

Modification proposal:	Balancing and Settlement Code (BSC) P323: Enabling inclusion and treatment of SBR in the Imbalance Price		
Decision:	The Authority ¹ directs that this modification be made ²		
Target audience:	National Grid Transmission Plc (NGET), Parties to the BSC, the BSC Panel and other interested parties		
Date of publication:	15 October 2015	Implementation date:	5 November 2015

Background

In December 2013, Ofgem published its decision³ to accept an application by National Grid Electricity Transmission (NGET) company to introduce two new balancing services: Supplemental Balancing Reserve (SBR) and Demand Side Balancing Reserve (DSBR). As part of its C16 statement review⁴, NGET has consulted with industry to consider the issue of how to include DSBR and SBR in the imbalance price with respect to winter 2015/16. Parties have largely agreed with NGET's view that i) DSBR and SBR actions should be reflected in the imbalance price and that ii) DSBR and SBR actions should be priced at the administrative value of loss load (VoLL)⁵ to be consistent with Ofgem's EBSCR reforms, and introduced on the same date as these reforms (5 November 2015).

During this consultation process, however, Elexon identified that it would not be possible to re-price SBR in imbalance prices without incurring consequential impacts on the Balancing Mechanism (BM) Cashflow (notably that Parties providing SBR services would benefit from larger pay-outs than expected as part of their SBR contracts). Elexon advised NGET that a BSC Modification would be required to overcome this defect.

In order to enable NGET to reflect SBR and DSBR actions in the imbalance price calculation it must modify its C16 statements (notably the SMAF Methodology Statement⁶ and BSAD Methodology Statement⁷). Noting P323 is conditional on the outcome of the C16 review, we are simultaneously publishing today our C16 decision *not* to exercise our power of direction to veto NGET's proposed revisions to the C16 statements.

The modification proposal

P323 aims to address the defect in current arrangements by allowing SBR actions to be priced at one value in the main imbalance price calculation (at administrative VoLL) and at another value in the BM cashflow (the original Bid Offer Acceptance's utilisation price).

Ideally, any change to the calculation of imbalance prices should be incorporated with the existing systems and processes. However, in order to ensure implementation in time for the 5 November 2015 BSC Release, P323 proposes that a temporary manual process be

¹ References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day to day work. This decision is made by or on behalf of GEMA.

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

³ For further information see i) the London Economics study The Value of Loss Load for Electricity In Great Britain, 2013 and ii) Ofgem's EBSCR Final Policy Decision 2014.

⁴ These are statements required by Standard Condition C16 of NGET's Transmission Licence.

⁵ Initially set at £3,000/MWh.

⁶ The System Management Actions Flagging (SMAF) methodology statement sets out the means which the licensee will use to identify (using reasonable endeavours) balancing services that are for system management reasons.

⁷ The Balancing Services Adjustment Data (BSAD) methodology statement sets out the information on relevant balancing services that will be taken into account under the Balancing and Settlement Code for the purposes of determining Imbalance Price(s).

implemented for this winter. P323 also identifies the elements of an enduring solution, which could be developed by industry and progressed through a Change Proposal.

BSC Panel⁸ recommendation

At the BSC Panel meeting on 8th October 2015, a majority of the BSC Panel considered that modification P323 would better facilitate the BSC objectives – the Panel’s majority view was that P323 better facilitates Applicable BSC Objective (a) and (c) – and the Panel therefore recommended its approval.

Our decision

We have considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 9 October 2015. We have considered and taken into account the Workgroup’s final majority view recommending approval, responses to the industry consultations which are attached to the FMR, and the recommendation of the BSC Panel⁹. We have concluded that:

- implementation of the modification proposal will better facilitate the achievement of the applicable objectives of the BSC;¹⁰ and
- directing that the modification be made is consistent with our principal objective and statutory duties.¹¹

Our decision facilitates an implementation date of 5 November 2015.

Reasons for our decision

We consider this modification proposal will better facilitate BSC objective (a), and has a neutral impact on the other applicable objectives. We give reasons for our decision below against the objectives the Panel considered relevant (objectives a, b, c and d).

(a) the efficient discharge by the licensee of the obligations imposed upon it by this licence

The proposed arrangements enable the changes to the C16 methodology statements (noting Authority’s decision today *not* to use our power of direction to veto NGET’s proposed revisions to the C16 statements) to have practical effect and therefore enable the discharge of NGET’s duties under standard condition C16 of its Licence. We therefore agree with the Proposer, Workgroup and Panel the proposed arrangements better facilitate this objective.

(b) the efficient, economic and co-ordinated operation of the national electricity transmission system

We agree with the Proposer, Workgroup and Panel that the proposed arrangements would be neutral against this objective.

⁸ The BSC Panel is established and constituted pursuant to and in accordance with Section B of the BSC and Standard Special Licence Condition C3 of the Electricity Transmission Licence available at: www.epr.ofgem.gov.uk

⁹ BSC modification proposals, modification reports and representations can be viewed on the Elexon website at www.elexon.co.uk

¹⁰ As set out in Standard Condition C3(3) of NGET’s Transmission Licence: <https://epr.ofgem.gov.uk>

¹¹ 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.

(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

In contrast to the Panel and Workgroup, we consider potential effects on competition of pricing SBR at VoLL may be attributed to the changes to the C16 statements rather than to P323. We therefore consider the proposed arrangements to be neutral against this objective.

(d) promoting efficiency in the implementation and administration of the balancing and settlement arrangements

While the solution introduces some additional complexity and cost in the arrangements, we consider this effect sufficiently small¹² as to present a neutral effect on this objective. In relation to concerns expressed by some Workgroup and Panel members that a manual solution could lead to incorrect cash-out prices, we note that the Final Modification Report also identifies the requirements of an enduring solution. Should NBS be extended, we would encourage industry to bring forward such a change proposal.

Decision notice

In accordance with Standard Condition C3 of NGET's Transmission Licence, the Authority hereby directs that modification proposal P323 'Enabling inclusion and treatment of SBR in the Imbalance Price' be made.

Mark Copley
Associate Partner
Wholesale Markets

Signed on behalf of the Authority and authorised for that purpose

¹² In relation to cost for example, the FMR notes "the central implementation costs of P323 are approximately £480, which reflect the costs of the BSC and CSD changes and updating internal process documents. Any ongoing costs will be absorbed due to the expected infrequency of the events."