

Modification proposal:	Balancing and Settlement Code (BSC) P376: Utilising a Baselining Methodology to set Physical Notifications for Settlement of Applicable Balancing Services (P376)		
Decision:	The Authority ¹ directs that this modification be made ²		
Target audience:	National Grid Electricity System Operator (NGESO), Parties to the BSC, the BSC Panel and other interested parties		
Date of publication:	06 August 2021	Implementation date:	23 February 2023

Background

This modification has been developed to enable improved market access to existing and potential balancing service providers. On 24 August 2018,³ Ofgem approved Balancing and Settlement Code (BSC) modification P344 'Project TERRE implementation into GB market arrangements'. P344 aligns the BSC with the European Balancing Project TERRE (Trans European Replacement Reserves Exchange) requirements. During the working group process for P344, an issue⁴ was identified for the use of a baselining methodology as an alternative to the physical notification (PN) in settlement calculations.

The issue identified that for some assets with potential to provide balancing services to the National Electricity Transmission System Operator (NETSO), there may be difficulties in providing an accurate PN, and as a result there could be inaccuracies in settlement calculations. This would lead to incorrect payments / non-delivery charges for balancing services provided. This is a disincentive for such potential providers to enter the balancing market.

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 Our 24 August 2018 decision is accessible at: <https://www.ofgem.gov.uk/publications-and-updates/p344-project-terre-implementation-gb-market-arrangements>

⁴ P344 Issue 71 can be found at: <https://www.elexon.co.uk/smg-issue/issue-71/>

In addition, in accordance with Article 18 of the Commission Regulation (EU) 2017/2195 establishing a guideline on electricity balancing,⁵ as amended by the Electricity Network Codes and Guidelines (Markets and Trading) (Amendment) (EU Exit) Regulations 2019 (the EBGL Regulation),⁶ NGENSO was required to develop a proposal regarding the terms and conditions (T&Cs) for balancing service providers (BSPs) and balance responsible parties (BRPs). On 8 October 2019,⁷ we published our decision to confirm, upon satisfaction of certain conditions, that the T&Cs proposed by the ESO are the T&Cs required by Article 18 of the EBGL Regulation. On 25 June 2020, all the necessary conditions were met and the proposed T&Cs came into force in Great Britain. We note that the proposed legal text changes for BSC modification P376 include changes which affect the T&Cs.⁸

The modification proposal

The proposed modification, raised by Enel Trade S.P.A (the Proposer) on 11 December 2018, allows recent historical metering data to set a baseline to be used as an estimate of energy flows that would be expected (at the site boundary point) under normal operating conditions. The baseline value calculated shall replace the final PN (FPN) used in settlement calculations to determine the extent to which an instructed balancing service was delivered. Essentially, this practice decouples the settlement calculation from the NETSO dispatch of balancing services: the NETSO will continue to use the FPN as a baseline for dispatch, and hence parties using the P376 solution will still be required to submit a FPN. However, for the purposes of establishing the extent to which the balancing service was delivered, the baseline value will be used instead, allowing the settlement calculation to be performed with increased accuracy. The Proposer believes that code objectives⁹ (b), (c) and (e) are better facilitated by this change, and that there is a neutral impact on the other code objectives.

⁵ Commission Regulation (EU) 2017/2195 of 23 November 2017 establishing a guideline on electricity balancing, The EBGL Regulation, came into force on 18 December 2017. Accessible at <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32017R2195>

⁶ The UK SI amendment of the EBGL Regulation is accessible at:

https://assets.publishing.service.gov.uk/media/5c17d6b440f0b60c8d601a2c/ENC_Markets_and_Trading_SI.pdf

⁷ Our 8 October 2019 decision is accessible at: <https://www.ofgem.gov.uk/publications-and-updates/decision-transmission-system-operators-proposal-terms-and-conditions-related-balancing>

⁸ Mapping of EBGL Regulation Article 18 National Terms and Conditions requirements to the existing GB Electricity Market frameworks can be found at: <https://www.nationalgrideso.com/document/146936/download>

⁹ Applicable BSC objectives are set out in standard condition C3(3) of NGENSO's Transmission Licence, available here: <https://epr.ofgem.gov.uk/Content/Documents/Electricity%20transmission%20full%20set%20of%20consolidated%20standard%20licence%20conditions%20-%20Current%20Version.pdf>

BSC Panel¹⁰ recommendation

At the BSC Panel meeting on 13 May 2021, a majority of the BSC Panel considered that P376 would better facilitate the BSC objectives and the Panel therefore recommended its approval. The BSC Panel agreed that BSC objectives (b), (c) and (e) are all better facilitated by the implementation of P376.

Our decision

We have considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 18 May 2021. We have considered and taken into account the responses to the industry consultation(s) which are attached to the FMR.¹¹ We have concluded that:

- implementation of the modification proposal will better facilitate the achievement of the applicable objectives of the BSC; and
- directing that the modification be made is consistent with our principal objective and statutory duties.¹²

However, we find that the proposed legal text in Section S of the BSC erroneously places requirements on participants with metering systems which are not engaged in the baselining methodology inasmuch as they would need to indicate the inactive status of their asset (it is also not clear what such a status would confer on these metering systems and how they would subsequently be treated).¹³ We have discussed this with Elexon who have confirmed that the Proposer did not intend for the text to place this requirement on all metering systems – and that it only arose because of a simple drafting error. Hence we expect that the legal text will be updated through a modification to ensure that the setting of inactive status only applies to metering systems within baselined balancing mechanism units, as per the intention set out in the FMR.

¹⁰ 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](#).

¹¹ BSC modification proposals, modification reports and representations can be viewed on the [Elexon website](#).

¹² 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.

¹³ Refer to the proposed wording of sections 10.1.3(i) and 10.1A.2(f) of BSC Section S.

Reasons for our decision

We consider this modification proposal will better facilitate BSC objectives (b), (c), and (e), has a slight negative impact on objective (d), and has a neutral impact on the other applicable objectives. We believe that the modification has a net positive impact overall.

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

The Proposer indicated that this modification would have a positive impact on objective (b) as it removes a barrier to entry for some parties to providing balancing services. With more parties able to provide balancing services, the NETSO can take more efficient and economic decisions when procuring such services. There was unanimous agreement from the working group with the Proposer that this is the case, and the Panel also agreed.

We agree that through the widening of participation and improvement of accuracy in settlement, this modification will better facilitate objective (b). Bringing more providers to the balancing market can increase the efficiency and co-ordination of the operation of the transmission system, enabling the NETSO to make optimised economic dispatch instructions.

(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

The Proposer stated that this modification will have a positive impact on objective (c) as it encourages more participation in the market: with more participants able to confidently provide balancing services, competition is increased. The working group agreed unanimously with the Proposer. The Panel also agreed that there is a positive impact on objective (c) from this modification.

We agree that this modification has a positive impact on objective (c) as more parties will be enabled, and thus encouraged, to enter the market for provision of balancing services. The modification will improve the accuracy of payment for the services provided, and it is clear from the P376 consultation responses that parties feel that inaccuracy in settlement calculation has to date been a reason for certain parties not entering the market.

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

The Proposer, working group and Panel all indicated that the impact on objective (d) is neutral.

We find that there is a slight negative impact on objective (d), in that this modification requires handling of additional data flows and identification of asset status (active / inactive). By decoupling the flows expected for settlement purposes (the baseline calculated value) from the FPN, there is some added complexity. We contend that this particularly applied to P376 due to the materiality of the processes introduced and the additional responsibility on participating parties and the supplier volume allocation agent regarding the steps required to attain the more accurate settlement calculations.

This negative impact is expected to be minimal as it should affect only those parties who choose to enter into settlement in this manner, and without this, they are less likely to enter into the market or are exposed to a risk of inaccurate payments when doing so. Therefore, on balance, the slight negative impact under objective (d) is offset by the benefits to objectives (b), (c) and (e).

This negative impact would be maximised under the erroneous legal wording submitted to us with the FMR, as it places additional requirements on the wider balancing services market. As outlined above, we expect the legal text to be modified to ensure that it aligns with the intention set out in the FMR.

(e) compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency

The Proposer, with unanimous support of the working group, consider that there is a positive impact on objective (e). The modification supports the implementation of replacement reserve (RR) and the ability for all customers (or independent aggregators acting on their behalf) to participate in that market. Therefore, implementation of P376 will provide better for the intentions of TERRE and modification P344.

We agree with the Proposer and the Panel that objective (e) is relevant, and that it is better facilitated through implementation of this modification. P376 was raised out of P344, which aims to align the BSC with TERRE, following from Article 19 of the EBGL Regulation. This modification supports the entry to market of parties interested in providing RR services, and we thus believe that it does better facilitate objective (e).

Decision notice

In accordance with Standard Condition C3 of the Transmission Licence, the Authority hereby directs that modification proposal BSC P376: *Utilising a Baseline Methodology to set Physical Notifications for Settlement of Applicable Balancing Services* be made. Wording in Section S of the BSC should be modified to correctly reflect the intention of the modification regarding inactive status of metering systems, and this should be addressed before implementation of this modification.

As a consequence of the above, we also approve the amendment to the T&Cs related to balancing resulting from the modification of Sections K, S and T of the BSC, including creation of new paragraphs S12, S13, and S14.

Grendon Thompson

Head of ESO Regulation

Signed on behalf of the Authority and authorised for that purpose