

P333 'Inclusion of DSBR volumes into the cashout price in time for publication after the end of the Settlement Period'

P333 contends that not including DSBR volumes in cashout until the II Settlement Run, five days after the relevant Settlement Day, could result in misleading signals to market participants. P333 would require the Transmission Company to provide its best estimate of DSBR volumes as part of its initial submission of Balancing Services Adjustment Data.



ELEXON recommends P333 is progressed to the Assessment Procedure for assessment by a Workgroup

This Modification is expected to impact:

- The Transmission Company

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About This Document

This document is an Initial Written Assessment (IWA), which ELEXON will present to the Panel 11 February 2016. The Panel will consider the recommendations and agree how to progress P333.

There are two parts to this document:

- This is the main document. It provides details of the Modification Proposal, an assessment of the potential impacts and a recommendation of how the Modification should progress, including the Workgroup's proposed membership and Terms of Reference.
- Attachment A contains the P333 Proposal Form.



Contact

Dean Riddell

020 7380 4366

dean.riddell@elexon.co.uk



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1 Why Change?

Background

Balancing services are used by the Transmission Company (TC) in its role as System Operator (SO) to balance supply and demand in real time. These are also used in the calculation of imbalance prices (also known as cash-out prices).

Demand Side Balancing Reserve

In December 2013, Ofgem published its decision to accept an application by the TC to introduce the new balancing service Demand Side Balancing Reserve (DSBR).

The DSBR service is aimed at non-domestic consumers with the ability to reduce demand/load-shift or run small embedded/on-site generation for at least an hour during a winter evening peak period. At the highest level, this will enable the SO to ask large energy users to reduce their demand in exceptional circumstances, and would remunerate them for doing so.

Balancing Service Adjustment Data

The Balancing Service Adjustment Data (BSAD) Methodology Statement sets out information on relevant balancing services that are taken outside of the Balancing Mechanism (BM) to balance the system and are taken into account under the BSC for the purposes of determining Imbalance Prices.

The Balancing and Settlement Code (BSC) requires the Transmission Company to submit its best estimate of BSAD in relation to a Settlement Period as soon as reasonably practicable after Gate Closure for, and in any event not later than the end of, that Settlement Period. This is so BSAD can be used in the BMRA's calculation of an indicative System Price within 15 minutes of the end of a Settlement Period.

The BSC also requires the TC to submit the actual BSAD the following day. This is known in the BSAD Methodology Statement as "post event re-submission". This post event re-submission ensures that the SAA's calculation of System Prices uses the actual volume(s) of BSAD when calculating a final System Price.

The BSAD Methodology Statement is owned by National Grid, and may only be modified in accordance with the processes set out in Standard Condition C16 of the Transmission Licence. National Grid is required to annually consult on the C16 statements, which includes the BSAD Methodology Statement. As a result of discussions under [Issue 56 'Treatment of the new SBR and DSBR services in the imbalance price'](#), and as part of their annual consultation, the BSAD Methodology Statement was amended to include DSBR volumes in its determination of BSAD (this version went live on 5 November 2015).

National Grid C16 Annual Consultation

On 28 January 2016 National Grid published its consultation on changes arising from its Transmission Licence Condition C16 review of its C16 Statements. This includes changes to the BSAD Methodology Statement. The deadline for responses to the consultation is 25 February 2016.

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Current Arrangements

Initial Cash out price

The BMRA calculates and publishes an indicative cashout price for every Settlement Period based on the data sent to it. This initial price is replaced by an improved cashout price that contains more accurate volumes and data five working days later, as part of the II Settlement Run.

The initial estimate of BSAD from the Transmission Company (by the end of the Settlement Period) is used in the BMRA's calculation of the initial cashout price. The BSAD Methodology Statement specifies that DSBR will not be included in the initial estimate (BSAD Methodology Statement v12, effective 5 November 2015, available on the [Transmission Licence C16 Statements page](#) of the National Grid website).

DSBR volumes are included in the post event re-submission BSAD issued the next day. Therefore the information in the revised BSAD is used in the II Settlement Run cashout price five working days later.

Under Modification [P323 'Enabling inclusion and treatment of SBR in the Imbalance Price'](#) it was argued that a forecast DSBR volume should be included in the initial estimate of BSAD. However, we understand inclusion of DSBR in the initial BSAD was not possible because of the risks associated with the only potentially feasible approach of making manual interventions to an existing automated process in short timescales (and potentially out of normal working hours).

What is the issue?

The Proposer notes that cashout is meant to provide the principle incentive for demand and supply to balance in the short term. To provide this incentive, cash-out prices need to be accurate in the short term in order to form appropriate and timely market signals.

The Proposer believes that [P305 'Electricity Balancing Significant Code Review Developments'](#) introduced potentially explosive cashout and contends that this, coupled with DSBR being priced at the Value of Lost Load (£3000/MWh), means that the DSBR volume not being included until the day after submission could lead to a very large positive change in the cashout price in the II Run compared to that reported by the end of Settlement Period.

The Proposer also notes that the use of DSBR could also create an expectation that prices will rise to £3000/MWh which, because of the Net Imbalance Volume (NIV) tagging process, may not happen.

The Proposer contends that either scenario means the five day delay in including DSBR volumes in cashout could result in misleading real-time signals being made to market participants, and that this could lead to sub-optimal trading decisions being made on days when scarcity is apparent.

Proposed solution

P333 would place a specific requirement on the Transmission Company to provide its best estimate of DSBR volumes as part of its initial submission of Balancing Services Adjustment Data by the end of the relevant Settlement Period.

Applicable BSC Objectives

The Proposer believes that P333 would better facilitate Applicable BSC Objectives (b), (c) and (d) compared with the existing baseline for the reasons set out below.

Objective (b)

The Proposer believes that the current arrangements can cause uncertainty in the cashout price because when DSBR is utilised the DSBR volume is not incorporated into the cashout price calculation until the II Run at WD+5, and that the cashout price published 15 minutes after the end of the Settlement Period therefore lacks a fundamental scarcity price signal.

The Proposer contends that P333 would facilitate Objective (b) by addressing a source of uncertainty which could lead to sub-optimal trading decisions being made by participants that are detrimental to the efficient, economic and co-ordinated operation of the GB Transmission System.

Objective (c)

The Proposer believes that P333 would better facilitate Objective (c) because the whole market would have access to the same information. They contend that the current arrangements could disadvantage smaller players because they may have less resource to devote to predicting the impact that DSBR instructions will have on the cashout price.

Objective (d)

The Proposer also believes that reducing the incidence of cashout price changes promotes greater efficiency in the implementation and administration of the balancing and settlement arrangements, facilitating Objective (d).

Implementation approach

The Proposer believes that it is essential that P333 is implemented by November 2016 as part of the November 2016 BSC Release. This is to align with the service provision for DSBR (November to February). A delay in implementation to the following BSC Release (February 2017) or later would mean that cashout prices will fail to capture any use of DSBR in a sufficiently timely manner for a further winter period.



What are the Applicable BSC Objectives?

(a) The efficient discharge by the Transmission Company of the obligations imposed upon it by the Transmission Licence

(b) The efficient, economic and co-ordinated operation of the National Electricity Transmission System

(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

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

(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]

(f) Implementing and administering the arrangements for the operation of contracts for difference and arrangements that facilitate the operation of a capacity market pursuant to EMR legislation

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3 Areas to Consider

In this section we highlight areas which we believe the Panel should consider when making its decision on how to progress P333, and which a Workgroup should consider as part of its assessment of P333. We recommend that the areas below form the basis of a Workgroup's Terms of Reference, supplemented with any further areas specified by the Panel.

Is a BSC Modification the best way to achieve the aim of P333?

As noted in Section 1, the information that National Grid is required to submit to the BMRA is set out in its BSAD Methodology Statement, not the BSC. It is also the BSAD Methodology Statement that specifically excludes DSBR volumes from the initial estimate BSAD, not the BSC.

Therefore while a BSC Modification could specify in the BSC that a particular element of BSAD (i.e. DSBR volumes) must be sent as part of the initial estimate, such a Modification alone would not ensure that DSBR volumes are included in the estimated BSAD in practice. A change to the BSAD would be required in order to fully deliver the aim of P333, even if the BSC is amended as proposed by P333.

It may be more sensible and efficient to amend the BSAD Methodology Statement directly to specify that DSBR should be included in the initial submission of BSAD information. The current C16 consultation includes the BSAD Methodology Statement, and progression of this Modification should take into account any information available relating to National Grid's C16 changes and associated consultation.

Consideration should also be given to the fact that the BSAD Methodology Statement is owned and maintained by National Grid under the C16 licence provisions, which sets out the process for amending the BSAD and its place in the hierarchy of legislation. Amending the BSC under P333 would result in the need for the BSAD Methodology Statement to be amended (and for National Grid to make any requisite changes to its systems and/or processes). If it has not been considered justifiable to make the necessary amendments to the BSAD Methodology Statement under Transmission Company's governance procedures, the Workgroup should consider whether it is good governance to place an obligation the BSAD Methodology Statement by amending the BSC.

What is the impact of implementing P333?

The Workgroup should assess the impact of P333 if implemented. It is anticipated that the main impact would be on the Transmission Company. This should include assessment of any difference in the impacts of implementation by November 2016 compared with later implementation.

What is the benefit of P333?

The Workgroup should consider whether there is benefit in specifically requiring one element of BSAD and not others. The Workgroup should take into account the Transmission Company's ability to meet an obligation imposed under P333.

If a BSC change is considered appropriate, the contended negative impact of the current arrangements on cashout should be considered and assessed if possible.

The Group should also consider implementation of P333, taking into account impacts on the BSAD Methodology Statement and National Grid, and consider what impact the implementation approach would have on any prospective benefit, e.g. whether the benefit diminish if P333 cannot be implemented until after November 2016.

Areas to consider

The table below summarises the areas we believe a Modification Workgroup should consider as part of its assessment of P333:

Areas to Consider
Is a BSC Modification the best way to achieve the aim of P333?
What is the impact of implementing P333?
What is the benefit of P333?
What changes are needed to BSC documents, systems and processes to support P333 and what are the related costs and lead times?
Are there any Alternative Modifications?
Does P333 better facilitate the Applicable BSC Objectives than the current baseline?

4 Proposed Progression

Next steps

We believe that P333 should go into an Assessment Procedure so that a Workgroup can consider the areas set out in Section 3. The Proposer has not requested that P333 be treated as a self-governance Modification. As change to the C16 Statements must be agreed by Ofgem we believe that P333 is not suitable for the self-governance arrangements.

Workgroup membership

We recommend that assessment of P333 and Modification P334 'Inclusion of Non-BM STOR costs and volumes into the cashout price in time for publication after the end of the Settlement Period' is undertaken by a joint Workgroup. We recommend that the P333 (and P334) Workgroup should comprise experts on imbalance prices and calculation methodologies; specifically any members of previous relevant groups (P305, P323, Issue 56); and any other relevant experts and interested parties.

Timetable

We recommend that P333 undergoes a four month Assessment Procedure, with the Assessment Report being presented to the Panel at its meeting on 9 June 2016.

The proposed timetable provides for preliminary discussions with National Grid and takes into account the C16 consultation that is currently taking place. It also provides for the Assessment consultation to be separate to the industry impact assessment; if it is possible to conduct these jointly it should be possible to shorten the Assessment period. We would present the Assessment Report to the Panel at the earliest meeting possible.

We recommend that the Panel agrees a 10WD Assessment Procedure consultation period if required to expedite progression (we would consult for the full 15WD if possible).

Proposed Progression Timetable for P333	
Event	Date
Present Initial Written Assessment to Panel	11 February 2016
Workgroup Meeting	W/B 14 March 2016
Industry Impact Assessment (and Assessment Procedure Consultation if possible)	21 March – 8 April 2016
Workgroup Meeting	W/B 11 April 2016
Separate Assessment Procedure Consultation (if required)	18 April – 6 May 2016
Workgroup Meeting (if required)	W/B 9 May 2016
Present Assessment Report to Panel	9 June 2016
Report Phase Consultation	13 June – 1 July 2016
Present Draft Modification Report to Panel	14 July 2016
Issue Final Modification Report to Authority	15 July 2016



What is the Self-Governance Criteria?

A Modification that, if implemented:

(a) is unlikely to have a material effect on:
(i) existing or future electricity consumers; and
(ii) competition in the generation, distribution, or supply of electricity or any commercial activities connected with the generation, distribution, or supply of electricity; and
(iii) the operation of the national electricity transmission system; and
(iv) matters relating to sustainable development, safety or security of supply, or the management of market or network emergencies; and
(v) the Code's governance procedures or modification procedures; and

(b) is unlikely to discriminate between different classes of Parties.

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5 Likely Impacts

Impact on BSC Parties and Party Agents

None identified

Impact on Transmission Company

The Transmission Company would be required to submit its best estimate of DSBR volumes earlier than is currently required; the impact to achieve this is to be determined

Impact on BSCCo

None anticipated based on current understanding of solution

Impact on BSC Systems and processes

None anticipated based on current understanding of solution

Impact on Code

Code Section	Potential Impact
Section Q	Change required to implement Modification

6 Recommendations



We invite the Panel to:

- **AGREE** that P333 progresses to the Assessment Procedure;
- **AGREE** the proposed Assessment Procedure timetable;
- **AGREE** the proposed membership for the P333 Workgroup; and
- **AGREE** the Workgroup's Terms of Reference.

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Appendix 1: Glossary & References

Acronyms

Acronyms used in this document are listed in the table below.

Acronym	
Acronym	Definition
BM	Balancing Mechanism
BSAD	Balancing Service Adjustment Data
BSC	Balancing and Settlement Code
DSBR	Demand Side Balancing Reserve
NIV	Net Imbalance Volume
SO	System Operator
TC	Transmission Company

External links

A summary of all hyperlinks used in this document are listed in the table below.

All external documents and URL links listed are correct as of the date of this document.

External Links		
Page(s)	Description	URL
3	Issue 56 'Treatment of the new SBR and DSBR services in the imbalance price' page of ELEXON website	https://www.elexon.co.uk/smg-issue/issue-56/
4	Transmission Licence C16 Statements page of the National Grid website	http://www2.nationalgrid.com/uk/industry-information/electricity-codes/balancing-framework/transmission-license-c16-statements/
4	Modification P323 'Enabling inclusion and treatment of SBR in the Imbalance Price' page of ELEXON website	https://www.elexon.co.uk/mod-proposal/p323/
4	Modification P305 'Electricity Balancing Significant Code Review Developments' page of ELEXON website	https://www.elexon.co.uk/mod-proposal/p305/

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