



Direct Dial: 020 7901 7412  
27 March 2002

The National Grid Company, BSC Signatories and  
Other Interested Parties

Your Ref:  
Our Ref: MP No: P48

Dear Colleague

**Modification to the Balancing and Settlement Code ("BSC") - Decision and Direction in relation to Modification Proposal P48: "Half Hourly Receipt and Publication of BSAD"**

The Gas and Electricity Markets Authority (the "Authority") has carefully considered the issues raised in Modification Proposal P48 "Half Hourly Receipt and Publication of BSAD".

The BSC Panel (the "Panel") recommended to the Authority that Modification Proposal P48 be approved with an implementation date of 2 April 2002.

The Authority has decided to direct a modification to the BSC. This letter explains the background to the Modification Proposal and sets out the Authority's reasons for its decision. In addition, the letter contains a direction to The National Grid Company plc ("NGC") to modify the BSC as set out in Modification Proposal P48. This letter constitutes the notice by the Authority under Section 49A of the Electricity Act 1989 in relation to the direction.

**Background to the proposal**

NGC can contract ahead of Gate Closure for the provision of balancing services where it is efficient and economic to do so. In accordance with special condition AA4 of the Transmission Licence, NGC has produced and maintains the Balancing Services Adjustment Data ("BSAD") Methodology Statement, Procurement Guidelines and the Balancing Principles Statement. The purpose of the BSAD Methodology Statement is to set out the information on relevant balancing services that will be taken into account under the BSC for the purpose of determining Energy Imbalance Prices.

The BSAD is specified in Section Q, Paragraph 6.3 of the BSC and comprises:

- SCA – Sell Price Cost Adjustment;

- SVA – Sell Price Volume Adjustment;
- BCA – Buy Price Cost Adjustment;
- BVA – Buy Price Volume Adjustment;
- BPA – Buy Price Price Adjustment; and
- SPA – Sell Price Price Adjustment.

The BSC currently states that the Transmission Company will send BSAD to the Balancing Mechanism Reporting Agent (“BMRA”) not later than 17:00 hours at the day-ahead stage, with a post-event update at the day-after stage. This means that any pre-Gate Closure actions undertaken by the Transmission Company after 17:00 on the day-ahead stage, which may have an impact on BSAD values, will not be included in the calculation of the Indicative System Sell Price (“SSP”) and the Indicative System Buy Price (“SBP”). The outcome of such actions is currently processed via a post-event update and does not feed into the calculations until the Interim Information Run.

On 1 November 2001 NGC raised Modification Proposal P48: “Half Hourly Receipt and Publication of BSAD”. NGC considered that sending BSAD to the BMRA as soon as possible after Gate Closure would allow more up-to-date information to be included in the calculation of Indicative SSP and Indicative SBP. This would allow a more accurate calculation of Indicative SSP and Indicative SBP and enable the most up-to-date BSAD to be published on the Balancing Mechanism Reporting Service (“BMRS”) in a timely manner.

The Proposer suggested that the Modification Proposal would further the achievement of relevant BSC Objectives<sup>1</sup> (c) and (d) of promoting effective competition in the generation and supply of electricity and promoting efficiency in the implementation and administration of the Balancing and Settlement arrangements.

### **The Modification Proposal**

Modification Proposal P48 proposes that on a half-hourly basis, BSAD is sent to the BMRA and published on the BMRS. The half hourly receipt and publication of BSAD by the BMRA is intended to be in addition to existing obligations within Section Q of the BSC for the Transmission Company to send BSAD to the BMRA at the day-ahead and day-after stages.

The implementation of Modification Proposal P48 is dependent upon work being progressed linked to Approved Modification P8<sup>2</sup>. Approved Modification P8 seeks to incorporate the Workaround W024 functionality into BSC Systems. Workaround W024 was implemented as an interim solution following the Authority’s decisions to direct NGC to amend the BSAD

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<sup>1</sup> The relevant BSC Objectives are contained in Condition C3.3 of NGC’s Transmission Licence and are:

- (a) the efficient discharge by the licensee of the obligations imposed upon it by this licence;
- (b) the efficient, economic and co-ordinated operation by the licensee of the licensee’s transmission 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;
- (d) promoting efficiency in the implementation and administration of the balancing and settlement arrangements.

<sup>2</sup> Modification Proposal P8: “Introduction Of A Price Adjuster To Reflect Option Fees”. The Authority approved Modification Proposal P8 to be implemented on 25 September 2001.

Methodology to calculate a Price Adjuster for SSP and SBP and to reject Modification Proposal P3<sup>3</sup>. The system changes linked to Approved Modification P8 additionally enable the implementation of Modification Proposal P48.

Modification Proposal P48 requires reciprocal revisions to be made to the BSAD Methodology Statement. On 7 February 2002 NGC initiated a 28-day consultation process in relation to amendments to the BSAD Methodology Statement. The BSAD Methodology changes related to Modification Proposal P48 will only be made if the Modification Proposal is approved.

At its meeting on 14 February 2002, the Panel recommended that Modification Proposal P48 should be approved with an implementation date of 1 April 2002 and proceed to the Report Phase, pursuant to BSC Section F2.7. ELEXON published a Draft Modification Report on 20 February 2002 which invited respondents' views.

### **Respondents' views**

In total, ELEXON received 8 responses to the consultation on Modification Proposal P48. Of the responses, 7 expressed support for the Modification Proposal and the remaining respondent was neither in favour of, nor in opposition to, the Modification Proposal.

Respondents believed that the Modification Proposal improves the accuracy of the Indicative Energy Imbalance Price calculations and that publication of BSAD on the BMRS reduces the number of information sources which participants must visit, and believed that the Modification Proposal better facilitates the achievement of the relevant BSC objectives.

### **Panel's Recommendation**

The Panel met on 14 March 2002 and considered Modification Proposal P48, the Modification Report, the views of the Modification Group ("the Group") and the consultation responses received. The Panel recommended to the Authority that the Modification Proposal should be approved and should be implemented on 2 April 2002. The Panel considered that Modification Proposal P48 better facilitated the relevant objectives of the BSC by improving pricing signals and aiding transparency by providing, as near to real time as possible, a view of the latest forward actions taken by the Transmission Company.

The Panel had previously recommended that Modification Proposal P48 should be implemented on 1 April 2002. However, during the Report Phase, NGC requested that the implementation date be amended to 2 April 2002. NGC made this request because 1 April 2002 is both a Bank Holiday Monday and the day after the Spring clock change. Consequently, NGC believed that 2 April 2002 is a more favourable implementation date from an operational perspective. The Panel met on 14 March 2002 and agreed that the proposed implementation date should be amended to 2 April 2002.

Therefore, based on the recommendation of NGC as the System Operator, the Panel recommended to the Authority that the Modification Proposal should be approved and should be implemented on 2 April 2002.

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<sup>3</sup> Modification Proposal P3: "Correction of Price Spikes Generated By De-Minimis Purchases".

## **Ofgem's view**

Ofgem<sup>4</sup> agrees with the Panel and considers, having had regard to its statutory duties, that Modification Proposal P48 will better facilitate the achievement of the relevant BSC objectives.

Ofgem believes that the publication of half-hourly BSAD will improve the price signals to market participants. We additionally consider that the Modification Proposal will enhance the transparency of NGC's pre-Gate Closure actions. Ofgem therefore agrees with the Group and the majority of respondents, and by inference given their support for the Group's recommendations, the Panel, that the Modification Proposal will improve the accuracy of Indicative Energy Imbalance Prices.

Ofgem agrees with the Panel that Modification Proposal P48 will better facilitate the achievement of the relevant BSC objective of "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".

However, Ofgem notes that BSAD will be submitted by NGC to the BMRA 'as soon as possible after Gate Closure'. While Ofgem recognises that this information provision is an improvement on the current position Ofgem would prefer the information submission timescale to be consistent with the timescale for publication of Indicative Energy Imbalance Prices by the BMRA on the BMRS as set out in Approved Modification P49.<sup>5</sup> Ofgem believes that specifying a set timescale would provide additional clarity and certainty for market participants.

Ofgem has noted that the Panel has recommended an implementation date other than that recommended by the Group. Ofgem accepts that the recommendation was based on operational concern raised by the System Operator and was approved by the Panel. Whilst Ofgem does not support the alteration of an implementation date without consultation with market participants, Ofgem believes that the concerns raised by NGC are valid. Therefore, Ofgem agrees with the Panel's recommendation that Modification P48 should be approved and implemented on 2 April 2002.

## **The Authority's decision**

The Authority has therefore decided to direct that Modification Proposal P48 should be made and implemented.

In addition, the Authority, in accordance with special condition AA4.6(d)(i) of the licence to transmit electricity treated as granted to NGC under Section 6 of the Electricity Act 1989 as amended (the "Transmission Licence"), agrees that NGC may modify the BSAD Methodology Statement as set out in the Authority Report with the exception of the proposed revision to the third from last paragraph of Section 1.2 of Part B, which deals with the system/energy split of forward energy contracts, and the proposed creation of Section 1.3 of Part B, which deals with concurrent purchases and sales of energy options.

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<sup>4</sup> Ofgem is the office of the Authority. The terms "Ofgem" and "the Authority" are used interchangeably in this letter.

<sup>5</sup>Approved Modification P49: "Timing of Publication of Indicative P18 Option A Prices on the BMRS".

### **Direction under Condition C3.5(a) of NGC's Transmission Licence**

Having regard to the above, the Authority, in accordance with Condition C3.5(a) of the licence to transmit electricity treated as granted to NGC under Section 6 of the Electricity Act 1989 as amended (the "Transmission Licence"), hereby directs NGC to modify the BSC as set out in Modification Proposal P48. A copy of the text of the modification to the BSC is attached to this letter.

The modification is to take effect from 2 April 2002.

In accordance with Condition C3.5(b) of NGC's Transmission Licence, NGC shall modify the BSC in accordance with this direction of the Authority.

Please do not hesitate to contact me on the above number if you have any queries in relation to the issues raised in this letter or alternatively contact Anthony Doherty on 020 7901 7159.

Yours sincerely

A handwritten signature in black ink, appearing to read "Sonia".

**Sonia Brown**

**Head of Electricity Trading Arrangements**

Signed on behalf of the Authority and authorised for that purpose by the Authority

## Appendix 1

### Legal text to give effect to the Modification Proposal

#### Section Q 'Balancing Mechanism Activities'

Q6.3.1 (a) subject to paragraph 6.3.4, to the BMRA:

- (i) (in relation to all such Settlement Periods) not later than 17:00 hours on the preceding day, and
- (ii) (in relation to each such Settlement Period) as soon as reasonably practicable after Gate Closure for, and in any event not later than the end of, such Settlement Period the Transmission Company's estimate (at the relevant time of sending) of Balancing Services Adjustment Data as described in paragraph 6.3.2;

#### Section V 'Balancing Mechanism Activities'

V2.6.3 (b) Indicative Balancing Services Adjustment Data are the data submitted by the Transmission Company to the BMRA pursuant to Section Q6.3.1(a) in respect of each Settlement Period in a Settlement Day.