

Update on the Network Gas Supply Emergency Settlement Validation Committee (NGSESVC)

Panel

Date of meeting **8 June 2023**

Paper number **339/09**

Owner/author **Jessica Davis**

Purpose of paper **For information**

Classification **Public**

Document version **V1.0**

Summary This paper clarifies the role of the Network Gas Supply Emergency Settlement Validation Data Committee (NGSESVC) and provides an update on Elexon's proposed business plan for the creation of the NGSESVC, which will be presented in full to the Panel in September 2023.

1. Background of Modification P448 and the purpose of the NGSESVC

Summary

- 1.1 BSC Modification P448¹ 'Protecting Generators subject to Firm Load Shedding during a Gas Supply Emergency from excessive Imbalance Charges', was raised due to external events increasing the risk of gas shortages during winter 2022/23 and subsequently threatening the production of electricity from gas Generators.
- 1.2 P448 protects Generators subject to Load Shedding in a Stage 2+ Network Gas Supply Emergency (NGSE) from paying Imbalance Charges for not generating electricity that they were contracted to produce. This is achieved by settling the Load Shedding instruction as a Bid through the normal Settlement process (using data submitted by the Generator and NGESO), and does not require approval from the NGSESVC or any other body. This process protects the Generator from Imbalance Charges that could be significant sums, reaching into the hundreds of millions of pounds, outlined in the BSC Modification Report as the business case for the benefit of P448. The Settlement process also requires the Generator to pay for the Bid Volume at their submitted Bid Price, which is intended to ensure they don't profit from curtailment through a Load Shedding instruction. For example, Generators could profit from curtailment if they have zero-hour contractors, or lower running costs of buildings that aren't operational during curtailment.
- 1.3 Further, and separate to the Settlement process outlined above, P448 introduces the NGSESVC to verify that the Settlement process achieved an outcome consistent with the intention of P448 i.e. that the Generator was protected from Imbalance Charges only on power they'd sold prior to receiving the Load Shedding instruction and that the Bid Price did pay back any profit made from curtailment. The Committee will validate the Bid Price originally submitted by the Generator and may, if necessary, direct a change to it (for purposes of Settlement) to ensure there are no profits from curtailment. Additionally, the Committee will review the Final Physical Notifications (FPNs) and Bid Offer Acceptance (BOA) data alongside the Bid Price to ensure that the Generator is paying the approved Bid Price for the appropriate amount of electricity for the time of the Load Shedding instruction.

¹ <https://www.elexon.co.uk/mod-proposal/p448/>

Further detail

- 1.4 P448 implements a mechanism whereby gas-fired Generators are protected from BSC Imbalance Charges in the event of a NGSE and corresponding Load Shedding instruction from National Grid Gas, which prevents the Generator from delivering its contracted positions. A Generator would not know the duration of the Load Shedding instruction until they received a notice allowing them to resume taking gas from the system.
- 1.5 Initially, Load Shedding instructions would be settled through the normal Settlement process, with the Load Shedding instruction treated as a Bid. This would have the effect of protecting the Generator from Imbalance Charges on the Bid volume, which would be calculated by comparing:
 - FPNs submitted by the Generator to National Grid Electricity System Operator (NGESO). For the duration of the NGSE, the Generator is required to ensure that their FPN reflects the contractual position of the power station prior to receipt of the Load Shedding instruction (so their protection from Imbalance Charges does not extend to any power they sell after receipt of the Load Shedding instruction); and
 - BOA data that reflects the effect of the Load Shedding instruction on the BM Unit's output. This BOA data is manually constructed by NGESO (and submitted into Settlement using the processes in BSC Procedure BSCP18² 'Corrections to Bid-Offer Acceptance Related Data').
- 1.6 As for any Bid, the Generator will be required to pay for the Bid volume at the Bid Price they submitted to NGESO. For the duration of the NGSE, this Bid Price should reflect any Avoidable Costs associated to not generating electricity to ensure that no Generator would profit from an NGSE. The Generator would subsequently pay that Bid Price per MWh of electricity they did not generate.
- 1.7 The new NGSESVC, would meet post-event to verify the Settlement data, to determine whether the Bid Price should be amended and confirm that the Generator's FPN did reflect their contractual position prior to receiving the Load Shedding instruction. The committee would have the power to:
 - Amend the FPNs, if it is not satisfied that they reflect the contractual position prior to receipt of the Load Shedding Instruction;
 - Amend the Bid Price, if it is not satisfied that it reflects the net saving in Avoidable Costs from not being able to generate;
 - Amend the BOA data constructed by NGESO, if it is not satisfied that it matches the Load Shedding instruction (or if the generator did not follow the Load Shedding instruction); or
 - Create FPN, Bid Price and BOA data for BM Units that received Load Shedding Instructions, but were not able to submit their own data (e.g. because they do not participate in the BM).

2. Work conducted to date

Expressions of interest:

- 2.1 Elexon sent out an expression of interest to industry on the 4 March 2023. To date, one person has expressed interest in being part of the committee.
- 2.2 The level of interest we received through the expressions is not where we had hoped. However, by doing an expression of interest at an early stage, we have identified more work that needs to be done in this area. We are going to seek out further interested members by reaching out to the participants involved in the BSC Issue 105³ group 'Further considerations following implementation of BSC Modification P448', to ensure they have the opportunity to express an interest. We have also commenced internal work assessing alternative options for resourcing the Committee, for if our further engagements do not increase interest. Whilst it is possible that membership would not be an issue if an NGSE event were to occur, we want to ensure we have covered this risk in advance.

Cost recovery:

- 2.3 BSC Issue 105 was raised to explore consequential impacts from P448 and make a recommendation as to whether further industry change is required. The group were asked to consider whether the central costs of administering the Committee should be recovered through a different mechanism to usual BSC cost recovery.

² [Corrections to Bid-Offer Acceptance Related Data](#)

³ <https://www.elexon.co.uk/smg-issue/issue-105/>

For example, alternative options could be to recover costs solely from Generators, or an alternative subset of BSC Parties. The group's preference was to retain the current BSC funding arrangements for the NGSESVC as:

- 2.3.1 Some participants suggested that the reason for introducing a special charging arrangement would usually be to incentivise behaviour. For example, introducing a fee for making a claim, to discourage frivolous or unnecessary claims. However, in the case of P448, there is no behaviour to influence. A Generator will not have a choice about whether it is curtailed; this decision is made by National Grid. If a Generator is curtailed, it will not have a choice about whether the Committee investigates their data. Therefore, it would not be reasonable to recover the Committee's costs from Generators specifically.
- 2.3.2 Another participant suggested that P448 is a common good; introduced to benefit all consumers by preventing a gas emergency spilling over into a power system failure. Therefore, it is appropriate for all BSC funding Parties to collectively fund the process.
- 2.4 Therefore, Elexon will not be proposing changes to the normal Funding Share, the costs will be recovered as normal through the Funding Share arrangements⁴ set out in Section D 'BSC Cost Recovery and Participation Charges' of the BSC.

Contractual frameworks:

- 2.5 Elexon are considering two separate framework agreements. The first framework agreement will be for a consultant that has expertise in energy trading and generation. The role of the consultant will be to oversee the investigations and be available to answer other complex questions.
- 2.6 The second framework agreement will be for analytical assistance to investigate the cases, which can be scaled up or down dependent upon the size and complexity of the NGSE.
- 2.7 Elexon already has frameworks in place for external support with a number of providers that would be suitable for supporting NGSESVC work, should it be required. We are also working on amendments/additional frameworks, to ensure that all relevant expertise can be accessed in a timely manner, should an NGSE event occur. This work will be finalised as part of the business plan, as articulated below.

3. Proposed Business Plan

- 3.1 At the Panel's Meeting on 9 February 2023 (Panel 335), Elexon provided an update on a number of topics associated with the preparatory work for the NGSESVC. The Panel discussed the update and posed some further points for Elexon to consider. Elexon has since continued its preparatory work.
- 3.2 Elexon is in the process of preparing a business plan that will include all the required operational information for the creation and running of the NGSESVC. We will present the operational information as part of the business plan to the BSC Panel for approval at its September 2023 meeting. The business plan will contain the following:
 - 3.2.1 Executive Summary: An overview of the committee plan, including a summary of the committee concept, the problem it solves and the stakeholders it engages with.
 - 3.2.2 Market Analysis: General market analysis, including analysis of how and why NGSE could occur and defining the different scales of NGSE that could occur.
 - 3.2.3 Services: A description of the NGSESVC and Elexon services in detail, including explanations of the analysis and investigations we will conduct, what data the NGSESVC will look at and the justifications/guidance they should follow/produce in making decisions. We will also include worked examples where possible.
 - 3.2.4 Operations and Management: Describing how the committee will operate, including its structure and day-to-day operations.
 - 3.2.5 Resource Projections: Containing the resource projections for the committee (including internal Elexon and industry resource to analyse the claims and support the processes), explaining assumptions and showing how the committee will resource its work.
 - 3.2.6 Cost recovery/funding: Making clear the cost recovery mechanism, in line with current BSC cost recovery mechanisms.

⁴ <https://bscdocs.elexon.co.uk/simple-guides/section-d-bsc-cost-recovery-and-participation-charges>

3.2.7 Appendix: Including any additional information that supports the committee plan, such as market research studies, legal documents, or resumes of key team members.

- a) Framework requests and agreements
- b) Expression of interest list
- c) Recruitment questions for the committee
- d) Draft Terms of Reference (ToR)
- e) Pro-forma and guidance for data submissions.

Recommendations

We invite the Panel to:

- a) **NOTE** the NGSESVC update.

For more information, please contact:

Jessica Davis, Risk & Technique Analyst

Jessica.davis@elexon.co.uk

020 7380 4290