

5th October 2022

C16 Additional Review for Winter Contingency Services

Additional Industry consultation for BSAD, ABSVD
& SMAF C16 Statements for 2022/23

Proposed revisions to the: BSAD, ABSVD & SMAF C16
Statements

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1. Executive Summary

This consultation has been produced under Condition C16 of the Transmission Licence to undertake a further review of National Grid Electricity System Operator's (NGESO) C16 Statements.

NGESO ran an additional consultation including elements relating to the winter contingency contracts from 8 August 2022 to 5 September 2022, in line with the requirements of Transmission Licence. Industry concerns were raised in the responses relating to the treatment of the winter contingency contracts, specifically regarding the impact of the £0/MWh BOA price feeding into cash out. The feedback from industry can be found within our [report](#) to the Authority issued 12th of September 2022 on our C16 webpage.

Following our review of the responses we determined we may need to run a further consultation on additional changes to the statements due to the concerns raised by industry stakeholders. At that time, it was unclear to the ESO what the settlement solution needed to be due to the various complexities of the contracts and the cash out process within the Balancing and Settlement Code.

While initial discussions indicated that impacts to cash out could be managed through System Flagging it has come to light that in certain scenarios where there is severe scarcity in the GB wholesale markets and they have cleared at their maximum price, the Winter Contingency Service would lose its system flag and become second stage flagged, leading to NIV tagging having to be applied, which could lead to the Winter Contingency Service setting the Cash Out Price at £0/MWh. This could cause perverse incentives for Parties not to make generation available to the market leading to volatility and uncertainty. Those that did respond all stated that the price flowing through to cash out must be "high" and was recommended to us that it should be set at the Volume of Lost Load £6000 MWh or higher as a high-priced system action cannot dictate the cash out price. Our revised approach aligns with this feedback, and we believe addresses the points made by BSC parties. The approach was socialised at the ESO's Markets Forum on the 28th of September 2022 with no significant concerns raised by stakeholders at that time.

OFGEM has issued a direction¹ pursuant to Standard Licence Conditions C16.9(a)(ii) and (iii) on October 4th, 2022. This provides the ESO a direction to deviate from the minimum 28-day period for consultation on our proposed changes, instead allowing a period of at least 7 days for this consultation. Additionally, reflecting the urgent nature of implementing these changes, the 7 days set out in the C16 licence condition that allows for NGESO to prepare our final report to Ofgem is reduced to 4 days by this decision.

The changes to the SMAF, ABSVD and BSAD C16 statements made for Winter Contingency Services are detailed in the proposed changes section of this consultation and will be effective by November 14th, unless the ESO is issued a direction by the Authority for statement changes to become effective earlier or vetoed. If required, we intend to utilise the Winter Contingency Services from October 1st and therefore will work with Ofgem to allow them to issue a Direction to not use their power to veto before that date use is required if possible.

NGESO welcomes industry views on the proposed changes to the C16 statements for Winter Contingency Services. Responses are required by 10am 12th of October 2022. Details on how to make a response can be found in the Consultation Questions section. Following receipt of

Indicative Dates:

Official Consultation Release: 5th October

Official Consultation Deadline: 12th October

Documents sent to Ofgem before/by: 14th October

Ofgem Veto/Direction before/by: 14th November

Revised C16 Statements go live before/by: 14th November

¹ [Direction to National Grid Electricity System Operator Limited pursuant to Standard Licence Conditions C16.9\(a\)\(ii\) and \(iii\) | Ofgem](#)

responses to this consultation, NGENSO will prepare and submit a report to the Authority by the 14th of October 2022.

The current versions of the C16, this consultation, industry responses and the consultation report will all be published at the following link: <https://www.nationalgrideso.com/balancing-services/c16-statements-and-consultations>

If you have any questions about this document, please contact:

Ruby Pelling

Markets, National Grid Electricity System Operator

Email: balancingservices@nationalgrideso.com

Please note consequential changes resulting from modifications to GB industry codes, stakeholder suggestions and upcoming regulatory changes which are not captured here will be actioned either in future annual reviews, or individual statement reviews as appropriate.



Jonathan Wisdom

Code Change Delivery Senior Manager

National Grid ESO

2. Introduction & Process Overview

The Review

In accordance with Standard Condition C16 (C16) of its Transmission Licence, NGENSO has concluded its annual review of all licence statements, the updated statements have been approved by the Authority (Ofgem) and were effective as of 1st April 2022. This consultation is a further consultation to the annual process and is due to further changes required to provide additional winter security, after the annual industry consultation had closed.

Following feedback from industry on the proposed changes to several C16 documents including the Procurement Guidelines, Balancing Principles, ABSVD and SMAF statements within our additional consultation launched on August 8th closing on September the 5th, we asked Ofgem to allow us to reopen and extend the consultation window, to allow us to publish a further consultation to address any concerns.

The purpose of NGENSO's review and consultation is to ensure that each of the applicable documents remains current by seeking industry views on any proposed changes. NGENSO invite the Authority to review proposed changes. If the Authority chooses to exercise their powers of veto for these proposed changes to the C16 statements, the existing versions will remain in place. Alternatively, the proposed changes will become effective by November 14th, 2022, unless issued a direction by the Authority for statements changes to become effective earlier or vetoed.

The following statements are the focus of this review:

- System Management Action Flagging Methodology Statement (SMAF)
- Applicable Balancing Services Volume Data Methodology Statement (ABSVD)
- Balancing Services Adjustment Data Methodology Statement (BSAD)

Step 1 Issue Formal Consultation

NGESO ran an additional consultation outside of the annual C16 review process, on changes to the Procurement Guidelines, Balancing Principles, SMAF and ABSVD C16 Statements, regarding the Winter Contingency Contracts and the Demand Flexibility Service from 8th August 2022 to 5 September 2022, in line with the requirements of Transmission Licence. The proposed changes consulted on can be found on our C16 Webpage.²

Following industry feedback on the proposed changes, NGESO asked Ofgem on September 12th, 2022, to allow us to reopen a further consultation window for two weeks³. NGESO received a direction from OFGEM to this effect on the 15th of September⁴. This Direction meant that NGESO could consult for a lesser period than that set out in Standard Licence Condition C16 sub-paragraph 9(a)(ii) of its Transmission Licence – that is, to hold a consultation for no less than 14 days, rather than 28 days. Following this direction, NGESO issued a consultation for a further two weeks solely on the Demand Flexibility Service from September 22nd – October 6th. This would provide industry a chance to provide comment on the changes we made following the additional consultation feedback, whilst NGESO looked to resolve the concerns around the winter contingency service dispatch method.

Having identified a revised dispatch process for the winter contingency service to address the concerns from the 8th August consultation, NGESO asked and Ofgem directed on the 4th of October 2022⁵, that NGESO could consult on the additional changes required in this respect for a lesser period than that set out in Standard Licence Condition C16 sub-paragraph 9(a)(ii) - that is to hold a consultation for no less than 7 days rather than 28 days. This consultation is therefore concerned with the additional proposed changes for the Winter Contingency Services within the SMAF, ABSVD and BSAD statements, which are attached with this consultation. This consultation will be open to industry from the 5th of October to 12th of October.

Please note that as changes for BSAD and ABSVD are proposed under both the September 22 Demand Flexibility Service consultation and this Winter Contingency Services consultation, the updates to the BSAD and ABSVD methodologies will reflect the order of the decisions (and although revision numbers are included on the statements attached, the actual revision numbers of the statements will reflect this order).

Step 2 Report to Authority

The second step in the review process is for NGESO to document, in the form of a report, the ESO's final position on the additional changes along with the track changed versions of the statements. The report will also include in a clear and transparent way all industry responses and NGESO's view for each of these.

² <https://www.nationalgrideso.com/industry-information/codes/balancing-settlement-code-bsc/c16-statements-and-consultations>

³ NGESO C16 Consultation extension request letter can be found on our [C16 Website](#) within folder 'C16 Additional Review Consultation for Procurement Guidelines, BPS, SMAF and ABSVD for 2022/23'

⁴ <https://www.ofgem.gov.uk/publications/decision-provide-direction-national-grid-electricity-system-operator-limited-pursuant-standard-licence-condition-c169aii>

⁵ [Direction to National Grid Electricity System Operator Limited pursuant to Standard Licence Conditions C16.9\(a\)\(ii\) and \(iii\) | Ofgem](#)

This report must be issued to the Authority (Ofgem) within 4 days from the closure of the official consultation as per Ofgem's direction⁶ to NGENSO on 4th of October 2022.

The report will be submitted to Ofgem by October 14th.

Step 3 Authority Decision and Statement go live

The third step in the review process is for the Authority (Ofgem) to review all the documents submitted to them from step 2.

Ofgem then have up until 28 days to offer a direction or challenge the submission, if Ofgem do not veto the changes then the statements will go live on the NGENSO website on/before the 14th of November, unless directed otherwise.

If Ofgem do veto, then there are 2 different directions for the statements to go live. Ofgem can either direct a change or they can request NGENSO to run a further consultation on the specific issues they have identified, which may push back the go live date or a statement might go live pending further changes.

3. Timelines

Step 1 Formal Consultation

The Consultation will be issued on the 5th of October 2022.

Responses are required by 10am on the 12th of October.

Details on how to respond can be found in the Consultation Questions section.

Step 2 Report to Authority

To be issued by 14th of October.

Step 3 Authority Decision and Statement go live

Ofgem Veto/Direction expected by/before the 14th of November.

Changes to statements are effective by the 14th of November, unless directed otherwise.

4. Review of Suggested Changes

Background to suggested changes:

At the request of BEIS, the ESO has agreed contracts with Drax, EDF and Uniper to extend the life of coal fired power plants this winter. The new winter contingency contracts will only be used as a last resort and to ensure resilience and security of supply. These units will be available from 1 October 2022 until 31 March 2023, with costs recovered through BSUoS between 1 October 2022 and 31 March 2023. The units contracted will not be available to the open market and will only be dispatched

⁶ Direction to National Grid Electricity System Operator Limited pursuant to Standard Licence Conditions C16.9(a)(ii) and (iii) | Ofgem

at the request of ESO. These contracts are only intended to be used when all commercial options have been exhausted within the Balancing Mechanism.

In relation to the winter contingency services, our original solution of system flagging the winter contingency services and pricing these as a £0/MWh BOA was intended to ensure there was no distortion of BSUoS prices, no unnecessary cash flows between Elexon and generators and no risk of influencing other prices within the BM.

However, following industry feedback, NGENSO shares some of respondents' concerns, particularly around setting an acceptable price within the balancing mechanism. Considering this feedback, we have reviewed the winter contingency services dispatch process. After exploring multiple options, the only mechanism we believe that can correctly settle these Winter Contingency contracts is a Modification to the BSC that allows Offers from certain BM Units ("Winter Contingency BM Units") to be treated (for purposes of calculating Imbalance Prices only) as having a very high price (£99,999/MWh). These BOAs should also be System Flagged within BSAD, to ensure that the price of £99,999/MWh (which does not reflect actual balancing costs) cannot set the Imbalance Price. BSC modification P447 'Avoiding impact of Winter Contingency actions on cash-out prices was raised on 29th of September 2022 and has been approved by Ofgem⁷ to progress as an urgent BSC modification proposal.

Elexon have investigated whether a process to deliver this effect without requiring substantial system changes could be adopted. It appears that this is feasible, and would have to take the following form:

- Any Offers accepted by the Winter Contingency BM Units would have to be removed from the Settlement system prior to the calculation of Trading Charges. This is because leaving the BOA in the system would create the wrong outcomes: if it was priced at £0/MWh it could set the Imbalance Price, and if it was priced at a non-zero price the Lead Party would receive a payment. NGENSO can achieve this using the existing process for *ex post* amendments to BOA data in BSC Procedure BSCP18 (Corrections to Bid-Offer Acceptance Related Data).
- NGENSO would then include the energy volumes associated with the Offer in the Balancing Services Adjustment Data (BSAD) and Applicable Balancing Services Volume Data (ABSVD) NGENSO submitted to Settlement.
- The BSAD item would be System Flagged and have a price of £99,999/MWh, as required by this Modification.

The effect of this workaround is that both Imbalance Prices and Imbalance Charges would be calculated correctly; but because the volumes have been reported to Settlement as BSAD/ABSVD rather than a BOA the Generator would not receive an additional payment relating to the BOA.

This solution also has the benefit that it maintains transparency in the market. The units will be dispatched at £0/MWh via an offer in the Balancing Mechanism. This dispatch will be reported on the BMRS (as all BOAs are). This information will allow industry to know that the near real-time system prices calculated on BMRS may not be accurate, as the actual system prices will have these BOAs removed from the price calculation.

⁷ Decision on request to treat BSC Modification P447 'Avoiding impact of winter contingency actions on cash-out prices' as an Urgent Modification Proposal | Ofgem

Review of the System Management Action Flagging (SMAF) Statement 2022/23

The System Management Action Flagging (SMAF) Statement sets out the means which NGENSO will use to identify balancing services that are for system management reasons.

The amendments proposed are:

- Version control
- Addition of the winter contingency services to the list of services to be system flagged within the SMAF statement

Please see tracked change document for the System Management Action Flagging (SMAF) Statement for detail of changes below:

<https://www.nationalgrideso.com/industry-information/codes/balancing-settlement-code-bsc/c16-statements-and-consultations> <https://www.nationalgrideso.com/document/265151/download>

Review of the Applicable Balancing Services Volume Data Methodology Statement (ABSVD) Statement 2022/23

The Applicable Balancing Services Volume Data methodology set out the information on Applicable Balancing Services that will be taken into account for the purposes of determining imbalance volumes.

The amendments proposed are:

- Version Control
- Addition of the winter contingency services to the list of balancing services for inclusion within the ABSVD

Please see tracked change document for the ABSVD Statement for detail of changes below:

<https://www.nationalgrideso.com/industry-information/codes/balancing-settlement-code-bsc/c16-statements-and-consultations> <https://www.nationalgrideso.com/document/265151/download>

Review of the Balancing Services Adjustment Data Methodology Statement (BSAD) Statement 2022/23

The Balancing Services Adjustment Data Methodology Statement sets out the Balancing Services Adjustment Data methodology. It sets out the information on relevant balancing services that will be considered when determining the imbalance price.

The amendments proposed are:

- Version control
- Addition of the winter contingency services to the balancing services included within the BSAD

Please see tracked change document for the BSAD Statement for detail of changes below:

<https://www.nationalgrideso.com/industry-information/codes/balancing-settlement-code-bsc/c16-statements-and-consultations> <https://www.nationalgrideso.com/document/265151/download>

5. The Consultation

The Questions

We invite industry to provide further feedback on the changes proposed to the 2022/23 C16 Statements. The consultation questions summarised below are also within the response proforma in Appendix A.

System Management Action Flagging Statement (SMAF)

- 1) Do you agree with the proposed suggestions to system flag all dispatch actions under the 2022/23 winter contingency service through BSAD within the SMAF statement? Please provide rationale.
- 2) Do you have any other comments in relation to the changes proposed to the SMAF?

Applicable Balancing Services Volume Data Methodology Statement (ABSVD)

- 1) Do you agree that the winter contingency services volumes should be included within the ABSVD? Please provide rationale.
- 2) Do you have any other comments in relation to the changes proposed to the ABSVD?

Balancing Services Adjustment Data (BSAD)

- 1) Do you agree with the revised approach that the winter contingency services volumes should be submitted through BSAD? Please provide rationale.
- 2) Do you agree that the winter contingency services volumes will be system flagged and priced at £99,999 MWh within the BSAD? Please provide rationale.
- 3) Do you believe the generated energy volumes resulting from instructed coal contracts should go through BSAD to link the generated energy volumes / prices to only those period(s) where the unit was generating MWs or whether the data should be applied over the entire period for which the unit was operational, including the warming period?(N.B. the warming period could be an additional 24hour period to the generation of MWs & during the warming periods, no MWs are generated therefore the volume is 0MW.) Please provide rationale.
- 4) Do you have any other comments in relation to the changes proposed to the BSAD?

6. How to respond

Responses should be submitted by replying to the consultation questions within the response proforma, attached as Appendix A and e-mailing the completed proforma to:

balancingservices@nationalgrideso.com

(Please ensure there is an “s” at the end of balancing services, as there have been issues of the “s” not populating when clicking on the hyperlink).

If you do not wish any elements of your response to be made publicly available, please mark these as confidential.

Responses should be returned no later than 10am October 12th, 2022.

Following the closure of the consultation, NGENSO will document, in the form of a report, the final position on the changes with the track change versions of the statements.

Appendix A: Response Proforma

The proforma can be found [here](#).