

BSC Modification Proposal Form		At what stage is this document in the process?
P360 Making the BSC's imbalance price compliant with the European Balancing Guideline		01 Modification 02 Workgroup Report 03 Draft Modification Report 04 Final Modification Report
Purpose of Modification: The European Electricity Balancing Guideline is expected to become law in 2017. The current BSC imbalance price calculations will not be compliant with Article 55 of the Guideline. It will be necessary for the BSC imbalance price calculations to be compliant within one year of the Guideline becoming law. This Modification proposes changes to the BSC to ensure that compliance is achieved.		
	The Proposer recommends that this Modification should: - not be a Self-Governance Modification Proposal - be assessed by a Workgroup and submitted into the Assessment Procedure This Modification will be presented by the Proposer to the BSC Panel on 14 September 2017. The Panel will consider the Proposer's recommendation and determine how best to progress the Modification.	
	High Impact: Generator Supplier Non Physical Trader Transmission Company ELEXON	
	Medium Impact: N/A	
	Low Impact: N/A	

Contents		 Any questions?
1	Summary	3
2	Governance	3
3	Why Change?	3
4	Code Specific Matters	5
5	Solution	6
6	Impacts & Other Considerations	6
7	Relevant Objectives	8
8	Implementation Approach	10
9	Legal Text	10
10	Recommendations	10
Timetable		 Contact: Jemma Williams  Jemma.Williams@el exon.co.uk  0207 380 4359 Proposer: Greg Heavens  Greg.Heavens@Nati onalGrid.com  +44 (0)1189 363 522 Proposer's representative: Chris Fox  christopher.fox@nati onalgrid.com  +44 118 936 3552
The Proposer recommends the following timetable:		
Initial Written Assessment presented to Panel	14 Sept 17	
Workgroup	W/B 2 Oct 17	
Workgroup	W/B 30 Oct 17	
Workgroup	W/B 27 Nov 17	
Workgroup	W/B 18 Dec 17	
Assessment Procedure Consultation	4 Jan 18 – 23 Jan 18	
Workgroup	W/B 29 Jan 18	
Assessment Report presented to Panel	8 Feb 18	
Report Phase Consultation	19 Feb 18 – 9 Mar 18	
Draft Modification Report presented to Panel	12 Apr 18	
Final Modification Report submitted to Authority	13 Apr 18	

1 Summary

What is the issue?

One year after the European Network Code establishing a Guideline on electricity balancing enters into force, the current BSC imbalance price calculations will need to be amended to ensure compliance with the binding requirements on Imbalance Price contained in Article 55 of the European Balancing Guidelines (EB GL). Compliance is expected to be required by the end of 2018.

What is the proposed solution?

It is proposed that the BSC imbalance price calculations are modified to ensure compliance with Article 55 of the EB GL by the date that Article 55 comes into force.

2 Governance

Justification for proposed progression – not Self-Governance

The Modification proposal should *not be treated as Self Governance* on the basis that the Modification introduces new requirements to how the imbalance price will be calculated. Consequently the Self-Governance Criteria will not be met. Specifically these changes are likely to materially impact on competition in the generation, distribution, or supply of electricity, as well as potentially impact commercial activities connected with the generation, distribution, or supply of electricity.

Requested Next Steps

This Modification should:

- Be assessed by a Workgroup and submitted into the Assessment Procedure

3 Why Change?

What is the issue?

The current BSC imbalance price calculations will not be compliant with the law once Article 55 of the EB GL comes into force. This is expected to be by end 2018. Therefore the BSC imbalance price calculations need to be modified before that date.

The specific requirements of Article 55 are listed below, together with a description of the non-compliance with the current BSC.

	Article 55 'Imbalance Price' verbatim	BSC Compliance									
Para 1	Each TSO shall set up rules to calculate the imbalance price, which can be positive, zero or negative, as defined in Table 2: <table border="1"> <tr> <td></td><td>Imbalance price positive</td><td>Imbalance price negative</td></tr> <tr> <td>Positive imbalance</td><td>Payment from TSO to BRP</td><td>Payment from BRP to TSO</td></tr> <tr> <td>Negative imbalance</td><td>Payment from BRP to TSO</td><td>Payment from TSO to BRP</td></tr> </table> <i>Table 2: Payment for imbalance</i>		Imbalance price positive	Imbalance price negative	Positive imbalance	Payment from TSO to BRP	Payment from BRP to TSO	Negative imbalance	Payment from BRP to TSO	Payment from TSO to BRP	Compliant This paragraph sets out sign convention to be used with imbalances and imbalance prices. The current BSC is compliant and no change is required.
	Imbalance price positive	Imbalance price negative									
Positive imbalance	Payment from TSO to BRP	Payment from BRP to TSO									
Negative imbalance	Payment from BRP to TSO	Payment from TSO to BRP									
Para 2	The rules pursuant to paragraph 1 shall include a definition of the value of avoided activation of balancing energy from frequency restoration reserves or replacement reserves.	Non-compliant This paragraph requires a definition of 'the value of avoided activation of balancing energy from frequency restoration reserves or replacement reserves'. There is no definition in the BSC, so the current BSC is not compliant.									
Para 3	Each TSO shall determine the imbalance price for: (a) each imbalance settlement period; (b) its imbalance price areas; (c) each imbalance direction	Compliant This paragraph requires the calculation of imbalance prices by each TSO. The separate process of allocating this task (assignment) to BSCCo is anticipated to bring this into alignment with the current GB BSC arrangements before Article 55 comes into force. But otherwise the BSC is compliant and no change is required.									
Para 4 (a)	The imbalance price for negative imbalance shall not be less than, alternatively: (a) the weighted average price for positive activated balancing energy from frequency restoration reserves and replacement reserves;	Non-Compliant These two paragraphs (4(a) and 5(a)) require the System Buy Price to be greater than a certain threshold value; and the System Sell Price to be less than a certain threshold value respectively. These threshold values must be calculated for each Settlement Period individually. It cannot be guaranteed that the current BSC arrangements will ensure compliance with these requirements for each and every Settlement Period so we believe the current BSC will not be compliant.									
Para 5 (a)	The imbalance price for positive imbalance shall not be greater than, alternatively: (d) the weighted average price for negative activated balancing energy from frequency restoration reserves and replacement reserves;										
Para 4 (b)	The imbalance price for negative imbalance shall not be less than, alternatively: (e) in the event that no activation of balancing energy in either direction has occurred during the imbalance	Non-Compliant These two paragraphs (4(b) and 5(b)) require a new default value to be calculated when no balancing actions have been taken by NGET in a particular Settlement Period.									

	settlement period, the value of the avoided activation of balancing energy from frequency restoration reserves or replacement reserves.	This default value is based on the 'value of avoided activation of balancing energy'. This concept does not currently exist in the BSC, so the current BSC is not compliant.
Para 5 (b)	The imbalance price for positive imbalance shall not be greater than, alternatively: (b) in the event that no activation of balancing energy in either direction has occurred during the imbalance settlement period, the value of the avoided activation of balancing energy from frequency restoration reserves or replacement reserves.	
Para 6	In the event that both positive and negative balancing energy from frequency restoration reserves or replacement reserves have been activated during the same imbalance settlement period, the imbalance settlement price shall be determined for positive imbalance and negative imbalance based on at least one of the principles pursuant to paragraphs 4 and 5.	Non-Compliant This paragraph requires that when NGET has taken both buy and sell balancing actions, the imbalance price is calculated according to one of the other principles set out in Article 55. As noted above, the BSC is not compliant with all the above principles, so it is also not compliant with Article 55, paragraph 6.

4 Code Specific Matters

Technical Skillsets

Expertise in the current BSC imbalance price calculation.

Expertise in the EB GL and specifically interpretation of Article 55.

Reference Documents

The draft European Commission Regulation *establishing a Guideline on electricity balancing* – the version that was approved on 16 March 2017, or any later version that is available.

Note we are not expecting the text to be amended from that approved on 16 March 2017, so we believe the Modification can proceed with certainty. However as the guideline document from March is still draft, more recent versions shall be referenced when available. We understand that the Guideline will enter into force by the end of 2017.

5 Solution

Proposed Solution

The Proposer recommends that the Workgroup should examine the extent to which the current BSC imbalance price calculations should change to bring them into full alignment with Article 55 of the EB GL.

In particular the Workgroup should consider (but not be limited to consideration of) the following aspects:

- How to best ensure that the imbalance price always meets the threshold price requirements of Article 55 paragraphs 4(a) and 5(a).
- How to best to determine what these threshold values should be, based on the current and future balancing services within the GB market.
- How to define the value of avoided activation required by Article 55 paragraph 4(b) and 5(b).
- Should the market index price be used to calculate imbalance prices.
- What principles to adopt in compliance with Article 55, paragraph 6.
- What data should be published on BMRS or elsewhere related to this new calculation of imbalance prices.

6 Impacts & Other Considerations

Impacts

This Modification if implemented will impact:

- Settlement Administration Agent (SAA) imbalance price calculations.
- The imbalance price calculated and published on the Balancing Mechanism Reporting Service (BMRS).
- Potentially, but not necessarily, create a new process for calculating the value of avoided activation, which may be carried out by NGET or the SAA.
- Potentially, but not necessarily, require new input data to SAA and BMRS from NGET for avoided costs.

As then solution will be developed as part of the Assessment phase, we recognised that the above is not an exhaustive list of the impacts.

Does this modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

We do not believe this Modification will impact the two open SCRs:

- [Electricity Settlement Reform](#)
- [Targeted Charging Review](#)

The Proposer requests that this Modification be exempt from the Significant Code Review process.

Consumer Impacts

This Modification will potentially change imbalance prices so will have an indirect effect on consumers to the extent that their electricity suppliers pass on any costs or savings.

Environmental Impacts

None identified.

7 Relevant Objectives

Impact of the Modification on the Relevant Objectives:	
Relevant Objective	Identified impact
a) The efficient discharge by the Transmission Company of the obligations imposed upon it by the Transmission Licence	Neutral
(b) The efficient, economic and co-ordinated operation of the National Electricity Transmission System	Neutral
(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	Neutral
(d) Promoting efficiency in the implementation of the balancing and settlement arrangements	Positive
(e) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency [for the Co-operation of Energy Regulators]	Positive
(f) Implementing and administrating the arrangements for the operation of contracts for difference and arrangements that facilitate the operation of a capacity market pursuant to EMR legislation	Neutral
(g) Compliance with the Transmission Losses Principle	Neutral

Rationale

Objective (d)

Article 55 of the EB GL will become law and this is expected to be by the end of 2018. Unless a BSC Modification to ensure compliance is raised now, there is a danger that the BSC will not be compliant from that date. To ensure efficiency of implementation, i.e. to combine it with expected changes to harmonise imbalance settlement, ELEXON has asked Ofgem if a two-year derogation (delay) might be granted to the compliance requirement.

However, at this time there is uncertainty whether this derogation will be granted by Ofgem. If a derogation is granted, it is likely that this will not be formally known until after the EB GL enters into force, in late 2017.

If a derogation is not granted and an associated Modification is not raised until the EB GL enters into force, this will allow less than 12 months between raising the Modification and the required implementation date (which we suggest should be part of the November 2018 Release under this scenario). In order to avoid this situation and mitigate the risk that there is insufficient time to implement the solution via a Modification, this Modification is being raised now.

As with other requirements on Imbalance Adjustment and the harmonisation of Imbalance Settlement Period, NGET, ELEXON, Ofgem are in discussion regarding the fundamentals of the derogation process,

in order to gain an understanding of what is required for a derogation request. It is intended that NGET and ELEXON continue working with Ofgem until entry into force, so that NGET or ELEXON, as appropriate can submit a derogation request to Ofgem on EB GL entry into force.

The Proposer believes this preliminary work will aid Ofgem in making a decision in a short timeframe.

Further, the Proposer believes that raising a Modification now, as well as continuing the discussions to obtain a derogation from Ofgem, is the least risky option in ensuring compliance with the EB GL.

Objective (e)

The BSC will not be compliant with Article 55 of the legally-binding European Electricity Balancing Guideline unless this Modification is made.

8 Implementation Approach

Article 55 of the EB GL will come into force one year after the Guideline itself becomes law, so we expect that the BSC will need to be compliant with the requirements of Article 55 by the end of 2018.

For that reason; because the change would be made before the 2018/19 winter season; and because other imbalance price changes associated with the final phase of implementation of P305, e.g. PAR 1, are scheduled for November 2018, this Modification is proposed for implementation on 1 November 2018, as part of the November 2018 Release.

9 Legal Text

Text Commentary

The Proposer believes that appropriate legal text is best developed as part of the Assessment of this Modification. However, it is anticipated that changes will be required to the following BSC Sections:

- Section G 'Contingencies'
- Section T 'Settlement and Trading Charges'
- Section V 'Reporting'
- Section X 'Definitions and Interpretation'
- Annex X-1 'General Glossary'

10 Recommendations

Proposer's Recommendation to the BSC Panel

The BSC Panel is invited to:

- Agree that P360 not be progressed as a Self-Governance Modification Proposal; and
- Agree that P360 be sent into the Assessment Procedure for assessment by a Workgroup.