

ELEXON

16 April 2021

By e-mail to: energy.security@beis.gov.uk

Dear Energy Security Team,

Capacity Market: 2021 consultation on improvements

As you are aware, Elexon is the Code Manager for the Balancing and Settlement Code (BSC). We are responsible for managing and delivering the end-to-end services set out in the BSC and accompanying systems that support the BSC. This includes responsibility for the delivery of balancing and imbalance settlement and the provision of assurance services to the BSC Panel and BSC Parties. We manage not just the assessment, but also the development, implementation and operation of changes to central systems and processes.

In addition, through our subsidiary, EMR Settlement Ltd, we act as settlement agent to the Low Carbon Contracts Company (LCCC) and the Electricity Settlements Company (ESC), calculating, collecting and distributing payments to Contract for Difference (CfD) generators and Capacity Market (CM) providers. EMR services are provided to the LCCC/ESC through a contract and on a non-for-profit basis.

For the avoidance of doubt, this consultation response is being submitted on behalf of Elexon acting as the Code Manager responsible for the BSC (as 'BSCCo') and not on behalf of or in relation to our role as the EMR Settlement service provider.

Our response particularly seeks to highlight relevant considerations in respect of CMU interactions with the Balancing and Settlement Code to help inform decision making relating to this aspect of the consultation. In particular, we wish to highlight the resources required to ensure registration of new BSC Parties and our inability to commit to processing the registration of all CM participants prior to the 2022 pre-qualification window.

We have set out our points in respect of the consultation below for you to consider. If you would like to discuss any areas of our views, please contact Peter Frampton, Market Architect Team Leader, by email at Peter.Frampton@elexon.co.uk.

Yours sincerely,

Angela Love
Director of Future Markets and Engagement

Question 1: Do you agree with our proposal to require CMUs to register as BMUs? Do we need to require all CMUs to set their Final Physical Notification Flag to “True” (T)?

We agree with the general principle of improving transparency of assets connected to the electricity system. We have also driven a number of recent initiatives to improve access to the Balancing Mechanism, subsequently increasing revenue opportunities for assets and providing more options for the efficient operation of the electricity system by NGESO.

We welcome additional activities to improve access to markets for service providers and to improve the efficiency of operating the system, these two features underlying three objectives of the BSC;

- Objective B: the efficient, economic and co-ordinated operation of the national electricity transmission system; and
- Objective 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; and
- Objective D: promoting efficiency in the implementation and administration of the balancing and settlement arrangements.

We note that the proposals may not be applied retrospectively, and our analysis indicated c.200 CMUs may remain in operation without the new proposals applying. In this case, any anticipated benefit may be reduced by up to 10% unless the proposal is applicable to all currently registered CMUs.

Registering CMUs as BMUs

Type of BMU

The consultation does not specify what type of BMU the CM assets would need to register as. The different types of BMU are as follows;

BM Unit Type	Prefix	Overview
Directly connected	T_	Primary BM Units directly connected to the Transmission System.
Embedded	E_	Primary BM Units embedded within a Distribution System.
Interconnector	I_	Primary BM Units related to an Interconnector.
Supplier	2_	Primary BM Units covering Supply. These contain all of a particular Supplier's Meters for a given Grid Supply Point (GSP) Group in either a Base or Additional Supplier Primary BM Unit.
	C_	These Additional Supplier Primary BM Units are registered solely for the purpose of allocating Contracts for Difference (CfD) Assets
Secondary	V_	Secondary BM Units may be registered by a Virtual

		Lead Party to provide Balancing Services to the NETSO.
Miscellaneous	M_	Other types of Primary BM Units that don't fit the above categories. This prefix does not apply to newly registered Primary BM Units.

Embedded, Supplier and Secondary BMUs could all potentially be utilised for the registration of CM assets, depending on other requirements. Many CM assets are already registered as individual BMUs, and all CM assets should already be contained within a BMU (see below). For assets already existing within a BMU but not as their own BMU, V_ BMUs would likely represent the lowest consequential impact on registering parties. This is because Virtual Lead Parties do not need to be licensed entities and are not subject to some BSC charges. Additionally, assets may be registered within a V_ BMU and provide balancing services via this BMU while also residing within a Supplier BMU for volume allocation purposes. Following the implementation of [BSC Modification P375](#)¹ V_ BMUs will have the added benefit of being able to identify assets via asset metering, rather than at the boundary point of a site.

If the proposal also envisages that CMU operators be responsible for the settlement energy in relation to the assets participating in the CM then another type of BMU would be required (for example an Additional BMU). Assets in Secondary BMUs may be able to trade in the wholesale electricity markets following the development, approval and implementation of BSC Modification P415.

Another option would be to develop a new BMU type specifically for CMU related assets. This would require a Modification to the BSC (typically 6-9 months of development) and then implementation. The length of implementation would depend on the complexity of the solution, and similarity to existing options. This could provide an opportunity to reduce BMU costs for CM participants.

Level of aggregation

All CM assets should currently form part of a BMU, as all system assets with metering points are required to be in a BMU. For distributed assets, this is often via a Supplier BMU. Normally a Supplier would have one BMU per GSP group, with consumption and licence exempt generation being components of the Supplier BMU. Suppliers may also choose to operate 'additional' BMUs, to split some consumption and generation from the rest of their portfolio in a given GSP Group.

The consultation doesn't specify the level of aggregation necessary for CM assets. This will have an impact on administration costs and the costs of establishing the BMUs, as requiring each individual asset to be registered with an individual BMU will require many more registrations (and associated costs of £60+VAT per Additional/Secondary BMU per month) than allowing each CM participant to aggregate all assets in the same BMU. Having a single asset per BMU will also increase the complexity of CM aggregation calculations, resulting in additional costs for the administration of CMUs

¹ P375 introduced the ability to install asset metering to determine the provision of balancing services from an asset located behind a boundary point and operated by a Virtual Lead Party independently of the rest of the consumption/generation located on a site.

Additionally, some assets will already be registered in their own E_ and T_ BMUs. Any rule change would need to consider whether these assets remain in their existing BMUs or would be required to re-register (for example in a V_ BMU).

Resource requirements to register

Each Party acceding to the BSC must pay a £500 accession fee. There is currently a £60+VAT/month BSC charge for each V_BMU and a £125+VAT/month BSC charge for each registered VLP. Other Parties must pay a £250+VAT/month BSC Charge.

In addition to these BSC charges, there are overheads relating to acceding and maintaining a BSC presence. These costs will vary from Party to Party.

Processing reallocations

If all CMUs are required to be BMUs, the reallocations process may need to account for the time to reallocate assets between BMUs. It currently takes 5 Working Days for Elexon to move an asset from one Secondary BMU to another. Under the current rules this process is likely to be subject to additional prequalification checks by National Grid ESO.

Our service provider is also requested to check the MSIDs providing balancing services are not registered in more than one BMU. We have not conducted an impact assessment to determine whether our service provider would experience additional costs to process MSIDs in BMUs related to CM service provision.

Participation in the BM (FPN Flags)

While requiring an FPN flag to be set as true in theory creates an obligation for BM participation, this may not be true in practice. As well as physical parameters, BM participants set prices which they must be paid for their assets to be utilised. Any participant mandated to submit information into the BM but not willing to have their assets utilised may be able to set a price reflecting this, making their bids and offers uncompetitive. This has the effect of excluding the asset from BM participation in practice while still mandating the participant incur the overheads related to submitting the data.

Ideally CM participants should find participating in the BM an attractive revenue generation opportunity without participation being mandated. It may be more efficient to allow each participant to reach a conclusion themselves, given the requirement to have a registered BM Unit.

Currently Metered Volume, Transmission Loss Multipliers, Maximum Export Limits and Bid – Offer Acceptance are used in CM calculations. Any solution would need to ensure these data items are available in respect of CMUs registered as BMUs.

Question 3: In your view, does our suggested implementation in time for the opening of the Prequalification Window in 2022 afford sufficient time for participants to meet the obligation to be registered as a BMU?

We believe there are up to 161 CM participants who are not currently BSC Parties with 1465 non-BMU assets. Our process typically takes 16 weeks, in addition to approximately 20 weeks for National Grid ESO's pre-qualification process. We can usually accommodate 4 Qualification applications per month, and therefore **we would not be able to register all existing non-BSC CM participants prior to the pre-qualification window with our existing resources**. Any decision would have to be made as soon as possible so that we can plan and recruit additional resource at Elexon and our service providers.

Question 5: Are there any alternative approaches that could provide the same visibility ahead of time of a CMU's market position, in place of being a BMU?

There are a number of initiatives to improve access to data across the electricity industry. It would not be inconsistent to apply Open Data principles to CMUs such that NGENSO has sight of the operations of non-BMU CMUs.

A solution predicated on Open Data principles is likely to be much simpler to implement than requiring BMUs, but would not contribute towards increased participation in the Balancing Mechanism in and of itself.