

Modification proposal:	<b>Balancing and Settlement Code (BSC) P316: Introduction of a single marginal cash-out price</b>		
Decision:	The Authority <sup>1</sup> has decided to reject this proposal <sup>2</sup>		
Target audience:	National Grid Electricity Transmission Plc (NGET), Parties to the BSC and other interested parties		
Date of publication:	2 April 2015	Implementation Date:	n/a

## Background

The Electricity Balancing Significant Code Review (EBSCR)<sup>3</sup> identified a number of defects in the calculation of cash-out prices. The EBSCR Final Policy Decision<sup>4</sup> concluded that these defects could increase the cost of ensuring security of supply to consumers because it could lead to inefficient balancing and dampen incentives for the market to provide flexibility<sup>5</sup>. The Final Policy Decision outlined a number of reforms to cash-out arrangements to address these defects. Further detail is included in the background section of the decision letter for Code Modification P305<sup>6</sup> which should be read in conjunction with this letter.

## The modification proposal

Modification proposal P316<sup>7</sup> (P316 Proposed) was raised by RWE on 4 November 2014. It seeks to:

- introduce a single cash-out price; and
- Reduce the Price Average Reference volume (PAR) to 50MWh and the Replacement PAR<sup>8</sup> to 1MWh upon implementation, with a further reduction in the PAR volume to 1MWh on 1 November 2018.

P316 was progressed in timescales which allowed the Authority to consider it alongside modification proposal P305<sup>9</sup> (Electricity Balancing Significant Code Review Developments) raised by National Grid Electricity Transmission (NGET) on 30 May 2014. A separate decision letter for P305 has been published today and information contained in that letter is cross-referenced as P316 is a subset of proposals in P305. Annex 1 summarises, at a high level, the content of P316 and P305 and how one forms a subset of the other. The Proposer believes P316 Proposed will better facilitate applicable objectives (b) and (c) of the BSC<sup>10</sup>.

<sup>1</sup> The terms 'the Authority', 'Ofgem' and 'we' are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.

<sup>2</sup> This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989.

<sup>3</sup> The EBSCR was Ofgem's review of the electricity balancing and cash-out arrangements in GB:  
<https://www.ofgem.gov.uk/electricity/wholesale-market/market-efficiency-review-and-reform/electricity-balancing-significant-code-review>

<sup>4</sup> <https://www.ofgem.gov.uk/ofgem-publications/87782/electricitybalancingsignificantcodereview-finalpolicydecision.pdf>

<sup>5</sup> Reliable demand or generation capacity which can act quickly in response to price signals.

<sup>6</sup> <https://www.ofgem.gov.uk/publications-and-updates/balancing-and-settlement-code-bsc-p305-electricity-balancing-significant-code-review-developments>

<sup>7</sup> <https://www.elexon.co.uk/mod-proposal/p316/>

<sup>8</sup> The replacement PAR is the volume of balancing actions used to calculate a replacement price for actions 'flagged' as taken for non-energy reasons. For more information please see the P316 modification proposal.

<sup>9</sup> <https://www.elexon.co.uk/mod-proposal/p305/>

<sup>10</sup> As set out in Standard Condition C3(3) of NGET's Transmission Licence, see:  
<http://epr.ofgem.gov.uk/index.php?pk=folder380751>

## *The Alternative*

The industry workgroup considering RWE's proposal developed P316a<sup>11</sup>, an Alternative to the Proposed modification. P316 Alternative is identical to the P316 Proposed modification except it seeks the introduction of PAR100 in November 2015 and does not introduce further reductions in PAR.

## **BSC Panel<sup>12</sup> recommendation**

The BSC Panel held its final discussions on P316 Proposed and P316 Alternative on 12 March 2015. A majority of the Panel considered that P316 Alternative would better facilitate the achievement of applicable BSC objectives than the baseline (current arrangements). A majority of the Panel considered that P316 Proposed would not better facilitate the achievement of the applicable BSC objectives. The Panel therefore recommended that the P316 Alternative solution should be approved and that the P316 Proposed should not.

## **The Authority's decision**

The Authority has considered the issues raised by the P316 and P305 modification proposals, the Final Modification Reports (FMRs) dated 13 March 2015 and responses to Ellexon's<sup>13</sup> consultation on the modification proposal which are attached to the FMR<sup>14</sup>.

The Authority has concluded that:

- for the elements that P316 shares with P305 (ie PAR reduction and single pricing), the applicable BSC objectives are better facilitated in the manner detailed in P305's decision letter;
- given P316 Proposed and Alternative differ in the same way that P305 Proposed and Alternative do, implementation of the Proposed solution better facilitates applicable objectives than the Alternative solution for the reasons outlined in the P305 decision letter.

In addition, the Authority concludes that the elements of P305 not included in P316 (ie Reserve Scarcity Pricing function (RSP) and Value of Lost Load (VoLL) pricing) are also better at facilitating the BSC objectives. Again, reasons for this are set out in the P305 decision letter.

Given that P316 does not include these other elements of P305, the Authority concludes that implementation of modification proposals P316 Proposed and P316 Alternative will not best facilitate the achievement of the applicable objectives of the BSC.

## **Reasons for the Authority's decision**

We present a summary our assessment of the P316 Proposed and P316 Alternative against the baseline and against each other. Then we present a summary assessment of

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<sup>11</sup> Throughout this document also referred to as the 'Alternative'.

<sup>12</sup> The BSC Panel is established and constituted pursuant and in accordance with Section B of the BSC.

<sup>13</sup> The role and powers, functions and responsibilities of Ellexon are set out in Section C of the BSC.

<sup>14</sup> BSC modification proposals, modification reports and representations can be viewed on the Ellexon website at [www.ellexon.com](http://www.ellexon.com)

P316 against P305. Please see our P305 decision letter for a more detailed elaboration of our views on the specific concerns raised, including our views – which hold for consideration of P316 Proposed and Alternative.

### **Assessment of P316 Proposed and P316 Alternative**

We consider P316 will better facilitate BSC objectives (b) and (c). In addition, although we consider that the proposals have a neutral impact on objective (e), we note they are consistent with the direction of travel of the EU Network Codes. We consider the other objectives (a), (d), and (f) are not applicable.

We consider both proposals better facilitate the BSC objectives than the baseline, and that on balance P316 Proposed better facilitates the BSC objectives than the Alternative.

### **Assessment of P316 against P305**

We consider that as P316 introduces the same reforms as P305, without the inclusion of RSP and VoLL, it delivers no further benefits. By excluding RSP and VoLL pricing it does not gain the benefits associated with their inclusion. We outline the impacts of RSP and VoLL pricing against the current baseline in our P305 decision letter. It is therefore our view that P305 Proposed is overall the most beneficial proposal against the BSC objectives and Ofgem's principal objective.

We consider that:

- implementation of P316 Proposed or P316 Alternative would better facilitate the achievement of the applicable objectives of the BSC;
- implementation of P316 Proposed would better facilitate the achievement of the applicable objectives of the BSC compared to P316 Alternative;
- however implementation of P305 Proposed will better facilitate the achievement of the applicable objectives of the BSC compared to related modification P316 (Proposed and Alternative).
- directing that P305 Proposed be made is consistent with our principal objective and statutory duties.<sup>15</sup>
- We are therefore rejecting P316 Proposed and P316 Alternative and, as set out in the P305 decision letter, approving P305 Proposed.

### **Decision notice**

In accordance with Standard Condition C3 of NGET's Transmission Licence, the Authority does not direct that modification proposals BSC P316 Proposed or P316 Alternative be made.

**Rachel Fletcher**

**Senior Partner**

**Signed on behalf of the Authority and authorised for that purpose.**

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<sup>15</sup> "The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Electricity Act 1989."

## Annex 1 – High level overview of P316 as a subset of P305

Modifications		P305 Proposed	P305 Alternative	P316 Proposed	P316 Alternative
PAR	2015	50 MWh	100 MWh	50 MWh	100 MWh
	2018	1 MWh	100 MWh	1 MWh	100 MWh
Pricing	2015	Single	Single	Single	Single
Value of Lost Load (VoLL)	2015	£3,000/MWh	£3,000/MWh	-	-
	2018	£6,000/MWh	£6,000/MWh	-	-
Reserve Scarcity Pricing (RSP) function	2015	Static	Static	-	-
	2018	Dynamic		-	-