

Modification proposal:	<b>Balancing and Settlement Code (BSC) P342: Change to Gate Closure for Energy Contract Volume Notifications (P342)</b>		
Decision:	The Authority <sup>1</sup> directs that the Alternative modification be made <sup>2</sup>		
Target audience:	National Grid Electricity Transmission Plc (NGET), Parties to the BSC, the BSC Panel and other interested parties		
Date of publication:	1 February 2017	Implementation date:	2 November 2017

## Background

Contract notifications are submitted by all Trading Parties to the Energy Contract Volume Aggregation Agent (ECVAA). There are two varieties of notification under the BSC:

- Energy Contract Volume Notifications (ECVNs) are used to notify the ECVAA of the traded volumes from bilateral trades between two Trading Parties.
- Metered Volume Reallocation Notifications (MVRNs) are used to notify that either a fixed volume or a percentage of the output of a given Balancing Mechanism (BM) Unit should be reallocated to another Trading Party's Energy Account.

A Trading Party is required to submit its ECVNs and MVRNs for a particular Settlement Period by Gate Closure. Gate Closure is one hour before the start of a Settlement Period.

Trading Parties must also submit notifications such as Final Physical Notifications (FPNs) (the level of electricity a relevant party expects to import or export for a given Settlement Period) to NGET, the System Operator, by Gate Closure to allow the System Operator will carry out its balancing responsibilities through the BM.

Electricity market participants are exposed to imbalance prices (known as the cash-out price) that represent the cost of actions taken by the System Operator to balance the system. The cash-out price is applied to a market participant's imbalance volume which is itself determined by ECVN or MVRN submitted by Gate Closure.

## The modification proposal

EdF Energy raised P342 on 25 May 2016. It proposes to introduce a new submission deadline for ECVNs and MVRNs<sup>3</sup> notifications. It would be separate from the existing Gate Closure time, and would be set to 60 minutes after the start of the relevant Settlement Period. The existing definition of Gate Closure and the deadline for submitting other notifications would be retained.

The proposer believes that the coupling of the time parameters relating to the dispatch of generation with that of ECVN and MVRN submissions is unnecessary, that it reduces competition and requires Trading Parties to trade in a manner that is not as efficient as it might otherwise be. They also contend that following implementation of P305 'Electricity Balancing Significant Code Review Developments', allowing trading to continue past the current definition of Gate Closure up until a point where an indicative imbalance price has

<sup>1</sup> 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.

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

<sup>3</sup> Throughout this letter when we refer to ECVNs, we mean ECVNs and MVRNs unless specifically stated otherwise.

been published, would allow efficient and effective transfer of risk, promoting competition in the sale and purchase of electricity.<sup>4</sup>

Furthermore, the proposer believes that as delivery approaches, greater certainty can be gained over the likely imbalance price. This is likely to result in a concentration of liquidity in the run up to market closure. The proposer believes a later deadline for ECVN submission would improve this liquidity. The proposer therefore contends that the modification would better facilitate BSC objective (c).<sup>5</sup> The proposer also believes that the modification may better facilitate BSC objective (e) regarding compliance with European Regulations if these require a change to Gate Closure for ECVNs in the future.<sup>6</sup>

The P342 workgroup developed an Alternative Modification, identical to the Proposed Modification, except that the ECVN and MVRN submission deadline would be set at the start of the relevant Settlement Period. This was raised due to concerns that some parties may benefit through trading from the effects of their own imbalance or that trading within the Settlement Period could impact security of supply.

### **BSC Panel<sup>7</sup> recommendation**

At the BSC Panel meeting on 8 December 2016, a majority of the BSC Panel considered that both the P342 Proposed Modification and Alternative Modification would better facilitate the BSC objectives (c) and (e) compared to the current baseline. The Panel considered that the P342 Alternative Modification was better than the Proposed Modification and therefore that the Alternative should be approved.

### **Our decision**

We have considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 16 December 2016. We have considered and taken into account the responses to the industry consultation which are attached to the FMR<sup>8</sup>. We have concluded that:

- implementation of either P342 Proposed or Alternative Modification proposals would better facilitate the achievement of the applicable objectives of the BSC;<sup>9</sup>
- P342 Alternative Modification will better facilitate the achievement of the applicable BSC objectives compared to P342 Proposed Modification; and
- directing that P342 Alternative Modification be implemented is consistent with our principal objective and statutory duties.<sup>10</sup>

### **Reasons for our decision**

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<sup>5</sup> BSC Objective (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

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<sup>6</sup> BSC Objective (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]

<sup>7</sup> 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 available at:

[www.epr.ofgem.gov.uk](http://www.epr.ofgem.gov.uk)

<sup>8</sup> BSC modification proposals, modification reports and representations can be viewed on the Elexon website at [www.elexon.co.uk](http://www.elexon.co.uk)

<sup>9</sup> As set out in Standard Condition C3(3) of NGET's Transmission Licence: <https://epr.ofgem.gov.uk>

<sup>10</sup> 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.

We have considered both proposals against the BSC Objectives and consider objectives (b) and (c) to be impacted. We consider both proposals have a neutral impact on the other applicable objectives.

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

We have noted the comments from some workgroup members and respondents that the Proposed Modification will incentivise parties to significantly change their physical position following Gate Closure and could impact system operation. This could increase the cost of balancing and lower the efficiency of the system.

Firstly, we note that parties who are required to submit FPNs must do so under the Grid Code and failure would be a breach of their obligations. In the case of market participants not bound by this obligation, and who can change their position after Gate Closure, we consider that this can already happen today and is not being introduced by P342 in isolation. We agree however that the Proposed Modification does create an additional option (to trade) for these parties above the existing ability to simply re-dispatch after Gate Closure. It is difficult to predict future behaviour but this could increase the incentive on a party to change positions post Gate Closure with consequential impacts for the System Operator. The Alternative Modification mitigates this risk to an extent by ensuring notifications are submitted no later than the start of delivery. On balance therefore we think that the Alternative Modification Proposal is neutral towards BSC objective (b) as it maintains the principle of providing notifications no later than the start of the delivery period concerned, while the Proposed Modification could have a detrimental impact.

We have noted the proposer's comment that P342 was raised in reaction to the implementation of P305. We consider that a single imbalance price, as introduced by P305, helps to ensure cash-out prices better reflect both the marginal costs of energy imbalances and the value consumers assign to secure electricity supplies during tight margins. Both the Proposed and Alternative Modifications provide opportunities for parties to balance their position in a more efficient way so we consider they are both consistent with the intent of P305.

***(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***

We agree with the comments from some members of the workgroup, consultation respondents and the Panel that both the Proposed Modification and Alternative Modification better facilitate BSC Objective (c) compared to the current arrangements. Analysis provided by Elexon during the workgroup indicated a daily average 'tradable' volume over the period examined of 349 MWh. The tradable volume in this context represents the absolute minimum of market-wide long and short Imbalance Volumes in each Settlement Period (ie, a seller and a buyer). The workgroup expressed a view that, provided Imbalance Volumes are a fair indicator, this represented a good level of liquidity. While we recognise that some parties may choose to be long or short in order to receive the cash-out price, we note that both proposals provide an opportunity for parties to submit ECVNs after Gate Closure if they choose to do so and there appears to be sufficient volumes available to trade to allow this to happen. We agree that allowing parties the opportunity to submit ECVNs after Gate Closure allows greater self-balancing leading to greater efficiency in the market.

We do not agree with the comment from one respondent that P342 may undermine the punitive consequences of being out of balance if positions can be resolved after the

event. Rather than being a punitive measure, the cash-out price should reflect the marginal costs of balancing the system and encourage parties to be balanced. Allowing parties to submit ECVNs after Gate Closure provides further opportunity to balance their own position. We agree with the comments that extending the ECVN submission deadline beyond Gate Closure will allow parties to obtain and react to more accurate information on the anticipated cash-out price and their metered positions.

We consider that the Proposed Modification could potentially better facilitate BSC Objective (c) compared to the Alternative Modification, because more time is made available to submit ECVNs. However, we agree with comments made by the workgroup that as the indicative imbalance price becomes known, parties are unlikely to trade at anything other than this. Therefore on balance we think that any increased benefit would be marginal and the risks associated with system operation, as noted above in respect of Objective (b), outweigh any additional benefits of allowing ECVNs to be submitted after the start of the Settlement Period.

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

The workgroup noted possible interactions with P344 'Project TERRE implementation into GB market arrangements' and the Cross Border Intraday (XBID) project. Both of these pieces of work are ongoing so we cannot, at this stage, form an opinion on whether the two proposals better facilitate BSC Objective (e).

**Decision notice**

In accordance with Standard Condition C3 of NGET's Transmission Licence, the Authority hereby directs that Alternative modification proposal BSC P342: *Change to Gate Closure for Energy Contract Volume Notifications* be made.

**Mark Copley**

**Associate Partner, Wholesale Electricity Markets**

Signed on behalf of the Authority and authorised for that purpose