National Grid ESO
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2-Step process to improve Physical Notification inaccuracies

To all GB Balancing Mechanism Market Participants,

Many Market Participants will be aware of the ongoing challenges relating to inaccurate Physical Notifications (PNs) submitted by Balancing Mechanism Units (BMUs) into the Balancing Mechanism (BM). The need for BM participants to submit accurate PNs has also been highlighted by the regulator, Ofgem, on a number of occasions.

I am writing to notify Market Participants of the ESO's work on 'Information Inaccuracy', and 'PN Inaccuracy' in particular, and our plan to work with industry in resolving these issues.

Since October 2023, we have been undertaking a piece of work to quantify the scale of the inaccuracy of certain information submitted to the ESO for the purposes of Balancing. There are several information inaccuracies that we have identified[1] that create additional challenges for the ESO in balancing the GB electricity system. This list can be found on the ESO's Balancing Cost's webpage. We have been keeping Ofgem briefed on our concerns throughout this process, and they have referred to some of these inaccuracies in their own publications. [2]

Of the four Information Inaccuracies listed that require resolving, PN inaccuracy is one of our top priorities due to its impact on costs and system security, and the scale of improvement possible from Market Participants. PN Inaccuracies can result in excess Balancing costs due to BMUs receiving payments based on deviations away from their PNs when a Bid-Offer-Acceptance is issued. PNs also provide a predicted schedule of generation for BMUs, and so more accurate PNs help to balance the system more effectively.

The issue of inaccurate PNs has been ongoing, but steadily increasing in severity and cost. We have engaged with individual units in the past to notify them of their inaccuracies, Further, we have engaged with the industry collectively through forums such as the Wind Advisory Group (WAG) and the Operational Transparency Forum (OTF) to highlight the operational difficulties and excess costs incurred from PN inaccuracy.

In light of the widespread evidence of inaccurate PNs across the industry, we now intend to take additional steps in order to achieve improvements in the accuracy of generators' submissions. Wind PN Inaccuracy has been prioritised due to the prevalence of actions taken on these units, and the higher average levels of inaccuracy compared to other BMU types. However, we'd expect all BMUs to be submitting accurate PNs in accordance

1 List is published on the ESO's Balancing Cost's webpage: https://www.nationalgrideso.com/document/319106/download

2 See for example: https://www.ofgem.gov.uk/sites/default/files/2021-06/Open%20letter%20on%20dynamic%20parameters%20and%20other%20information%20submitted%20by%20generators%20in%20the%20Balancing%20Mechanism_0.pdf and https://www.ofgem.gov.uk/sites/default/files/docs/2016/12/scarcity_pricing_and_conduct_in_the_wholesale_energy_market.pdf

with Good Industry Practice, in line with published guidance. We will be monitoring the accuracy of all BMUs and should other fuel types show similar levels of inaccuracy to wind BMUs, then the ESO will look at establishing Good Industry Practice for these units.

This 2-Step process (which lasts an initial 6-months, before rolling over) to improve PN inaccuracy is summarised below (in relation to Grid Code **BC 1.4.2(a)(2)**):

1. Following the publication of this Open letter, we will publish a **Draft Guidance Note**[3] that communicates the overall Alignment Process and sets out our view on what Good Industry Practice[4] would require in terms of PN submissions, including the level of accuracy that we would expect to observe. Following a 3-week consultation period on the draft Guidance Note we will take into account all industry feedback before issuing a **Final Guidance Note.** This will then be communicated in an industry webinar.

2. **A six-month monitoring period** will then commence whereby we will host workshops to work with industry to improve PN accuracy and provide support on how industry can work towards recommendations of Good Industry Practice. Mid-way through this monitoring period, any units identified to be continually submitting inaccurate PNs will be formally notified that they are not meeting the standards set out in the new guidance. The ESO will engage with the generator on reasons for this, and to find ways of improving the accuracy of their data over the course of a further 3 months.

By the end of the 6-month monitoring period, should the PN submitted still be below the threshold value a formal notice will be given to the party and Ofgem that they are not meeting the standards set out in the new guidance regarding the preparation of PNs in line with Good Industry Practice. As a reminder, the ESO has a specific role in providing oversight of the balancing services markets.[5] This involves 'monitoring the quality / accuracy of information received from market participants'.

For questions and feedback relating to the above 2-step process, please contact Sophie Hind at MarketReporting@nationalgrideso.com.

Information on attending the webinar outlined in Step 1 will be advertised at the OTF and through publications on our Balancing Costs webpage.

The Draft Guidance Note will be published on 5th June 2024 and the feedback period will be open until 24th June 2024. Following this, a Final Guidance Note will be published in July 2024, with exact timing dependent on the feedback from the consultation period.

We look forward to working with you to improve the accuracy of information submitted into the BM.

Yours sincerely,

Craig Dyke

Director of System Operations

[3] The Draft Guidance Note will be published on 3rd June on the Balancing Costs webpage under the section 'Information Inaccuracies' | https://www.nationalgrideso.com/balancing-costs

[4] Good Industry Practice is a defined term in the Grid Code 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 engaged in the same type of undertaking under the same or similar circumstances*.

[5] ESO roles guidance (ofgem.gov.uk)