include any information on your attempts to find a Party to raise the Modification, the reason they will not raise or ‘sponsor’ this Modification and any information on other industry discussions or forum discussion you have had on the Modification.
- **Reasons why Applicant has an interest in the Code/issue** – mandatory by originator. You need to explain how the issue impacts you and what it is about the proposed Modification that makes you an interested party in it. If you are acting for another party/parties (for example, a trade association acting for its members) this should be explained.
- **Additional Details which may support the application** – optional by originator – if there are any other details that you believe will support your request, please include them.
- **Proposer’s Details** – mandatory completion by originator – the name, organisation, email address and telephone number of the applicant.

4.15 Pro Forma Letter from Third Party Proposer

To:

ELEXON Limited as the Balancing and Settlement Code (the “BSC”) Company (“BSCCo”)

[insert registered office address]

[insert date]

Dear Sirs,

Application to be designated by the Panel as a Third Party Proposer pursuant to Section F2.1A.1 of the Balancing and Settlement Code

By writing this letter, and submitting a Designation Request Form and a draft Modification Proposal Form we are applying to be designated as a Third Party Proposer under the Section F (Modification Procedures) of the BSC.

Unless otherwise stated, or the context otherwise requires, any capitalised term in this letter shall have the meaning given to it in the BSC.

We acknowledge that we have obtained a copy of the latest versions of Section B (The Panel), Section C (BSCCo and its Subsidiaries), Section F and Section H (General) and Section X-1 (General Glossary) of the BSC as well as BSC Procedure 40 from the BSC Website.

In consideration of BSCCo and/or the Panel considering our application to be designated as a Third Party Proposer, we hereby agree with each of you that we shall be bound by:

- a) the terms of Section B1, B3 and B4.6 (the Panel); Section C1 and C3 (BSCCo and its Subsidiaries), Section F (Modification Procedures) and Section H7.1, H8 and H9 (General) of the BSC; and
- b) the terms of BSC Procedure 40,

for the purposes of our application to be designated as a Third Party Proposer and the consideration of our modification proposal under the Modification Procedures as if we were a party to the BSC for the purposes of those Sections and BSC Procedures.

We acknowledge and agree that:

- a) during our application to be appointed as a Third Party Proposer the provisions of paragraph 2.1A of Section F (Modification Procedures) of the BSC provide a right of appeal to the Authority should the Panel reject our application and that should our application be rejected our sole and exclusive remedy will be to refer the matter for determination to the Authority in accordance with that paragraph and we accept that its determination will be final, conclusive and binding; and
- b) we will not make any claim in damages or any other claim of a financial nature against ELEXON Limited or any Panel Member and we hereby waive (to the fullest extent permitted by law) any such claim against ELEXON

Limited or any Panel Member and release each from any such liability in respect of any breach by ELEXON Limited or the Panel of any provision of the Code or in tort (including negligence) or otherwise.

Nothing in this letter shall exclude or limit liability for death or personal injury resulting from negligence by ELEXON Limited or any Panel Member or resulting from fraudulent misrepresentation.

This letter shall expire following the later of:

- a) the final determination (whether by the Panel or the Authority) that we have not been designated as a Third Party Proposer;
- b) the withdrawal of the Modification Proposal proposed by us; or
- c) the final determination (whether by the Panel or the Authority) as to whether the Modification Proposal proposed by us should be approved or rejected.

This letter shall be governed by, and construed in all respects in accordance with, the laws of England and Wales.

Yours faithfully,

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signed by **[insert name]** being a Director and signing this letter for and on behalf of **[insert full name of company]**