

Modification proposal:	<b>Balancing and Settlement Code (BSC) P328: Clarifying BSC SBR definitions to align with the BSAD and SMAF Methodology Statements</b>		
Decision:	The Authority agrees that this modification should be treated as an Urgent Modification Proposal <sup>1</sup> The Authority <sup>2</sup> directs that this modification be made <sup>3</sup>		
Target audience:	National Grid Electricity Transmission Plc (NGET), Parties to the BSC, the BSC Panel and other interested parties		
Date of publication:	13 November 2015	Implementation date:	16 November 2015

## Background

On 26 June 2015 National Grid Electricity Transmission (NGET) proposed P323: "Enabling inclusion and treatment of SBR in the imbalance price"<sup>4</sup> to enable the value of Supplemental Balancing Reserve (SBR) to be included in the imbalance price calculation without affecting Balancing Mechanism (BM) cash flows. These reforms were considered necessary to facilitate compliance with the Authority's decision on P305: "Electricity Balancing Significant Code Review".<sup>5</sup> On 15 October 2015, the Authority approved P323 for implementation on 5 November 2015.<sup>6</sup>

On the same date the Authority decided not to use its power to veto proposed changes to NGET's Balancing Services Adjustment Data (BSAD) and System Management Action Flagging (SMAF) Methodology Statements in accordance with Standard Licence Condition C16 of the Electricity Transmission Licence (collectively "the C16 Statements"). This decision facilitated i) BSC Modification P305, and ii) pricing of New Balancing Services (NBS) in cash-out at the administrative Value of Lost Load (VoLL).<sup>7</sup>

When developing the changes to the C16 Statements, NGET assumed that SBR would be provided by units which would need time to ramp up or down from their Stable Export Limit (SEL) to their Maximum Export Limit (MEL); suggesting that they would have to be dispatched in advance of their use for SBR purposes. Industry was of the view, reflected in the P323 and C16 Statements changes, that any energy produced at or below a plant's SEL value should be flagged as a system action.

Following the changes, NGET has identified that a small proportion (circa 130MW) of plant awarded SBR contracts have dynamics, meaning their SEL and their MEL are equal. Therefore, unless addressed through changes to the C16 Statements and BSC, the use of these plants for SBR purposes would lead to their energy being flagged as a system action, rather than an energy action, meaning that it would not feature in the cash-out price.

<sup>1</sup> As defined in BSC Annex X-1 and Section F2.9.

<sup>2</sup> 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.

<sup>3</sup> This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989.

<sup>4</sup> <https://www.elexon.co.uk/mod-proposal/p323/>

<sup>5</sup> <https://www.elexon.co.uk/mod-proposal/p305/>

<sup>6</sup> <https://www.ofgem.gov.uk/publications-and-updates/authority-decision-approve-bsc-modification-p323>

<sup>7</sup> <https://www.ofgem.gov.uk/publications-and-updates/decision-approve-c16-statement-changes-0>

The Authority directed<sup>8</sup> NGET to address the issue described above by making a further revision to the C16 Statements on 4 November 2015<sup>9</sup>. Those changes took effect on 5 November 2015.

### **The modification proposal**

To address the issue within the BSC, NGET raised P328: "Clarifying BSC SBR definitions to align with the BSAD and SMAF Methodology Statements " on 6 November 2015. The modification proposes to amend the definitions of "SBR Action" and "SBR" to align with the changes to the C16 Statements.

The Proposer considers that P328 would better facilitate Applicable BSC Objectives (a) and (d) by reflecting in the BSC the intended treatment of SBR in the imbalance calculation (ie. as discussed during the P323 modification process). The modification would also align the BSC with the changes to the C16 Statements directed by the Authority on 4 November as described above.

The Proposer further considered that P328 should be taken forward on an urgent basis because there is a need to align the BSC as soon as possible. Its stated reasons were that i) P323 and the changes to the C16 Statements are already in effect, and ii) if SBR is used between now and the end of February 2016, there could be a risk of adverse impact on the affected plants which this proposed modification would rectify.

### **BSC Panel<sup>10</sup> recommendation**

At the BSC Panel meeting on 12 November 2015, the Panel recommended that P328 should be treated as an Urgent Modification Proposal.

The BSC Panel unanimously agreed that P328 better facilitates relevant objectives (a) and (d). The Panel were split in relation to objective (c); some Panel members considered this objective is better facilitated, some that it is neutral and one considered that the proposal does not better facilitate objective (c). Overall, the Panel unanimously considered that P328 would better facilitate the BSC objectives 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 12 November 2015. We have also considered the request for the proposed modification to be considered on an urgent basis on the timelines recommended by the BSC Panel, including whether or not the timetable should allow for consultation of interested third parties. We have concluded that:

- it is appropriate that this modification proposal is treated as an Urgent Modification Proposal, and on this occasion we consider that appropriate consultation of interested third parties was conducted during the development and approval of P323;
- implementation of the modification proposal will better facilitate the achievement of the applicable objectives of the BSC;<sup>11</sup> and

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<sup>8</sup>[https://www.ofgem.gov.uk/sites/default/files/docs/2015/11/decision\\_to\\_direct\\_revisions\\_to\\_the\\_c16\\_statements\\_0.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2015/11/decision_to_direct_revisions_to_the_c16_statements_0.pdf)

<sup>9</sup>[https://www.ofgem.gov.uk/sites/default/files/docs/2015/10/c16\\_letter\\_ofgem\\_decision\\_letter\\_october\\_2015.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2015/10/c16_letter_ofgem_decision_letter_october_2015.pdf)

<sup>10</sup> 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](http://www.epr.ofgem.gov.uk)

- directing that the modification be made is consistent with our principal objective and statutory duties.<sup>12</sup>

## **Reasons for our decisions**

### *Panel recommendation on Urgency*

We agree with the Panel recommendation that P328 should be treated as an Urgent Modification Proposal because there is a need to align the BSC with the C16 Statements as soon as possible.

### *Decision on P328*

We consider this modification proposal will better facilitate BSC objectives (a) and (d) and has a neutral impact on the other applicable objectives.

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

We agree with the BSC Panel that P328 better facilitates this objective by aligning the BSC with the recent changes made to the C16 Statements pursuant to NGET's transmission licence. We consider that improving consistency in this area will clarify and better facilitate the effective use of the C16 Statements.

#### ***(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;***

We note that the Panel opinion was split on whether P328 facilitates this objective. We do not consider that P328 has a negative effect on this objective, however we also do not see a clear link between P328 and the promotion of competition. Therefore we consider that P328 has a neutral impact on this objective.

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

We agree with the BSC Panel that P328 will better facilitate this objective. We consider that it will ensure that the BSC more accurately reflects the policy intent of P323 and will reduce the risk of adverse impact for certain types of generation, which was not an intention of P323.

## **Decision notice**

In accordance with Standard Condition C3 of NGET's Transmission Licence, the Authority hereby directs that modification proposal *P328: Clarifying BSC SBR definitions to align with the BSAD and SMAF Methodology Statements* be made.

## **Frances Warburton**

### **Partner, Markets**

Signed on behalf of the Authority and authorised for that purpose

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<sup>11</sup> As set out in Standard Condition C3(3) of NGET's Transmission Licence: <https://epr.ofgem.gov.uk>

<sup>12</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.