

Modification proposal:	<b>Balancing and Settlement Code (BSC) P467: Enduring solution for cash out price calculation in the event of a Gas Deficit Emergency (GDE) (P467)</b>
Decision:	The Authority <sup>1</sup> directs that this modification be made <sup>2</sup>
Target audience:	National Grid Electricity System Operator (NGESO), Parties to the BSC, the BSC Panel and other interested parties
Date of publication:	15 May 2024
Implementation date:	27 June 2024

## Background

In December 2022, BSC modification P448: 'Mitigating Gas Supply Emergency Risks'<sup>3</sup> introduced a mechanism that allowed load shedding instructions issued to gas-fired generators during a Stage 2 or higher Network Gas Supply Emergency (NGSE)<sup>4,5</sup> to be treated for BSC purposes as electricity Bids (P448 Bids). This protected gas-fired generators from being exposed to high electricity imbalance charges after being instructed to load shed during a Stage 2 or higher NGSE.

P448 was an urgent modification and assessment timelines were tight, therefore the workgroup was unable to consider all possible impacts of P448. This was noted in our P448

<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> Found at: <https://www.elxon.co.uk/mod-proposal/p448/>

<sup>4</sup> Further detail on NGSEs is accessible at: [https://www.nationalgas.com/safety-and-emergencies/network-gas-supply-emergencies-ngse#:~:text=A%20network%20gas%20supply%20emergency%20\(NGSE\)%20occurs%20when%20we%20are,our%20normal%20system%20balancing%20tools.](https://www.nationalgas.com/safety-and-emergencies/network-gas-supply-emergencies-ngse#:~:text=A%20network%20gas%20supply%20emergency%20(NGSE)%20occurs%20when%20we%20are,our%20normal%20system%20balancing%20tools.)

<sup>5</sup> All capitalised terms are defined in the BSC

decision letter<sup>6</sup> where we urged Elexon to raise a BSC Issue group to look at potential impacts that had not been fully assessed in the P448 workgroup.

Elexon raised BSC Issue 105<sup>7</sup> on 22 December 2022. The Issue 105 Report was presented to the BSC panel on 10 August 2023 and concluded that, in the event of a Stage 2 or higher NGSE, P448 Bids would suppress imbalance prices. This would lead to incorrect market signals being sent, causing parties that are short<sup>8</sup> to potentially decide to pay the suppressed imbalance price instead of trading out their position in the market. This may increase the chance that the National Grid Electricity System Operator (NGESO) will have insufficient energy available and potentially cause a demand disconnection event.

In addition, in accordance with Article 18 of the Commission Regulation (EU) 2017/2195 establishing a guideline on electricity balancing,<sup>9</sup> as amended by the Electricity Network Codes and Guidelines (Markets and Trading) (Amendment) (EU Exit) Regulations 2019 (the EBGL Regulation),<sup>10</sup> 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,<sup>11</sup> 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 P467 include changes which affect the T&Cs.

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<sup>6</sup> Our 6 December 2022 decision is accessible at: <https://www.ofgem.gov.uk/sites/default/files/2022-12/P448%20Decision%20-%20Final%20v2.pdf>

<sup>7</sup> Further detail on Issue 105 is accessible at: <https://www.elexon.co.uk/smg-issue/issue-105/>

<sup>8</sup> BSC Trading Parties accrue an Imbalance Volume in a Settlement Period when there is a difference in the volume of energy that they used, generated and traded during the Settlement Period. A Party is 'short' when the difference is negative and represents a deficit of energy.

<sup>9</sup> 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>

<sup>10</sup> 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](https://assets.publishing.service.gov.uk/media/5c17d6b440f0b60c8d601a2c/ENC_Markets_and_Trading_SI.pdf)

<sup>11</sup> Our 8 October 2019 decision is accessible at: <https://www.ofgem.gov.uk/publications/decision-transmission-system-operators-proposal-terms-and-conditions-related-balancing>

## The modification proposal

BSC P467: '*Enduring solution for cash out price calculation in the event of a Gas Deficit Emergency*' (the Proposal), which was raised by NGESO (the Proposer) on 1 February 2024, aims to keep P448 Bids as introduced by P448, but removes the P448 Bids from the imbalance price calculation. As a result, the incorrect market signals that are being sent from P448 Bids would not come through the imbalance price calculation. The Proposer suggested that this modification facilitates applicable BSC objectives (a), (b) and (d)<sup>12</sup>.

The Proposal would mean that P448 Bids are removed from the System Sell Actions to calculate the imbalance price. The current process, as set out by BSCP18 '*Corrections to Bid-Offer Acceptance Related Data*',<sup>13</sup> will remain for receiving P448 Bids but will not include them in the calculation of the imbalance price. Instead, the imbalance price will be calculated outside of the Settlement Administration Agent (SAA) and then fed into the SAA as a contingency process due to the low expected likelihood of a Stage 2 or higher NGSE.

We note that the title of P467 is slightly misleading as it suggests that the P467 solution only applies during a Gas Deficit Emergency (GDE)<sup>14</sup>, whereas P448 protected gas-fired generators from imbalance charges during a load shedding event in a Stage 2 or higher NGSE. Whilst a GDE is a type of NGSE, there can also be other types of NGSE such as a Safety Monitor Breach or a Critical Transportation Constraint. A respondent to the consultation also noted this discrepancy and asked for the title of the Proposal to be amended to reflect all the types of NGSE. The Proposer acknowledged this error and confirmed that the legal text correctly reflects the full scope of the types of NGSE and therefore didn't consider the change to the title of the Proposal to be necessary. The respondent accepted this explanation. For the purposes of our decision, we have considered the reference to GDE throughout the Final Modification Report and in the title of the modification as unintentional and accept that the

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<sup>12</sup> The Applicable BSC objectives listed here are: (a) The efficient discharge by the Transmission Company of the obligations imposed upon it by the Transmission Licence, (b) The efficient, economic and co-ordinated operation of the National Electricity Transmission System and (d) Promoting efficiency in the implementation of the balancing and settlement arrangements.

<sup>13</sup> Details on the BSCP18 process can be found at: <https://bscdocs.elexon.co.uk/bsc-procedures/bscp-18-corrections-to-bid-offer-acceptance-related-data>

<sup>14</sup> Gas Deficit Emergency - Insufficient supplies are available to the Primary Gas System across all Network Entry Facilities.

correct terminology should have been NGSE. We note that the correct terminology has been used in the proposed legal text changes so this has not impacted our decision.

### **BSC Panel<sup>15</sup> recommendation**

At the BSC Panel meeting on 11 April 2024, the BSC Panel (the Panel) considered that P467 would better facilitate the BSC objectives, and therefore the Panel unanimously recommended its approval. The Panel unanimously agreed that BSC objectives (a), (b) and (d), are better facilitated through the implementation of P467. Overall, the Panel unanimously recommended to the Authority that P467 should be approved.

### **Our decision**

We have considered the issues raised by the Proposal and the Final Modification Report (FMR) dated 12 April 2024. We have considered and taken into account the responses to the industry consultation(s) which are attached to the FMR.<sup>16</sup> We have concluded that:

- implementation of the modification proposal will better facilitate the achievement of the applicable objectives of the BSC;<sup>17</sup> and
- directing that the modification be made is consistent with our principal objective and statutory duties.<sup>18</sup>

### **Reasons for our decision**

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

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<sup>15</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](#).

<sup>16</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>17</sup> As set out in Standard Condition C3(3) of the Electricity Transmission Licence: <https://epr.ofgem.gov.uk>

<sup>18</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.

***(a) the efficient discharge by the licensee of the obligations imposed upon it by this licence***

The Proposer suggested that objective (a) will be better facilitated by P467 as they believe that P467 allows affected generators to continue participating in the market following a load shedding event in Stage 2 or higher NGSE. The Panel unanimously agreed with this view.

We agree with the Proposer and the Panel that P467 will better facilitate objective (a). We believe that P467 will impact how generators participate in the market, as it will enable more accurate signals on market conditions for generators who are still able to generate during a Stage 2 or higher NGSE.

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

Both the Proposer and the Panel agreed that P467 better facilitates objective (b) because the modification would provide security and certainty for generators who load shed from high imbalance prices during a NGSE. They also state that the reduction of negative impacts to the imbalance prices from P448 means generators would not be exposed to higher costs, which promotes security of supply and efficiency.

We agree that P467 better facilitates objective (b) but consider that the objective is better achieved through the correction of market signals rather than through the provision of security and certainty for generators who load shed from high imbalance prices. This is because imbalance charges will better reflect the real-time value of energy, and market participants will behave in a more efficient manner when the system will likely be under stress. Whereas we believe that the provision of security and certainty for generators who are load shed was achieved via the P448 modification, not P467.

***(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 suggested that P467 is neutral against objective (c). However, we believe that P467 better facilitates objective (c).

This is because P467 aims to send a more accurate signal to the market via an amendment to the imbalance price calculation. The corrected imbalance price will send a more accurate signal to parties in a short position to trade out their position when gas is in short supply. As a result, we believe this will promote effective competition during a Stage 2 or higher NGSE.

***(d) promoting efficiency in the implementation and administration of the balancing and settlement arrangements***

The Proposer suggested that there would be a positive impact on objective (d). The Panel unanimously agreed with this assessment.

We agree with the Proposer and the Panel as P467 will make the management of a Stage 2 or higher NGSE via the BSC more efficient. They highlight that P467 solidifies arrangements within the BSC providing certainty during a Stage 2 or higher NGSE and that this codified solution gives certainty to industry under objective (d).

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

The Proposer suggested that P467 is neutral against objective (e). However, we believe that P467 better facilitates objective (e) as it corrects the suppressed imbalance price by removing P448 Bids from the imbalance price calculation.

Article 6(5) of the Regulation (EU) 2019/9432 (the "Electricity Regulation"),<sup>19,20</sup> requires that imbalances be settled at a price that reflects the real-time value of energy. Imbalance prices would have been suppressed with P448 Bids left in the calculation and would not have reflected the real-time value of energy during a Stage 2 or higher NGSE. The higher imbalance prices that are a result of P467 better reflect the real-time value of energy, thus facilitating objective (e).

### **Decision notice**

In accordance with Standard Condition C3 of the Transmission Licence, the Authority hereby directs that modification proposal BSC P467: 'Enduring solution for cash out price calculation in the event of a Gas Deficit Emergency (GDE)' 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 Section T of the BSC. We believe that Annex T-1 should also be added to Section F Annex F-2 of the BSC.

**Luke McCartney**

**Senior Policy Manager – Energy Systems Management and Security**

Signed on behalf of the Authority and authorised for that purpose

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<sup>19</sup> Regulation (EU) 2019/943 on the internal market for electricity (recast) is accessible here:

<https://eurlex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32019R0943&from=EN>

<sup>20</sup> As amended by The Electricity and Gas (Internal Markets and Network Codes) (Amendment etc.) (EU Exit)

Regulations 2020. Found at: [https://eur-lex.europa.eu/legal-](https://eur-lex.europa.eu/legal-content/EN/TXT/?toc=OJ%3A%3A2019%3A158%3ATOC&uri=uriserv%3AOL.L.2019.158.01.0054.01.ENG#d1e1616)

[content/EN/TXT/?toc=OJ%3A%3A2019%3A158%3ATOC&uri=uriserv%3AOL.L.2019.158.01.0054.01.ENG#d1e1616-54-1](https://eur-lex.europa.eu/legal-content/EN/TXT/?toc=OJ%3A%3A2019%3A158%3ATOC&uri=uriserv%3AOL.L.2019.158.01.0054.01.ENG#d1e1616-54-1)