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| Modification proposal: | Balancing and Settlement Code (BSC) P231: Black Start and Fuel Security Code Procedures under the Balancing and Settlement Code (P231) | | |
| Decision: | The Authority ¹ directs that this proposal be made ² | | |
| Target audience: | National Grid Electricity Transmission Plc (NGET), Parties to the BSC and other interested parties | | |
| Date of publication: | 25 June 2009 | Implementation Date: | November BSC Systems Release |

Background to the modification proposal

Modification P231 "Black Start and Fuel Security Code Procedures under the Balancing and Settlement Code (BSC)" was raised by National Grid Electricity Transmission (NGET) on 23 December 2008 to improve the transparency of the arrangements and obligations associated with Black Start Periods and Fuel Security Code (FSC) events³. This proposal is based on the investigations and conclusions reached by Issue Groups 32 and 33⁴.

A Black Start refers to the recovery process for restoring electricity on the National Transmission System (NTS) following either a Partial or Total Shutdown of the NTS⁵. Section G of the BSC sets out the Black Start provisions in the event that NGET signals that there has been a Partial or Total Shutdown. Once a Black Start period has been declared the operation of the Balancing Mechanism (BM) is suspended, a SIP applies and generators who are given Emergency Instructions⁶ under the Grid Code are entitled to compensation for any Avoidable Costs.

The FSC sets out the framework within which the Secretary of State may exercise powers contained in the Electricity Act 1989 to call and manage a Fuel Security Period (FSP)⁷. Amongst other things, it provides the Secretary of State with the power to direct a generator to operate in a certain way in order to manage the FSP. The FSC also outlines how those affected by a FSP can make a claim for remuneration for any Exceptional Costs. In issuing directions, the Secretary of State in consultation with the Authority and the Panel, may also deem it necessary to deviate from the normal operation of the BM. Where appropriate, it may direct that a SIP applies, limits on BM prices based on historic data apply, and the Credit Assessment Price⁸ (CAP) be revised.

Another proposal, modification P232, was raised in parallel with P231 for an Authority decision. P232 proposes a suite of changes to the Black Start and FSC compensation arrangements including improving the transparency around the compensation arrangements.

¹ The terms 'the Authority', 'Ofgem' and 'we' are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.

² This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989.

³ Where capitalised words and phrases are used within this note, those words and phrases will usually have the meaning given within the BSC.

⁴ See Elexon's website for the Issue 32 "Black Start" and Issue 33 "Fuel Security (FSC) Guidance" workgroup reports: www.elexon.co.uk

⁵ Under extreme conditions (e.g. multiple circuit tripping during severe weather), parts of the NTS could become disconnected from the main system, or islanded. In addition, there could be a Partial Shutdown where all generation has ceased in an island, or a Total Shutdown where all generation has ceased in the total system and there is no electricity supply from external Interconnectors. See Grid Code OC9.1.1.

⁶ An Emergency Instruction has the meaning given to that term in the Grid Code.

⁷ For the FSC document see: www.berr.gov.uk/files/file41951.pdf; For the FSC Guidance Note see: www.berr.gov.uk/files/file41952.pdf

⁸ The value of CAP is determined by the Panel, and determines the equivalent financial amount corresponding to a given amount of Energy Indebtedness (measured in MWh). See BSC Section M 1.4.1.

The modification proposal

P231 seeks to improve the transparency of the arrangements and obligations associated with a Black Start or FSC event. The P231 solution seeks to:

1. Amend the BSC such that the commencement of a Black Start period will be based on NGET's declaration of the Settlement Period where the Partial or Total Shutdown commenced;
2. Amend and include additional text in the BSC setting out the key steps that need to be taken in order for the Panel to determine the Settlement Period where normal market operations apply following a Black Start period; and
3. Amend the BSC to provide clarification regarding BSC credit defaults. There are two components to this:
 - In respect of an FSC event, P231 proposes to place an obligation on NGET to inform BSCCo (the Balancing and Settlement Code Company or Elexon), where appropriate, of any FSC direction it receives. Where a direction is confidential, it will be the Party's responsibility to notify BSCCo itself in the event that a credit default situation arises. This is to prevent that party potentially being placed in credit default. A statement will also be included in the BSC to explicitly state that a BSC Party will not be in breach of the BSC as a direct result of complying with an FSC direction;
 - In respect of a Black Start, P231 proposes to amend the BSC so that the value of Energy Indebtedness⁹ is set to zero to ensure that Parties cannot incur any indebtedness during the Black Start period¹⁰.

It is also proposed that a new BSC Procedure¹¹ (BSCP) be developed to accompany the implementation of P231. The new BSCP would contain guidance for market participants on the Black Start recovery process and guidance on the FSC processes, and include explanatory process diagrams. This BSCP would sit with the Panel so as to encourage regular review and familiarity.

BSC Panel¹² recommendation

The Final Modification Report (FMR) was considered by the BSC Panel at its meeting on 14th May 2009. The Panel unanimously agreed that modification proposal P231 better facilitated applicable BSC objectives (b), (c) and (d). Please see the FMR for full details of their views.

The Authority's decision

The Authority has considered the issues raised by the modification proposal and the FMR dated 20 May 2009. The Authority has considered and taken into account the responses to Elexon's¹³ consultation which are attached to the FMR¹⁴. The Authority has concluded that:

⁹ Energy Indebtedness includes Credit Assessment Energy Indebtedness, Metered Energy Indebtedness and Actual Energy Indebtedness.

¹⁰ Note that the BSC currently states that the value of Credit Energy Indebtedness shall be set to zero for all Trading Parties in relation to Settlement periods which fall within a Black Start period.

¹¹ BSC Procedures set out procedures to be complied with in matters relating to the implementation of the BSC. They can, from time to time, be modified by the Panel in accordance with the BSC.

¹² The BSC Panel is established and constituted pursuant to and in accordance with Section B of the BSC.

¹³ The role and powers, functions and responsibilities of Elexon are set out in Section C of the BSC.

¹⁴ BSC modification proposals, modification reports and representations can be viewed on the Elexon website at www.elexon.co.uk.

1. Implementation of the modification proposal will better facilitate the achievement of the relevant objectives of the BSC¹⁵; and
2. Directing that the modification be made is consistent with the Authority's principal objective and statutory duties¹⁶.

Reasons for the Authority's decision

P231 proposes three areas of change, which aim to improve the clarity and transparency of the arrangements and obligations associated with a Black Start period or FSC event. In doing so, we consider that P231 is likely to prevent confusion and inefficiencies should such an event arise. We consider that approving this modification is consistent with our principal objective and statutory duties.

The Authority agrees with the view of the Panel that P231 will better facilitate the achievement of the BSC's relevant objectives. In particular, the Authority considers that P231 will better facilitate the achievement of applicable BSC objectives (b), (c) and (d).

Objective (b): "the efficient, economic and co-ordinated operation of the GB transmission system"

We consider that P231 better facilitates the achievement of applicable objective (b) as it will improve the clarity and transparency of the Black Start and FSC processes and obligations.

In the event that a Black Start period arises, it will be important that all market participants understand their individual roles and responsibilities, which include the process for return to normal market operations. By setting out a clear transparent process P231 will ensure that BSC participants have a clearer understanding of the Black Start procedures. This will help market participants to carry out their Black Start obligations efficiently and effectively, reducing the likelihood that ill-informed decisions will be made, thus assisting in the orderly and timely return to normal market operations.

A number of respondents considered that the clarity provided by P231 would allow NGET to execute its own duties more efficiently. We agree, and consider that, when taken together with the efficient actions of market participants, the changes proposed by P231 will promote the efficient, economic and coordinated operation of the GB Transmission System.

Objective (c): "the promotion of 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 consider that P231 better facilitates the achievement of applicable objective (c) as it will facilitate a more orderly and timely return to competitive market conditions. Ensuring that the arrangements for the declaration and cessation of a Black Start period are accessible by all market participants will create a level playing field and reduce the scope for differing interpretations of the Black Start roles and obligations which may result in inefficient or costly action.

¹⁵ As set out in Standard Condition C3(3) of NGET's Transmission Licence, see: http://epr.ofgem.gov.uk/document_fetch.php?documentid=4151

¹⁶ 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.

P231 will also ensure that a Party's energy indebtedness is not affected by complying with an FSC or Black Start instruction. We consider that this change will result in a reduction in overall market risk due to the removal of the possibility of a company failing due to a breach of its credit default level as a result of operating under an FSC direction.

We also consider that the certainty created by these changes will allow generators to better manage their costs in relation to credit cover in an FSC event. This will help to ensure that existing generators can comply with emergency instructions.

Objective (d): "the promotion of efficiency in the implementation and administration of the balancing and settlement arrangements"

We consider that P231 better facilitates the achievement of applicable objective (d) as there would be clearer, more detailed documentation of the FSC and Black Start processes and procedures.

The BSC is currently unclear regarding the procedures required to restart the market in the event of a Partial or Total Shutdown. This may be particularly costly where lack of clarity leads to inefficient actions by market participants, which could have a detrimental effect both on the timely return to normal market operation, and the determination and financial settlement of obligations between BSC parties. By ensuring that the Black Start procedures are sufficiently detailed, clear and transparent, the complexity and costs of administering the arrangements during a Black Start period would be reduced, which in turn would reduce the administrative burden on Elexon.

Further, P231 aims to align the BSC credit arrangements with the BSC Black Start obligations. This change simply confirms that generators cannot incur any indebtedness during a Black Start period and as such will provide additional clarity to market participants affected by a Black Start.

Finally, we welcome the inclusion of a new BSCP to supplement the Black Start and FSC arrangements set out in the BSC. We consider that this will further assist with the promotion of efficiency in respect of the administration of the Black Start and FSC arrangements.

Wider Statutory Duties

By improving the clarity and transparency of the arrangements and obligations associated with a Black Start or FSC event, we consider that P231 is likely to have a positive impact on security of supply. By improving arrangements in the BSC, market participants will be better equipped to follow their individual roles and responsibilities in an efficient and effective way, thus limiting the impact and duration of a Black Start period or FSC event.

Other issues

All respondents unanimously supported the implementation of P231. However, several respondents were of the view that there were a number of issues still outstanding in respect of both the BSC and Grid Code obligations. These included:

- Wider issues in relation to what constitutes "normal market operations";
- Impacts of Demand Control, system instability and generator disconnection on market participants;
- Wider issues in relation to a Partial Shutdown and subsequent suspension of the GB market;
- Uncertainty in respect of Grid Code Black Start obligations.

We agree with the views of the Panel that there may be benefit in establishing a cross code Working Group to consider the wider aspects of a Black Start and other issues. We would encourage both National Grid and Elexon to consider setting up a group to discuss these issues and develop appropriate solutions where these are required. However, the need to further develop these solutions does not affect our decision to approve the modification proposal.

Implementation

We agree that implementation should be included in the next planned BSC Systems Release which falls at least 4 months from the date of this decision. In addition, in order to achieve the potential cost savings associated with implementing P231 together with P232 (in the instance that P232 is also approved by the Authority), we also agree that P231 and P232 should be implemented concurrently.

Decision notice

In accordance with Standard Condition C3 of NGET's Transmission Licence, the Authority, hereby directs that modification proposal BSC P231 "*Black Start and Fuel Security Code Procedures under the Balancing and Settlement Code*" be made.

Ian Marlee

Director, Trading Arrangements

Signed on behalf of the Authority and authorised for that purpose.