

TO:

All Balancing Mechanism

Participants

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Dynamic parameters and other information submitted by generators in the Balancing Mechanism

This open letter sets out our expectations in relation to the accuracy of the dynamic parameters and other information submitted by generators participating in the Balancing Mechanism ('**BM**'). It is closely related to a previous open letter published in December 2016, in which, among other things, we reminded market participants about the importance of submitting accurate information about technical parameters to the Electricity System Operator ('**ESO**').¹ It follows our finding, published earlier this year, that in 2016 InterGen breached its obligations by submitting to the ESO false and misleading information, in relation to both its dynamic parameters and its best estimate of expected generation (physical notifications, or '**PN**'s).² The level of the penalty associated with that finding illustrates how seriously Ofgem takes breaches of this type.

Background

The BM is a crucial part of the GB electricity system framework. It is a critical tool used by the ESO to ensure that supply and demand are balanced. The efficient functioning of the

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https://www.ofgem.gov.uk/system/files/docs/2016/12/scarcity_pricing_and_conduct_in_the_wholesale_energy_market.pdf

² <https://www.ofgem.gov.uk/publications-and-updates/finding-intergen-has-breached-article-5-prohibition-market-manipulation-regulation-eu-no-12272011-european-parliament-and-council-25-october-2011-wholesale-energy-market-integrity-and-transparency-remit>

BM was particularly important in recent months, given the challenges created by the seasonally low levels of demand observed during the Spring.

In the BM 'bids' and 'offers' are collected from market participants, specifying the price at which those parties would be willing to decrease their output or consumption below (or increase it above) their intended level as indicated through their PNs. For each half-hourly settlement period, the ESO may accept sets of bids and offers, making payments to (or receiving payments from) different parties in exchange for them agreeing to alter their output or consumption in a way that ensures the system is balanced.

In order to ensure that this balancing can be achieved in an efficient and economic manner, the ESO relies on information submitted by generators to select which balancing actions to take in a given period. Among other things, this includes details of generators' technical capabilities, known as dynamic parameters. Among these dynamic parameters are the generator's Stable Export Limit ('**SEL**') - the minimum value in megawatts at which the unit can, under stable conditions, export power. The parameters also include the minimum zero and non-zero times ('**MZT**' and '**MNZT**'), both expressed in minutes. These represent the minimum time that a unit which has been exporting must operate at zero or be importing before returning to exporting, and the minimum time that a unit can operate at a non-zero level, respectively.³

Generators' obligations

Under the Grid Code, generators must ensure that their dynamic parameters "*reasonably reflect the true current operating characteristics of the BM Unit*" (or, where submitted at the day ahead stage, the unit's "*expected*" true operating characteristics).⁴ They should be prepared in line with Good Industry Practice – defined as "*the exercise of that degree of skill, diligence, prudence and foresight which would reasonably and ordinarily be expected from a skilled and experienced operator...*".⁵ Generators are required to use reasonable endeavours to ensure that the data held by the ESO – including dynamic parameters - is accurate at all times.⁶

Further, Article 5 of Regulation (EU) No 1227/2011 of the European Parliament and of the Council of 25 October 2011 on wholesale energy market integrity and transparency ('**REMIT**'), prohibits market participants from engaging in or attempting to engage in market manipulation. The definition of 'market manipulation' within Article 2 of REMIT

³ The full list of dynamic parameters is set out in the Grid Code at BC1.A.1.5

⁴ Grid Code BC2.5.3.1, Grid Code BC1.4.2(e)

⁵ Grid Code Glossary & Definitions

⁶ Grid Code BC1.4.3

includes 'entering into any transaction or issuing any order to trade ...which gives, or is likely to give, false or misleading signals as to the supply of, demand for, or price of wholesale energy products'. The definition of 'attempting to manipulate the market' includes 'entering into any transaction or issuing any order to trade ...which attempts to give, false or misleading signals as to the supply of, demand for, or price of wholesale energy products'.

In Ofgem's view, and in line with our InterGen finding, any generator who, for commercial reasons, submitted to the ESO dynamic parameters which did not reflect the operating characteristics of the BM unit would be giving or would be attempting to give, false or misleading signals as to the supply of, demand for, or price of wholesale energy products. Consequently the generator would be likely to be in breach of Article 5 REMIT.

Our expectations

It is essential that market participants comply with their obligations under the Grid Code and REMIT when submitting their dynamic parameters to the ESO. This means that these parameters must be set at a level that reflects the true operating characteristics of their plant, or their reasonable expectations, based on technical parameters, of those operating characteristics.

Generators must not use dynamic parameters as a commercial tool in order to influence the payments that are received from the ESO. Where the way in which a unit is instructed to alter its output by the ESO affects a generator's costs, this should instead be reflected in the bid and offer prices that are submitted. Indeed, given the operational nature of dynamic parameters, our expectation is that good industry practice would mean that these parameters would typically be determined and submitted by operational staff at power stations with reference to the technical characteristics of the plant, rather than companies' intraday trading and optimisation functions. This is in contrast to PNs, which we would expect to generally be submitted by participants' trading functions.

In respect of SELs, the Grid Code requires that the SEL submitted by a generator should reflect the minimum level of output at which that unit can operate under stable conditions. Therefore, where there is a change to a unit's SEL, we would expect this to be as a result of a change in operating conditions at the plant which affects that minimum stable output level. Such a situation could arise, for example, where a BM unit comprising of multiple gas turbines brings one of those turbines offline, reducing the SEL for the unit as a whole.

According to our understanding, this is different to the situation where a Super SEL contract has been agreed. A Super SEL contract is utilised by NGESO to provide it with

access to a reduced minimum active power level by allowing generators to directly decrease the sum of their minimum MW level below the normal SEL. By definition, any lower level of output offered via a Super SEL contract should be a temporary reduction which would not be possible under stable conditions. Unless a Super SEL contract is enacted by NGESO which then requires SEL to be redeclared to a lower level for an agreed period of time, the declared SEL should reflect the true stable minimum operating level.

Where it is more costly for a unit to operate at a lower level of output (but this can nevertheless be achieved under stable conditions), this should not affect the SEL that a generator submits, but rather be reflected in the schedule of bids and offers that is submitted to the ESO. If a BM unit has a PN of zero and is available for ESO to use in the BM, it should not submit a higher SEL than it would normally set in order to force the ESO to purchase a greater volume of power when instructing it on.

Similarly, MNZTs should reflect the minimum time that the unit is able to export given its operating characteristics (or where submitted in advance, the expectation of those operating characteristics). Again, the level of the MNZT should not reflect the generator's commercial preference for how long it would like that unit to be turned on for if it is instructed to do so by the ESO.

Finally, we would like to reiterate that the need for BM participants to provide accurate information to the ESO goes beyond dynamic parameters. For example, as discussed in our December 2016 letter (referenced above), PNs should be set to reflect a participant's best estimate of the expected output. Submitting misleading PNs or other physical parameters – either alone, or in combination with inaccurate dynamic parameters – would clearly also have the potential to breach one or more of generators' obligations.

Next steps

We have engaged with the ESO in order to understand its views on the accuracy of the information submitted in the BM. It has told us that it too is keen to ensure that the information that it receives from market participants is accurate in order to allow it to balance the system effectively.

We expect the dynamic parameters that generators submit in the BM to reflect the true operating characteristics of their plant, and the definitions of these parameters, as set out in the Grid Code. If we find evidence that a BM participant has acted in a way that is in breach of its obligations, we will take action accordingly.

Yours Faithfully

A handwritten signature in black ink, appearing to read 'Tom Corcut', written in a cursive style.

Tom Corcut

Deputy Director, Wholesale Markets