














BSC Modification Proposal From		At what stage is this document in the process?
<h1>P354</h1> <p><b>Mod Title:</b> Use of ABSVD for non-BM Balancing Services at the metered (MPAN) level.</p>		<div style="display: flex; flex-direction: column; align-items: flex-start;"> <div style="border: 1px solid green; border-radius: 5px; padding: 5px; margin-bottom: 5px; background-color: #28a745; color: white;">01 Modification</div> <div style="border: 1px solid #17aebc; border-radius: 5px; padding: 5px; margin-bottom: 5px; background-color: #e6f2ff;">02 Workgroup Report</div> <div style="border: 1px solid #c3c6cb; border-radius: 5px; padding: 5px; margin-bottom: 5px; background-color: #fff3cd;">03 Draft Modification Report</div> <div style="border: 1px solid #ffc107; border-radius: 5px; padding: 5px; background-color: #fff3cd;">04 Final Modification Report</div> </div>
<p><b>Purpose of Modification:</b> This Modification will allow National Grid to provide Applicable Balancing Services Volume Data (ABSVD) volume at the MPAN level and have the Settlement Administration Agent (SAA) allocate it to the appropriate Supplier BM Unit.</p>		
	<p>The Proposer recommends that this Modification should be submitted into the Assessment Procedure in order that a Workgroup can assess it.</p> <p>This Modification will be presented by the Proposer to the BSC Panel on <i>9 February 2017</i>. The Panel will consider the Proposer's recommendation and determine how best to progress the Modification.</p>	
	<p>High Impact:</p> <ul style="list-style-type: none"> <li>SAA</li> <li>Transmission Company</li> <li>Supplier</li> <li>non-BM STOR Providers</li> </ul>	
	<p>Medium Impact:</p> <ul style="list-style-type: none"> <li>BMRS</li> <li>ELEXON</li> </ul>	
	<p>Low Impact:</p> <ul style="list-style-type: none"> <li>N/A</li> </ul>	

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<b>The Proposer recommends the following timetable:</b>		
Initial consideration by Workgroup	W/B 20 February 17	
Assessment Procedure Consultation	27 April 2017 – 12 May 2017	
Workgroup Report presented to Panel	8 June 2017	
Report Phase Consultation	12 June 2017 – 30 June 2017	
Draft Modification Report presented to Panel	13 July 2017	
Final Modification Report submitted to Authority <i>[not Self-Governance]</i>	18 July 2017	
Final Modification Report published <i>[Self-Governance]</i>	18 July 2017	

## 1 Summary

### What is the issue?

The Proposer identified a defect in the current arrangements for notifying ABSVD.

### What is the proposed solution?

The proposed solution is to allow the SO to provide ABSVD volume at the MPAN level and the SAA to allocate this to the appropriate Supplier BM Unit.

## 2 Governance

### Justification for proposed progression

The Proposer believes that, since the solution has not been prescribed and the Modification impacts on providers of Balancing Services, P354 should not be progressed as a Self-Governance Modification.

## 3 Why Change?

### What is the issue?

The calculation of Energy Imbalance (in BSC Section T4.6) is designed to take into account Balancing Services delivered to the System Operator (SO) and by doing so ensure that these actions do not create energy imbalance. In the case of Balancing Services instructed through the Balancing Mechanism (BM), the required adjustment is calculated from the Bid Offer Acceptance. In the case of Balancing Services instructed outside the BM, it is provided by the SO as ABSVD. However, there is a defect in the current arrangements for notifying ABSVD, in that they require the SO to allocate the volume to a BM Unit, which in some cases they may be unable to do (particularly where the Balancing Service is provided by a 'non-BM' participant).

This defect has a particular impact on those Balancing Services that can be delivered either by a BM participant (instructed through the BM), or by a non-BM participant such as a customer or aggregator (instructed outside the BM). When Balancing Services are instructed by the SO in the BM, a Bid Offer Acceptance is issued which results in the delivery of energy. BM participants are paid for the energy at their Offer or Bid price. This BM energy is then removed from their Energy Account as part of the BSC process so they do not benefit or suffer from additional imbalance due to accurately delivered BM actions.

When Balancing Services are used by the SO from non BM participants, an instruction is issued by the SO and results in the delivery of energy. The non BM participant is paid at the agreed utilisation price, but the Energy Account of the electricity Supplier responsible for the Energy Imbalances they cause does not have the associated energy removed. The additional imbalance energy created results in an additional payment to the Supplier. This is funded from customers via Residual Cashflow Reallocation Charge (RCRC) paid at the imbalance cash out price. The additional income is available for payment to the non-BM provider from the Supplier.

When the SO procures and uses Balancing Services, for example, Short Term Operating Reserve (STOR), or bespoke services from non BM providers, it is understood that no account is taken of the additional imbalance energy payment made from customers to Suppliers via RCRC. The SO's assessment process compares services based on the tendered utilisation price with no account taken of the additional cost of the imbalance energy resulting from the utilisation of non BM providers.

This effectively allows non-BM participants to take account of a second income stream (imbalance revenue) when constructing tenders for services. Since this income stream is not taken into account in the procurement of STOR, this subsequently leads to inefficient procurement and also inefficient despatch decisions by the SO. It also places non BM STOR providers in an advantageous position compared to BM STOR providers.

ENGIE estimates that since November 2015, when non-BM STOR volume data was first published, the total additional imbalance revenue amounts to around £17m at an average rate of £103/MWh. This gives an indication of the maximum saving per year to consumers that would have been achieved had this Modification been implemented alongside [P305 'Electricity Balancing Significant Code Review Developments'](#). Higher cash-out prices would increase these spill payments and therefore the potential savings.

Whilst the focus here is on the impact on BM STOR, this issue needs addressing for other types of Balancing Service which result in an imbalance payment that is not taken into account in the contract or in utilisation. It will also be needed to allow the development of demand turn off – particularly as the Supplier would be left 'short' if a customer increases demand.

In 2014, National Grid proposed a Housekeeping Modification to remove the non-BM STOR service from ABSVD methodology as it was concerned that it could not link the MPAN to its Supplier.

This Modification addresses this concern by allowing the linking of the non-BM MPAN to its Supplier BMU so that ABSVD volume can be applied to the appropriate Supplier BMU. National Grid would supply MPAN and the energy volume to be adjusted.

## 4 Code Specific Matters

### Technical Skillsets

The Proposer believes that the following technical skillset are required to assess this Modification:

- BSC Code;
- ABSVD Methodology; and
- C16 statement.

### Reference Documents

ABSVD Methodology and C16 Statement.

## 5 Solution

### Proposed Solution

The Workgroup would develop a solution such that the SO provides certain ABSVD volume at the MPAN level (rather than the BM Unit level) and the SAA would then allocate this to the appropriate Supplier BM Unit and also data provision time-scales. Where ABSVD is provided at the MPAN level (rather than the BM Unit level), Suppliers would lose their right to opt out of ABSVD.

Whilst the Workgroup would develop the detailed solution, initial thoughts are:

- If the SAA system receives an ABSVD file containing an MPAN it doesn't know, it would flag a warning, and [SAA] would use ECOES to identify the Supplier and GSP Group. This information would be logged on the system, and all ABSVD for that MPAN would go to the Base BM Unit for that Supplier and GSP Group until further notice
- If the Supplier wanted the ABSVD allocated to an Additional BM Unit (rather than a Base BM Unit) they could let SAA know – but it would make no difference to energy imbalance for that Supplier
- If the customer changed Supplier, either the old or new Supplier could let SAA know, and they would update the standing data (after verifying details in ECOES)

## 6 Impacts & Other Considerations

### Impacts

The BSC change is one element of a number of changes required to implement a solution to this issue. The full solution will also impact the C16 statement and the ABSVD methodology and is described below for completeness.

For non-BM instructed Balancing Services, ABSVD would be applied based on delivered volume to the relevant supplier with a BSC process tracking the MPAN to the Supplier BMU for that GSP group. The SO would provide the delivered volume of (e.g. non-BM STOR) and the MPAN to the BSC. The metered volume is obtained from the Standing Reserve Despatch system (SRD) and SO settlement system with Aggregators providing half hourly metered volume per MPAN for their sites based on disaggregated SRD delivered energy. It is our understanding that Aggregators need to keep this data for audit purposes at the moment. The BSC process identifies the relevant Supplier who is credited/debited with the delivered volume via the existing ABSVD variable.

ABSVD would be based on delivered rather than instructed non-BM energy which means that the provider, aggregator or Supplier won't suffer/benefit from imbalance due to non-delivery. This approach is different to that used for BM ABSVD, and the justification for this is based on the smaller materiality and to assist Supplier and Aggregators in this transition. In the case of non-BM STOR, penalties will already apply for under-delivery under the STOR contracts. Using delivered volume also helps Aggregators who may "over instruct" to ensure the instructed volume is delivered within the appropriate tolerance.

Key features:

- ABSVD is applied to the Supplier based on the MPAN with BSC process identifying the relevant Supplier.
- ABSVD is based on delivered metering (as monitored by SRD). The implication of this is that there is no imbalance issue for the provider or aggregator to deal with. The ABSVD volume would be the lower of instructed or delivered volume.
- It will require a modification to the ABSVD methodology to add ABSVD based on delivered energy back for non-BM STOR this can be covered off in the upcoming ABSVD/C16 annual consultation or via an ad hoc change. It was previously removed in 2014. The proposed BSC change will make identification of the relevant supplier possible for the large majority of MPANs.

The Ofgem-approved ABSVD Methodology would need to be changed to reflect this mandatory requirement.

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

The Proposer noted that [P344 'Project TERRE implementation into GB market arrangements'](#) is also considering the participation of non-BMUs in delivering Replacement Reserves.

### Consumer Impacts

It is expected that this change will lead to an increased level of competition between non-BM and BM providers. The spill payment is also a major barrier to non-BM becoming BM participants. If a non-BM becomes a BM participant the spill payment would be lost - this potentially amounts to around 50% of the energy income, yet costs will be compared to the remaining non BM providers who can tender a lower

utilisation price as they will get the spill payment. By switching the spill payment to be a direct energy payment (providers may adjust the energy price to compensate for the reduce spill payment) non-BM participants can move to be BM providers without a loss of spill income.

This will in turn allow non-BM and BM providers to compete effectively for the delivery of services with resulting consumer benefits driven by increased levels of competition and optimal despatch decisions from the system operator.



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

#### Objective (a)

The Transmission licence C16 statement requires National Grid to procure and use Balancing Services without discriminating between classes of users. The current procurement of non BM services does not fully take account of all the costs of the use of these non BM services. This creates discrimination between BM and non BM classes to the detriment of BM providers.

#### Objectives (b) and (c)

The SO does not consider the cost of the spill payment when contracting with non BM services. When the full customer cost is considered (i.e. including the spill payment in non-BM energy cost) the SO is potentially allocating contracts and despatch volume in an inefficient manor that damages competition between BM and non-BM provides and results in additional customer costs.

This Modification will remove the spill revenue from non BM providers allowing all providers to compete for the provision of these services on an equal basis. This will facilitate competition between different types of provider (Objective (c)) and provide a better deal for the end consumer, resulting in an overall more economic system (Objective (b)).

#### Objective (d)

The Settlements process was carefully designed so as to isolate the accurate delivery of Balancing Services from any changes to a parties' energy imbalance. This process has been side-stepped by the growth of non-BM Balancing Services without the application of ABSVD. Putting it back into ABSVD will correct this inefficiency.

## 8 Implementation Approach

We are proposing an implementation date of **2 November 2017** as part of the November 2017 BSC System Release.

This date has been set for three reasons:

- to improve Balancing Services procurement and dispatch decisions as soon as possible;
- to remove the advantageous position of non BM STOR versus BM STOR in the procurement of STOR as soon as possible; and
- to allow consumers to benefit from the cost reductions arising from this Modification at the earliest possible date.

## 9 Recommendations

### Proposer's Recommendation to the BSC Panel

The BSC Panel is invited to:

- Agree that P354 be sent into the Assessment Procedure for assessment by a Workgroup.