Modification proposal:	**Balancing and Settlement Code (BSC) P375: Settlement of Secondary BM Units using metering behind the site Boundary Point**		
Decision:	The Authority[1] directs that this modification be made[2]		
Target audience:	National Grid Electricity System Operator (NGESO), Parties to the BSC, the BSC Panel and other interested parties		
Date of publication:	24 February 2021	Implementation date:	30 June 2022

Background

This modification is designed to enable greater market access for balancing services. On 24 August 2018, Ofgem approved Balancing and Settlement Code (BSC) modification P344 'Project TERRE implementation into GB market arrangements'. P344 aligns the BSC with the European Balancing Project TERRE (Trans European Replacement Reserves Exchange) requirements. Through the working group process of P344, an issue[3] was identified for the settlement of secondary balancing mechanism units using metering at the asset.

The issue arises from the location of meters used for settlement, and the associated difficulties parties may experience in providing accurate final physical notifications (FPNs). It was also raised that under the existing arrangement, where only metering at the defined boundary point can be used, it may not be possible to ensure that payments made accurately reflect actual balancing service delivery. On 13 December 2018, BSC modification P375 was proposed to address these factors.

In addition, in accordance with Article 18 of the Commission Regulation (EU) 2017/2195 establishing a guideline on electricity balancing[4], as amended by the Electricity Network Codes

[1] 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.
[2] This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989.
[3] P344 Issue 70 can be found at: https://www.elexon.co.uk/smg-issue/issue-70/
[4] Commission Regulation (EU) 2017/2195 of 23 November 2017 establishing a guideline on electricity balancing, The EBGL Regulation, came into force on 18 December 2017. Accessible at https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32017R2195

and Guidelines (Markets and Trading) (Amendment) (EU Exit) Regulations 2019 (the EBGL Regulation),[5] NGESO was required to develop a proposal regarding the terms and conditions (T&Cs) for balancing service providers (BSPs) and balance responsible parties (BRPs). On 8 October 2019,[6] we published our decision to confirm, upon satisfaction of certain conditions, that the T&Cs proposed by the ESO are the T&Cs required by Article 18 of the EBGL Regulation. On 25 June 2020, all the necessary conditions were met and the proposed T&Cs came into force in Great Britain. We note that the proposed legal text changes for BSC modification P375 include changes which affect the T&Cs.[7]

The modification proposal

The proposed modification, raised by Flexitricity Limited (the Proposer) on 13 December 2018, allows, in the case of independent assets behind the boundary meter, for secondary meters to be used for the purpose of settlement of balancing services (bid-offer acceptances), rather than using metering equipment at the site boundary point. Allowing metering closer to the asset within a site that provides the balancing service means that only activity related to that asset is submitted for settlement, and the independent, uncontrollable activity of other assets within the site boundary (behind the same boundary point meter) is removed, reducing inaccuracy in settlement. Simplistically, this modification allows balancing related services to be separated from imbalance related activities. The Proposer believes that code objectives[8] (b), (c) and (e) are better facilitated by this change, and that there is a neutral impact on the other code objectives.

In order to facilitate the use of a meter located between the boundary point and the asset for the purposes of reflecting balancing services for settlement, a new code of practice (COP 11) has been established. This includes the creation of asset metering system identifiers (AMSIDs), to be registered with the settlement volume allocation agent (SVAA), to complement the existing metering system identifiers (MSIDs) used for boundary point meters.

[5] The UK SI amendment of the EBGL Regulation is accessible at: https://assets.publishing.service.gov.uk/media/5c17d6b440f0b60c8d601a2c/ENC_Markets_and_Trading_SI.pdf
[6] Our 8 October 2019 decision is accessible at: https://www.ofgem.gov.uk/publications-and-updates/decision-transmission-system-operators-proposal-terms-and-conditions-related-balancing
[7] Mapping of EBGL Regulation Article 18 National Terms and Conditions requirements to the existing GB Electricity Market frameworks can be found at: https://www.nationalgrideso.com/document/146936/download
[8] Applicable BSC objectives are set out in standard condition C3(3) of NGESO's Transmission Licence, available here: https://epr.ofgem.gov.uk/Content/Documents/Electricity%20transmission%20full%20set%20of%20consolidated%20standard%20licence%20conditions%20-%20Current%20Version.pdf

This code of practice allows existing metering set-ups to be used for this purpose, as well as being the standard for new meters to attain in new sites.

This modification is predicated on the independence of assets behind the boundary meter. As such, stringent independence checks by the SVAA are required, in accordance with their performance assurance framework[9]. These checks will be done at the point of registration of the asset meter, and further checks can be conducted should the site trigger concerns over 'gaming' (where non-balancing assets respond deliberately and dependently to the balancing service response of the balancing asset) through use of an automated technique using statistical methods.

BSC Panel[10] recommendation

At the BSC Panel meeting held on 10 December 2020, the BSC Panel considered that P375 would better facilitate the BSC objectives and the Panel therefore unanimously recommended its approval. The BSC Panel agreed that BSC objectives (b), (c), and (e) are better facilitated through implementation of P375.

Our decision

We have considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 16 December 2020. We have considered and taken into account the responses to the industry consultations which are attached to the FMR[11]. We have concluded that:

- implementation of the modification proposal will better facilitate the achievement of the applicable objectives of the BSC;[12]
- although savings presented in the FMR are large, and in our opinion are possibly overstated, this modification will engender sufficient savings to offset costs; and

[9] Further details on the performance assurance framework are available at: https://www.elexon.co.uk/reference/performance-assurance/
[10] 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.
[11] BSC modification proposals, modification reports and representations can be viewed on the Elexon website.
[12] As set out in Standard Condition C3(3) of the Electricity Transmission Licence.

- directing that the modification be made is consistent with our principal objective and statutory duties.[13]

Impact Assessment

We determined that an impact assessment (IA) was not required for this modification as resources required to do an IA would be disproportionate to the expected impact of the proposal. Moreover, a further IA would not add value as all parties with an interest in this modification proposal had sufficient opportunity to share their views on the impacts of the proposal as part of the regular code modification process.

Reasons for our decision

We consider this modification proposal will better facilitate BSC objectives (b), (c), (d) and (e), and has a neutral impact on the other applicable objectives.

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

The Proposer suggested that objective (b) will be better facilitated as P375 will reduce barriers to entry to the balancing services market, hence enabling more providers to come to market. This provides NGESO with more options, meaning that efficient and economic dispatch is more likely.

The working group agreed with the Proposer that P375 gives NGESO more confidence in what is occurring behind the boundary meter to increase the co-ordinated operation of the national electricity transmission system. The Panel agreed with the Proposer and the working group that objective (b) is better facilitated through implementation of this modification.

We agree that through the widening of participation and improvement of accuracy in settlement, this modification will better facilitate objective (b). NGESO will have better visibility of balancing services and hence will be able to better coordinate the national

[13] 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.

electricity transmission system. We believe that reducing the barriers to market is a positive, but that it better aligned to objective (c) than objective (b).

We note that the expected savings attributed to this modification in the FMR may be exaggerated, however we do believe sufficient savings will be made to offset costs and will thus aid in efficient, economic operation of the national electricity 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

The Proposer put forward that the increased competition from improved access to market allowed by this modification means that objective (c) is better enabled. The working group voted unanimously in favour of this, and the Panel agreed that implementation of this modification would further the aims of objective (c).

We agree that P375 provides the opportunity for more numerous and varied participants to enter the balancing services market and encourages them to provide balancing services without fear of payment inaccuracies. The modification also gives NGESO a better view of the performance of those parties who are providing balancing services through assets located behind the boundary meter, meaning that those parties who perform well can be rewarded accordingly.

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

The Proposer indicated a neutral impact for P375 on objective (d). The working group unanimously agreed with that position, and the panel also voted in agreement.

We note that the working group reported in the FMR that there is a positive impact on this objective as there will be greater granularity and visibility of provision of balancing services. However, there is a reported negative impact that offsets this due to the complexity introduced to the BSC[14]. The added complexity comes from additional data collection and

[14] Section S and associated Annex S-2 are updated with additional requirements on half hourly data processing.

processing, mainly burdening the virtual lead parties (VLPs) and the supplier volume allocation agent (SVAA).

Our position is that the overall impact on objective (d) is slightly positive. We are in agreement with the working group and the Panel that there is a benefit from the increased visibility of balancing services, and that the added complexity, while present, is not significant.

(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]

The Proposer stated that objective (e) is enhanced by P375 as it is in line with the principles and objectives of the EBGL Regulation. The majority of the working group agreed with the Proposer, with one member holding a neutral view. The Panel agreed that objective (e) would be better facilitated by P375.

We agree with the Proposer and the Panel that objective (e) is relevant, and that it is better facilitated through implementation of this modification. P375 was raised out of P344, which aims to align the BSC with TERRE, following from Article 19 of the EBGL Regulation which mandates that transmission system operators (TSOs) using replacement reserve (RR) products must develop a European platform for the exchange of balancing energy from RR. This modification supports the entry to market of parties interested in providing RR services, and thus we believe that it does further facilitate objective (e).

We note that the FMR considered compliance with existing metering standards, such as smart metering equipment technical specifications (SMETS). We are satisfied that the modification is not contrary to the intention for holistic implementation of SMETS compliant meters and allows for their inclusion within settlement of secondary balancing mechanism units, with sufficient provisions for future-proofing.

On balance, we find that objectives (b), (c) and (e) benefit substantially from this modification, and that objective (d) is overall impacted slightly positively, therefore the added complexity under objective (d) is not deemed to be detrimental such that the overall impact of P375 better facilitates achievement of the objectives overall.

Given the importance of the independence of assets behind the boundary meter for sites making use of the changes brought about by P375, we urge Elexon to put in place an appropriately rigorous system of assurance checks. We will engage with Elexon on this during the implementation phase of P375.

Decision notice

In accordance with Standard Condition C3 of the Transmission Licence, the Authority hereby directs that modification proposal BSC P375: *Settlement of Secondary BM Units using metering behind the site Boundary Point* be made.

As a consequence of the above, we also approve the amendment to the T&Cs related to balancing resulting from the modification of Sections J, K and S of the BSC.

Grendon Thompson
Head of ESO Regulation
Signed on behalf of the Authority and authorised for that purpose