

By email to: colin.down@ofgem.gov.uk

Colin Down
Ofgem, Consumers and Competition
9 Millbank
London
SW1P 3GE

15 February 2018

Re: Ofgem's provisional thinking on P344 'Project TERRE implementation into GB market arrangements'

Dear Colin,

We are writing to you in accordance with BSC Section F, paragraph 2.6.10(b), to seek your views on whether the findings of the P344 second interim Assessment Report¹ are consistent with Ofgem's provisional thinking and strategic direction.

The BSC Panel requested a second interim report from the P344 Workgroup in accordance with BSC Section F paragraph 2.6.10(a). The interim report, as presented at the February 2018 Panel meeting, details the Workgroup's solution to align the Balancing and Settlement Code (BSC) with the European Balancing Project TERRE (Trans-European Replacement Reserves Exchange) requirements.

The solution under development, as detailed in the attached interim report, is required for the parallel run end-to-end testing period, expected to commence during quarter two of the 2019 calendar year. The planned go-live date for the Replacement Reserve product for GB balancing is expected around quarter three/four 2019. Exact timescales are unconfirmed due to the lack of clarity surrounding the delivery of the central European platform development.

Whilst the full costs of developing and implementing the P344 solution are not finalised they are expected to be substantial. Further, the lead times for developing the BSC Central Systems are expected to be lengthy. Therefore, ELEXON expects that such development needs to commence in advance of the final Ofgem decision on the Modification. We need to adopt this approach in order that the GB market can realise the widespread benefits from the TERRE product at the earliest opportunity.

Before ELEXON, as overseen by the BSC Panel, commits to development on a lengthy and costly programme of work to implement the Settlement side of the GB TERRE product, we are seeking a clear and unambiguous view that the principles at the heart of this proposal are aligned with, or at least do not conflict with, Ofgem's vision of how the market will operate post-TERRE implementation.

Specifically, the BSC Panel expressed a strong desire to understand Ofgem's position on the following questions:

1. Does Ofgem have any concerns in relation to barriers to either entry or competition in relation to the proposed P344 solution?

¹ <https://www.elexon.co.uk/mod-proposal/p344/>

2. Does Ofgem have a view on whether Suppliers should be informed of an Independent Aggregator's customer's participation in the TERRE product/Balancing Mechanism? Do you agree that the sharing of Half Hourly (HH) delivered volumes with the customer's Supplier should only take place where the customer opts-in to such an arrangement?
3. Does Ofgem have any overarching concerns with the P344 solution that has been developed by the P344 Workgroup and Modification Proposer?

The Workgroup has split views on whether a Supplier of an Aggregator's customer should be informed of the customer's participation in the TERRE product or in the Balancing Mechanism (BM). The second part of question two relates to the mechanism whereby the Supplier may be informed of a customer's participation in the TERRE product or the BM market subject to customer consent.

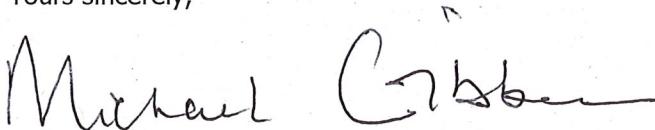
Aggregators do not believe it is appropriate for Suppliers to be informed of customer participation without an opt-in arrangement as proposed. They believe this would negate the resource effort that an Aggregator utilises to identify suitable customers interested in participating in the TERRE product or the BM market. On the other hand, Suppliers believe this information, in combination with HH delivered volumes, is important for the purposes of accurate customer billing and market transparency. The split view between market participant roles is evident in the P344 second Assessment Procedure Consultation responses.

The intention of question three is to include, but not be exclusive as to whether Ofgem has any concerns around potential conflict the wider P344 solution may create in relation to the obligations set out in the European Electricity Balancing Guideline (EB GL).

The BSC Panel emphasises the importance of a timely response from Ofgem in relation to this provisional request, in advance of the April 2018 Panel meeting. Therefore, we request that Ofgem provides its response by 5pm Tuesday 3 April 2018 in order that the relevant documentation can be prepared in advance of the BSC Panel at its meeting on 12 April for consideration.

Upon receipt of Ofgem's provisional thinking in respect of the P344 solution, the Panel may direct the Workgroup as it sees fit, in accordance with BSC Section F2.6.10(c).

Yours sincerely,



Michael Gibbons
BSC Panel Chair



Making a positive difference
for energy consumers

Michael Gibbons
BSC Panel Chair
Elexon Limited
350 Euston Road
London, NW1 3AW

Email: Steven.Becker@ofgem.gov.uk

Date: 6 April 2018

Dear Michael

Provisional thinking on P344 'Project TERRE implementation into GB market arrangements'

Thank you for your letter of 15 February 2018 seeking our views¹ on whether the findings of the P344 Workgroup Second Interim Report are consistent with our provisional thinking. We have considered the Second Interim Report and respond to your questions below. For the avoidance of doubt, nothing in this response binds Ofgem as to any future action. We reserve our right to modify our provisional views as regards all matters set out below.

Our understanding is that to enable GB to participate in Project TERRE, Elexon needs to develop a series of BSC central systems. Elexon expects this development process to be lengthy and with substantial costs. To meet the planned timetable of Project TERRE, Elexon believes it is necessary to start development of these systems in advance of our decision on P344 modification. The development of these systems is essential for GB compliance to Article 19 of the Electricity Balancing Guideline (EBGL).

In your letter, the BSC Panel has asked for our Provisional Thinking on three questions, which we consider below.

Q1: Does Ofgem have any concerns in relation to barriers to either entry or competition in relation to the proposed P344 solution?

Our assessment of the Second Interim Report is that overall the Workgroup has developed arrangements that will both be workable and facilitate new actors to participate in the BSC for the provision of balancing services. By replicating current arrangements for Balancing Mechanism units, including data interfaces, we believe that the Workgroup sought to minimise the costs borne by this new type of BSC party for TERRE and other balancing services.

We understand that some participants would prefer more flexibility to demand side response providers in relation to other features of the BSC. We are aware that Elexon is seeking to create an issues group to discuss further some of these questions and potential enhancements to the P344 solution.

We believe that it will be important for market participants and Elexon to continue monitoring the effectiveness of the market and BSC arrangements, respectively. We expect

¹ Under Section F, paragraph 2.6.10

those arrangements will have to evolve as operational and market experience is gained. On that, the ability of Virtual Lead Parties to raise BSC modifications will be an important tool to ensure there is a level-playing field across all market participants.

Q2: Does Ofgem have a view on whether Suppliers should be informed of an Independent Aggregator's customer's participation in the TERRE product/Balancing Mechanism? Do you agree that the sharing of Half hourly (HH) delivered volumes with the customer's Supplier should only take place where the customer opts-in to such arrangements.

We have expressed our view on information flows to support settlement of energy with suppliers, in our open letter on the design of arrangements to accommodate independent aggregators in energy markets.² On that letter, we stated that:

"Related to this [settling of energy with supplier], the information flows, required to allow contractual arrangements to account efficiently for payments for energy sold on, merit careful consideration. In particular, a careful balance may need to be struck between enabling information flows to support efficient contractual arrangements, and the potential impact on competition in the market for flexibility."

We believe that the Workgroup proposed solution described in the Second Interim Report (i.e. a model where the customer opts-in for the exchange of data with the supplier) aims to strike this balance between the two objectives mentioned above. We are also aware that more recently the Workgroup has proposed an alternative where there is mandatory information exchange to suppliers at the customer level. Our recent conversations with Elexon have indicated that from a system development perspective, it is not expected that there would be a significant difference in cost and systems to implement either model. Given that we are currently deciding on similar options as part of modification P354, we believe it would be appropriate to not issue an opinion until then.

Q3: Does Ofgem have any overarching concern with the P344 solution that has been developed by the P344 Workgroup and Modification Proposer?

Given the breadth of this question we are not able to provide a detailed answer. However, our initial assessment and our attendance at workgroup meetings so far has not raised concerns. Nevertheless, we will make a full assessment of the P344 solution against the relevant objectives of the BSC when we receive the P344 Final Modification Report.

As noted at the start of this letter, the BSC Panel's and Elexon's decision on when to start investing in the central systems will determine whether GB is compliant with Article 19 of EBGL. As such, we trust that the BSC Panel will take this into consideration, as well as the provisional thinking provided in this letter, to inform it in its decision to direct the Workgroup as it sees fit, or on any action that it expects Elexon to take in the development of these systems.

Yours sincerely,



Steven Becker
Head of SO Regulation

²https://www.ofgem.gov.uk/system/files/docs/2017/07/ofgem_s_views_on_the_design_of_arrangements_to_accommodate_independent_aggregators_in_energy_markets.pdf