



Consultation Response

By email to gb.markets@ofgem.gov.uk

24 October 2012

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Dear Andreas,

ELEXON's response to Ofgem's initial consultation on the Electricity Balancing Significant Code Review

We welcome the opportunity to provide ELEXON Limited's views on the Electricity Balancing Significant Code Review (SCR). As you know, ELEXON, as the Balancing and Settlement Code (BSC) Company for Great Britain, is responsible for the proper, effective and efficient delivery of the BSC. And because this SCR will potentially result in significant Modification(s) to the BSC, we have a keen interest in the outcome.

The views expressed in this response are those of ELEXON Limited alone, and do not seek to represent those of the Parties to the BSC. Our response does not seek to favour any particular implementation option – we have limited our response to matters of practicality and advice rather than policy and have not, therefore, responded to every question.

Question 1: Do you agree with the approach and the proposed stakeholder engagement throughout the SCR?

Yes, we agree with the approach. The workshops have been useful in providing an opportunity for stakeholders to discuss the considerations raised in the SCR.

Question 2: Do you have any evidence that you would like to submit that may be relevant for any aspect set out in this document?

We have provided Ofgem with data to support the P217A preliminary analysis associated with the Electricity Balancing SCR. We are willing to provide further information and analysis to support the SCR as the scope is considered further by Ofgem following this initial consultation.

We have published documentation for [Modification Proposal P282](#) 'Allow MVRNs from Production to Consumption or Vice Versa' on our website. Modification Proposal P282 is similar to primary consideration 3 of the SCR and so Ofgem may find the analysis produced for this Modification useful in the context of the SCR as well.



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Question 3: What is your view on the interactions between our considerations and aspects of the EU target model?

The European Agency for the Cooperation of Energy Regulators (ACER) issued the final "Framework Guidelines on Electricity Balancing" on 18 September 2012.

We have identified potential impacts of the proposals in those Framework Guidelines on the balancing mechanism and imbalance settlement and also note that some of its requirements (if unchanged in the resultant Network Code) would constrain the options available under the SCR. Although, depending on the relative timing of the development of Network Code and SCR, ideas developed under the SCR may also be able to feed into the European Electricity Balancing Network Code.

The Framework Guidelines aim at harmonising balancing market and imbalance settlement arrangements across Europe, which are clearly very likely to impact both the GB Balancing Mechanism and current GB imbalance settlement arrangements. However, in most instances, principles rather than detail are set out, so the precise impacts will not start to be known until the drafting of the Electricity Balancing Network Code has commenced. Our interpretation of the implementation deadline for harmonising the main features of imbalance settlement across Europe is the start of 2018.

In more detail, the Electricity Balancing Framework Guidelines, if unchanged in the final Network Code, suggest to us the following impacts that lead to interactions between the EU Target Model and the SCR options. (Note this is not a comprehensive list of our views on the impacts and potential impacts on the BSC, which we are also happy to share, only those which we have identified so far that could interact with the SCR.)

Under the proposals in the Framework Guidelines:

- Balancing Mechanism trades must be settled at marginal price, rather than "pay-as-bid", unless the European System Operators provide all European regulators a detailed analysis showing that a different pricing method is more appropriate for EU-wide implementation. The proposed pricing method, whatever it is, has to be submitted to ACER and national regulators within one year of the coming into force of the Electricity Balancing Network Code. This will also constrain the SCR "pay-as-bid" or "pay-as-clear" options for energy balancing services.
- There must be harmonised principles for calculating imbalances – depending on the principles they may or may not constrain the SCR options.
- There must be harmonised principles for imbalance prices: imbalance prices must include cost of balancing and some types of reserve and take into account the cross-border netting of imbalances. Imbalance prices shall not include local transmission constraint costs. As above re constraining SCR options.
- There is the possibility of harmonisation of Gate Closure at something less than 1 hour – the Framework Guidelines require "as close to real time as possible and at least up to one hour before real time", so times shorter than 1 hour are possible. Again, this could constrain SCR options.
- There is potential for a changed design of Balancing Mechanism:



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- there will be common standard balancing energy and reserve products, which suggests that the format of GB Bids and Offers will probably change; and
- there will be a “common merit order list” for exchanges of energy between System Operators – Bids and Offers must be put into this list. However, our interpretation is that this, of itself, does not necessarily require a change to the Balancing Mechanism.

The Framework Guidelines also require (via the Network Code) that “intermittent renewable energy sources do not receive special treatment for imbalances and have a Balance Responsible Party, which is financially responsible for their imbalances”. This may or may not constrain the ability to have alternative arrangements for renewables.

In addition, it is unclear at this stage, from the Electricity Balancing Framework Guidelines, whether a Balancing Energy Market would be compatible or not with harmonised European balancing arrangements.

Question 4: Do you feel that there are any further alternatives to the reform options presented under our primary considerations?

We note that the SCR considers a change to the Price Average Reference Volume (PAR), a parameter that is defined in the BSC and is set at 500MWh. Where a change to PAR is considered further in the SCR process, we recommend that the Replacement Price Average Reference (RPAR) Volume is considered at the same time.

In a scenario of PAR being set to 1MWh the RPAR would no longer be required as only the most expensive 1MWh of unflagged actions would be used to calculate the main energy imbalance price. No further actions would be used and hence flagged actions would not need a replacement price.

[We have not responded to Questions 5 to 7 inclusive.]

Question 8: What additional analysis could be done as part of the SCR around Modification P217A and the flagging methodology it introduced?

We note that a change to the value of PAR would require a BSC Modification as the value of 500MWh specified in the BSC text. A change to the value of RPAR would also require a BSC Modification as the value of 100MWh is also specified in the BSC text.

[We have not responded to Questions 9 or 10]

Question 11: Do you have any other comment on the secondary considerations presented here? Please provide any evidence you may have to support your position.

Setting an Information Imbalance Charge

We note the secondary consideration of setting an information imbalance charge. BSC Systems currently have an Information Imbalance Charge of zero in operation. This is calculated as the MWh difference between the Final Physical Notification (FPN) adjusted for Accepted Bids and Offers and the Metered Volume which is multiplied by the Information Imbalance Price (IIP). A change to the value of IIP would require a BSC Modification as the zero value is specified in the BSC text.



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Reverse Price

The reverse price calculation is defined in the Market Index Definition Statement (MIDS). We receive data from two Market Index Data providers every Settlement Period according to the calculations specified in the MIDS. The parameters available in the MIDS calculation enable a number of variants on how the price is derived from particular power exchange trades. Changes to the MIDS do not require a BSC Modification, however changes must be put to industry consultation, the BSC Panel and the Authority for approval.

We note that proposals for a single cash-out price may result in the MIDS process no longer being required.

Gate Closure

We note the break-out groups' discussions in workshop four that considered moving Gate Closure for Energy Contract Volume Notification (ECVN). The discussions highlighted the notification risk from trading close to Gate Closure from errors in the notification (participants receive a negative acknowledgement of any failed ECVNs and need time to resolve this) and also from the ECVN not being received by the central agent in time.

Taking a power exchange as an example, the trading on spot products is closed 15 minutes ahead of Gate Closure to allow sufficient contingency to successfully notify contacts to ELEXON. A similar contingency is likely for other BSC Participants.

There are a number of options that were mentioned in the workshops, e.g. as well as changed Gate Closure, separation of ECVN Gate Closure from the Gate Closure for submission of FPN, Bids and Offers; or time stamping of ECVNs. We have no views on these but are happy to support analysis of impacts where required.

Residual Cashflow Reallocation Cashflow (RCRC)

We note that two Modification Proposals that impact RCRC have been put to report phase consultation in October 2012. These are [P285](#) Revised treatment of RCRC for Interconnector BM Units and [P286](#) Revised treatment of RCRC for generation BM Units.

Improved Provision of Information

As always, we remain ready to support the industry in improved provision of information. For example, in January we presented to the BSC Panel some options to support the reporting that will be required by the Guidelines on Fundamental Electricity Data Transparency; and REMIT inside information¹ and are currently planning to give an update on this at our next BSC Panel meeting in early November.

If you have any questions with regards to this response please contact me on 020 7380 4311, or by email at roger.harris@elexon.co.uk.

¹ [Panel paper 193/08](#) gives details.



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Yours sincerely



On behalf of
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