

BSC Modification Proposal Form		At what stage is this document in the process?
<h1>P440</h1> <p>Mod Title: Enabling Elexon to administer the Capacity Market Advisory Group</p>		<div style="display: flex; flex-direction: column; gap: 5px;"> <div style="border: 1px solid green; background-color: #00a651; color: white; padding: 5px; display: flex; align-items: center; justify-content: center;">01 Modification</div> <div style="border: 1px solid blue; padding: 5px; display: flex; align-items: center; justify-content: center;">02 Workgroup Report</div> <div style="border: 1px solid purple; padding: 5px; display: flex; align-items: center; justify-content: center;">03 Draft Modification Report</div> <div style="border: 1px solid orange; padding: 5px; display: flex; align-items: center; justify-content: center;">04 Final Modification Report</div> </div>
<p>Purpose of Modification:</p> <p>This Modification seeks to enable Elexon to administer the Capacity Market Advisory Group (CMAG), which in turn supports Ofgem’s Capacity Market (CM) Rules change process. Ofgem awarded Elexon the administrative work (subject to this Modification) in its ‘Decision to establish a Capacity Market Advisory Group’ dated 9 May 2022.</p> <p>Elexon will be required by the Balancing and Settlement Code (BSC) to maintain and operate the processes (that it shall develop separately to this Modification) for the CMAG in support of Ofgem’s updated guidance on ‘The Change Process for the Capacity Market Rules’. In performing the secretariat role, Elexon shall be directly accountable to Ofgem rather than the BSC Panel. Elexon’s costs for the administrative work will be recouped from BSC Parties in proportion to their market share through the Main Funding Share, in line with Ofgem’s decision letter.</p>		
<p>Does this Modification impact any of the European Electricity Balancing Guideline (EBGL) Article 18 Terms and Conditions held within the BSC?</p> <p><input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p>		
	<p>The Proposer recommends that this Modification should:</p> <ul style="list-style-type: none"> not be a Self-Governance Modification Proposal be submitted directly to the Report Phase <p>This Modification will be presented by the Proposer to the BSC Panel on 12 May 2022. The Panel will consider the Proposer’s recommendation and determine how best to progress the Modification.</p>	
	High Impact: None	
	Medium Impact: Elexon as the BSCCo and Ofgem as the GB Regulator	
	Low Impact: BSC Trading Parties and market participants wishing to engage in the CMAG	

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Timetable		 <i>grahame.neale@nationalgrideso.com</i>
The Proposer recommends the following timetable:		
Initial Written Assessment considered by Panel	12 May 2022	 <i>07787 261 242</i>
Report Phase Consultation	16 May 2022 - 27 May 2022	
Draft Modification Report presented to Panel	09 June 2022	
Final Modification Report submitted to Authority	14 June 2022	
Implementation Date	01 September 2022	

1 Why Change?

What is the issue?

Summary:

The BSC does not currently allow Elexon to undertake administrative activities that would support the CMAG. This does not align to Ofgem's decision to appoint Elexon to undertake the CMAG administrative activities on its behalf.

Further Detail:

Ofgem has conducted a review of the CM Rules change process (that it currently administers), and proposes some amendments to the process, including the formation of the CMAG. Together with the CMAG, the changes to the process are intended to create greater efficiencies in the CM Rules change process for industry.

Further, Ofgem considers that it would be beneficial to appoint an organisation to independently manage the administration activities of the CMAG, to ensure the rule change process can be an efficient, fair, objective and transparent industry led process that will in turn reduce administrative burden on Ofgem.

According to Ofgem, due to Elexon's expertise in code administration, it has awarded Elexon with the administrative work to support the CMAG (subject to this Modification). Therefore, the BSC should be amended to enable Elexon to conduct the work.

It is appropriate for Elexon to conduct the CMAG administration work, as it is supportive of Applicable BSC Objective (f) "Implementing and administering the arrangements for the operation of contracts for difference and arrangements that facilitate the operation of a capacity market pursuant to EMR legislation".

As the BSC does not currently permit Elexon to undertake this work, if this Modification were not progressed, the benefits (outlined in the solution section) to the market of having a neutral, centrally administered CMAG may not be realised.

Background:

The CM is formed through secondary legislation through a combination of [The Electricity Capacity Regulations 2014 \(the Regulations\)](#) and the [Capacity Market Rules \(the Rules\)](#). The Rules provide the detail for implementing the CM framework as outlined in the Regulations.

Regulation 77 provides Ofgem (as the GB Authority) with the power to amend, add to, revoke or substitute any provision of the Rules, so long as those Rules or amendments are not inconsistent with the Regulation, confer with functions of the Secretary of State or provide Ofgem with additional accountability.

Regulation 78 outlines the objectives that Ofgem shall consider when making capacity market Rules changes, in addition to its wider statutory duties:

- a) promoting investment in capacity to ensure security of electricity supply;
- b) facilitating the efficient operation and administration of the capacity market; and
- c) ensuring the compatibility of capacity market rules with other subordinate legislation under Part 2 of the Energy Act of 2013 (which relates to Electricity Market Reform (EMR) and established the CM).

Regulation 79 outlines the high level change principles that Ofgem must adhere to when making or amending CM Rules. Where a proposal is not made by Ofgem, but is made by someone that is permitted to propose Rule changes, Ofgem must consider the proposal and consult on it if it is minded to approve the proposal, or publish its reasons for rejecting the proposal without consultation.

The detail of how Ofgem meets the aforementioned change principles is not contained in the Regulations themselves, rather Ofgem created a CM Rules change guidance document, which has been active since the inception of the CM in 2014. This document outlines the change processes in greater detail.

In [Ofgem's Call for input on the formation of CMAG and updates to the CM Rules change guidance](#), it noted that the CM Rules change process has *"increased in duration, complexity, and difficulty increasing the risk of non-delivery for delivery partners and Ofgem. There is also a risk of non-compliance for CM participants because of the short time between the change consultation and the [CM] qualification window."*

Therefore, as part of [Ofgem's five-year review on the CM Rules](#), it proposed reforms as part of the CM Rules change process on 16 April 2019, which included the formation of the CMAG. Ofgem subsequently held a stakeholder engagement event in October 2019, whereby it outlined its proposals to reform the CM Rules change process to rectify the challenges faced by the current process, and to reduce the administrative burden on Ofgem of operating the CM Rules change process.

Since this time (during which there have been delays due to an Ofgem-wide reprioritisation in response to Covid-19), Elexon and Ofgem have been engaging about how Elexon can support Ofgem by using its Code administration experience, to support the administrative work of the CMAG.

Desired outcomes

To enable Elexon as the BSCCo to administer the CMAG, in line with Ofgem's decision dated 9 May 2022.

The Modification should be progressed in a manner that enables Elexon to commence its administrative activities on 1 September 2022, following Ofgem approval. Ofgem should receive the Final Modification Report for decision by 14 June 2022.

2 Solution

Proposed Solution

This Modification should enable Elexon as the BSCCo to conduct the administrative process work for the CMAG, on a not for profit basis, that Ofgem is awarding to Elexon (subject to this Modification) per its decision dated 9 May 2022.

Elexon shall:

- be required by the BSC to create, maintain and operate the CMAG processes in support of the Change Process for the Capacity Market Rules guidance, that Ofgem publishes;
- be accountable to Ofgem rather than the BSC Panel for operating and maintaining (including changing) the CMAG processes; and
- recover its costs for the administrative work from BSC Parties in proportion to their market share through the main funding share.

In contrast to the BSC Change process, where the BSC Panel oversees the change process, Elexon will be directly accountable to Ofgem for the CMAG work, akin to a service provider type relationship. Therefore, a role including the BSC Panel in the CMAG work is not expected.

The scope of this Modification should be limited to enabling Elexon to conduct the work on behalf of Ofgem, and making clear the funding position of BSC Parties. The low level detail of the processes that Elexon shall operate are not considered as part of this Modification, as these processes will separately be developed by Elexon and approved by Ofgem (similar to how Ofgem developed the current Rules change process).

To implement the solution to this Modification, amendments will be required to [BSC Section C 'BSCCo and its Subsidiaries'](#)

Proposed Legal Text

The draft legal text to BSC Section C for this Modification can be found in Attachment A.

Benefits

Enabling Elexon to administer the CMAG processes will ensure the efficient facilitation and operation of Ofgem's CM Rules change processes. Therefore, Elexon will be supporting a revised process that is more dynamic and capable of adapting to changing market conditions, as well as promoting a more transparent approach to CM Rules change for the benefit of market participants. This new process was identified by Ofgem as one of its priorities in its 2021 Forward Work Plan, [published as part of its July 2021 decision to amend the CM Rules](#).

Elexon providing a central, neutral and not-for-profit support service to market participants in facilitating the CMAG will reduce the burden on proposers of CM Rules change, as Elexon will be able to provide 'critical friend' support in the drafting of documentation. This will ensure the CM change process is accessible to all sizes and scale of market participant, which should foster proposals from all scales of CM participant.

Further, Ofgem will be able to focus on its statutory consultation and decision making duties as part of the CM Rules change process, as the industry led supporting processes will be efficient, fair, objective and transparent, in turn reducing administrative burden on Ofgem.

3 Relevant Objectives

Impact of the Modification on the Relevant Objectives:	
Relevant Objective	Identified impact
a) The efficient discharge by the Transmission Company of the obligations imposed upon it by the Transmission Licence	Neutral
(b) The efficient, economic and co-ordinated operation of the National Electricity Transmission System	Positive
(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	Positive
(d) Promoting efficiency in the implementation of the balancing and settlement arrangements	Neutral
(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]	Neutral
(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	Positive
(g) Compliance with the Transmission Losses Principle	Neutral

(f) - This Modification will allow Elexon to facilitate the operation of a Capacity Market pursuant to CM legislation. Specifically, this Modification will enable Elexon to neutrally support the administrative work of a more effective and efficient market change process.

(c) – The CM is a competitive market in the generation of electricity. Therefore, Elexon supporting a more inclusive and effective change process in that competitive market through the BSC, supports competition and development in the CM.

(b) – National Grid Electricity System Operator (NGESO) uses the CM as one of its mechanisms for economically and efficiently balancing the National Electricity Transmission System. Therefore, Elexon facilitating the operation of an efficient change process through administering the CMAG shall benefit the development of the CM. It also has the potential to improve the CM arrangements and thus assists NGESO in its efficient, economic and co-ordinated operation of the Transmission System.

4 Potential Impacts

Impacts on Core Industry Documents

Impacted Core Industry Documents			
<input type="checkbox"/> Ancillary Services Document	<input type="checkbox"/> Connection and Use of System Code	<input type="checkbox"/> Data Transfer Services Agreement	<input type="checkbox"/> Use of Interconnector Agreement
<input type="checkbox"/> Retail Energy Code	<input type="checkbox"/> Transmission License	<input type="checkbox"/> System Operator Transmission Owner Code	<input type="checkbox"/> Supplemental Agreements
<input type="checkbox"/> Distribution Code	<input type="checkbox"/> Grid Code	<input type="checkbox"/> Other (please specify)	<input checked="" type="checkbox"/> None

Impacts on BSC Systems

Impacted Systems				
<input type="checkbox"/> CRA	<input type="checkbox"/> CDCA	<input type="checkbox"/> PARMS	<input type="checkbox"/> SAA	<input type="checkbox"/> BMRS
<input type="checkbox"/> EAC/AA	<input type="checkbox"/> FAA	<input type="checkbox"/> TAAMT	<input type="checkbox"/> NHHDA	<input type="checkbox"/> SVAA
<input type="checkbox"/> ECVAA	<input type="checkbox"/> ECVAA Web Service	<input type="checkbox"/> Elexon Portal	<input type="checkbox"/> Other (Please specify)	<input checked="" type="checkbox"/> None

Due to the funds for Elexon administering the CMAG processes being recovered in line with Ofgem's decision to appoint Elexon as the independent secretariat (the existing main funding share), Elexon will collect the funds using existing systems and processes without any change required.

Impacts on BSC Parties

Impacted Parties			
<input checked="" type="checkbox"/> Supplier	<input checked="" type="checkbox"/> Interconnector User	<input checked="" type="checkbox"/> Non Physical Trader	<input checked="" type="checkbox"/> Generator
<input type="checkbox"/> Licensed Distribution System Operator	<input type="checkbox"/> National Electricity Transmission System Operator	<input type="checkbox"/> Virtual Lead Party	<input type="checkbox"/> Other (Please specify)

All BSC funding parties that contribute to the main funding share will be impacted by this Modification, as the relative low cost of Elexon's administration work for the CMAG process will be included in Elexon's operational costs.

Impacts on other parties

CM parties will be impacted by this Modification, as they would engage with Elexon to propose and progress CM Rules changes through the administrative process that Elexon will facilitate.

Impacts on consumers and the environment

Impact of the Modification on consumer benefit areas:	
Consumer benefit area	Identified impact
<p>Improved safety and reliability</p> <p>One of the CMs roles is to ensure security of supply. Therefore, enabling Elexon to facilitate the administration activities of a more efficient and effective change process for the CM will support improvements to the CM and thus have a positive impact on security of supply and reliability.</p>	Positive
<p>Lower bills than would otherwise be the case</p> <p>No impact</p>	Neutral
<p>Reduced environmental damage</p> <p>No impact</p>	Neutral
<p>Improved quality of service</p> <p>No impact</p>	Neutral
<p>Benefits for society as a whole</p> <p>No impact</p>	Neutral

Legal Text Changes

[BSC Section C 'BSSCo and its Subsidiaries'](#) will be impacted by this Modification, with proposed legal text in Attachment A to this proposal form.

5 Governance

Self-Governance

<input checked="" type="checkbox"/> Not Self-Governance – A Modification that, if implemented:	
<input checked="" type="checkbox"/> materially impacts the Code’s governance or modification procedures	<input type="checkbox"/> materially impacts sustainable development, safety or security of supply, or management of market or network emergencies
<input type="checkbox"/> materially impacts competition	<input type="checkbox"/> materially impacts existing or future electricity consumers
<input type="checkbox"/> materially impacts the operation of national electricity Transmission System	<input type="checkbox"/> is likely to discriminate between different classes of Parties
<input type="checkbox"/> involves any amendments to the EBGL Article 18 Terms and Conditions related to Balancing; except to the extent required to correct an error or as a result of a factual change	
<input type="checkbox"/> Self-Governance – A Modification that, if implemented:	
Does not materially impact on any of the Self-Governance criteria provided above	

This Modification should not be progressed as a Self-Governance Modification as it impacts the Code’s governance. It enables Elexon to administer the CMAG processes, funded by BSC Parties, but whereby the beneficiaries may not solely be BSC Parties, despite the overall cost being of relative low scale.

Further, it is appropriate for Ofgem to make the final decision on this Modification to align to its decision to appoint Elexon as the administrative provider for the CMAG processes.

Progression route

<input type="checkbox"/> Submit to assessment by a Workgroup – A Modification Proposal which:	
does not meet any criteria to progress via any other route.	
<input checked="" type="checkbox"/> Direct to Report Phase – A Modification Proposal whose solution is typically:	
<input type="checkbox"/> of a minor or inconsequential nature	<input checked="" type="checkbox"/> deemed self-evident
<input type="checkbox"/> Fast Track Self-Governance – A Modification Proposal which meets the Self-Governance Criteria and:	
is required to correct an error in the Code as a result of a factual change including but not limited to:	
<input type="checkbox"/> updating names or addresses listed in the Code	<input type="checkbox"/> correcting minor typographical errors
<input type="checkbox"/> correcting formatting and consistency errors, such as paragraph numbering	<input type="checkbox"/> updating out of date references to other documents or paragraphs
<input type="checkbox"/> Urgent – A Modification Proposal which is linked to an imminent issue or current issue that if not urgently addressed may cause:	
<input type="checkbox"/> a significant commercial impact on Parties, Consumers or stakeholder(s)	<input type="checkbox"/> a Party to be in breach of any relevant legal requirements.

a significant impact on the safety and security of the electricity and/or gas systems

We do not believe a Modification Workgroup needs to be convened for the following reasons:

- Ofgem indicated in both its minded-to consultation, and subsequent decision, that it intended for the costs to be recouped through the main funding share, due to the relative low scale of cost and efficiencies.
- Market participants had the opportunity to comment on the proposed funding mechanism through Ofgem's minded-to consultation, and no material comments that would require further industry analysis were received. A summary of Industry responses to Ofgem's minded-to consultation can be found in its decision dated 9 May 2022.
- The detail of the CMAG processes will be held in documentation outside the BSC itself, and approved by Ofgem. Therefore, this Modification simply requires Elexon to create, maintain, and comply with the processes developed, and makes clear the funding position for BSC Parties. As such, the solution is self-evident.

Does this modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

No impact anticipated.

Does this Modification impact any of the EBGL Article 18 Terms and Conditions held within the BSC?

No impact anticipated.

Implementation approach

This Modification should be implemented on 1 September 2022. Elexon is anticipated to begin administering the CMAG processes from September/October 2022, in line with Ofgem's decision following its minded-to consultation. We would like to kindly request an Ofgem decision by 30 June 2022, to provide final certainty that the CMAG will be operated by Elexon, so that Elexon can begin preparations to commence activities in September/October 2022.