



Direct Dial: 020 7901 7412

17 June 2003

The National Grid Company, BSC Signatories and  
Other Interested Parties

Our Ref: MP No P103

Dear Colleague,

**Modification to the Balancing and Settlement Code ("BSC") - Decision and Notice in relation to Modification Proposal P103: "Respecification of Trading Data"**

The Gas and Electricity Markets Authority (the "Authority")<sup>1</sup> has carefully considered the issues raised in the Modification Report<sup>2</sup> in respect of Modification Proposal P103, "Respecification of Trading Data".

The BSC Panel (the "Panel") recommended to the Authority that Modification Proposal P103 should not be made.

Having considered the Modification Report and the Panel's recommendation and having regard to the Applicable BSC Objectives and the Authority's wider statutory duties, the Authority has decided not to direct a Modification to the BSC.

This letter explains the background and sets out the Authority's reasons for its decision.

**Background**

Market participants require ex-ante information on system operation to indicate market conditions and information to provide price signals from the Balancing Mechanism and Imbalance Settlement close to real-time. Information is provided by a number of BSC Agents<sup>3</sup>.

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<sup>1</sup> Ofgem is the office of the Authority. The terms "Ofgem" and "the Authority" are used interchangeably in this letter.

<sup>2</sup> ELEXON document reference P103RR, Version No. 1.0, dated 17 March 2003

<sup>3</sup> It is a requirement of the Code that a BSC Agent or Agents should be appointed at all times by the Balancing and Settlement Code Company (the BSCCo is ELEXON) for the purposes of providing certain services, necessary for giving effect to the Code, which are to be provided centrally (and not by Parties individually).

One of these BSC Agents, the Balancing Mechanism Reporting Agent (“BMRA”), provides a Balancing Mechanism Reporting Service (“BMRS”). The BMRS is a public website where market participants and interested parties can access ex-ante information on system operation and close to real time and historic information regarding the Balancing Mechanism and Imbalance Settlement. The information that the BMRA is required to make available on the BMRS and the obligations on the System Operator to release information to the BMRA for the purpose of display through the BMRS is contained in the BSC.

In the development of the BMRS it was intended that all offers and bids into the Balancing Mechanism, together with details of accepted offers and bids and other data relating to the Balancing Mechanism should be made available. It was intended that close to real time indicative system buy and sell prices would be published on the BMRS. In addition, system buy and sell prices are published after the Initial Settlement Run<sup>4</sup> for each Settlement Period on the BSC Website<sup>5</sup>. It was considered that further data on Settlements was confidential to the Parties involved.

In addition to the data provided by the BMRA, Parties receive a number of reports from other BSC Agents. One of these BSC Agents, the Settlement Administration Agent (“SAA”) provides the Settlement Report (S0142) to all Parties. The Settlement Report contains information for the relevant Settlement Day on Bid-Offer data, Acceptance data, Trading Charges relating to that Party and volumes and prices for the whole system. Settlement Reports are provided to Parties in respect of the relevant Settlement Day for each Settlement Run.

On 7 October 2002, Slough Energy Supplies Ltd (the “Proposer”) raised Modification Proposal P103 ‘Respecification of Trading Data’.

The Proposer suggested that publicly available market information should be made more accessible and transparent. The Proposer considered that the effect of lack of transparency in market information and the resources required for processing such information create a barrier to smaller generators participation in the electricity trading arrangements. In addition, the Proposer suggested that market information (notably the Settlement Report) which is currently restricted to Parties should be made publicly available to assist in creating a fairer negotiating position for smaller generators. Therefore the Proposer considers that the Modification Proposal would better facilitate the achievement of the Applicable BSC Objective<sup>6</sup> (c) promoting effective

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<sup>4</sup> The settlement of Trading Charges arising under NETA in respect of any given day (Settlement Day) takes place on an initial basis (the Initial Settlement Run) and on four further occasions (Reconciliation Runs) in accordance with the Settlement Calendar. This enables the majority of actual meter readings to have been processed by the final Reconciliation Run.

<sup>5</sup> This website is established and maintained by the BSCCo for the purposes of the Code. The website address is [www.elexon.co.uk](http://www.elexon.co.uk).

<sup>6</sup> The Applicable BSC Objectives, as contained in Condition C3 (3) of National Grid Company’s Transmission Licence, 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;
- (e) without prejudice to the foregoing objectives and subject to paragraph 3A, the undertaking of work by BSCCo (as defined in the BSC) which is:
  - (i) necessary for the timely and effective implementation of the proposed British Electricity Trading and Transmission Arrangements (BETTA); and
  - (ii) relevant to the proposed GB wide balancing and settlement code;and does not prevent BSCCo performing its other functions under the BSC in accordance with its objectives.

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 Modification Proposal**

Modification Proposal P103 seeks to modify the BSC to make a number of changes to the information the BMRA is required to provide on the BMRS. The Modification proposes to extend the functionality of the BMRS to provide changes to the content and retention period for information currently provided on the BMRS as well as providing additional tools to allow users to query the data. The Modification proposes to modify the BMRS in the following ways:

- to update indicative data currently displayed on the BMRS to show the actual values calculated by the Settlement Administration Agent (“SAA”) following each Settlement Run. This would require a new interface between the BMRA and the SAA to be introduced. It should be noted that this data is already available to all Parties via Settlement Reports;
- to increase the data retention period for data displayed on the BMRS from the current 12 months from the publication of Indicative data, to 12 months after publication of any updates to such data;
- to provide tools to allow users to perform simple data queries;
- to enable data to be retrieved for multiple Balancing Mechanism Units (BMUs) and/or data for multiple Settlement Days;
- to provide a number of additional data items on the BMRS as follows:
  - Half Hourly Transmission Loss Multiplier Data;
  - Half Hourly metered output by BM Unit;
  - net imbalance position by Party account;
  - net Imbalance Volume;
  - Half Hourly Residual Cashflow value in £/MWh (Referred to within the legal text as the Residual Cashflow Price);
  - providing identifiers to accepted Balancing Mechanism trades that are arbitrage trades; and
  - identifiers for each bid, offer and acceptances which have been tagged as, included in, or excluded from the Energy Imbalance Price calculations.

It should be noted that the first four of these additional data items are provided to Parties via Settlement Reports.

The Modification Group (“the Group”) assessed the Modification Proposal against the Applicable BSC Objectives. The majority of the Group considered that the Modification Proposal would increase transparency in information. Therefore the majority of the Group considered that the Modification Proposal would better facilitate the achievement of the Applicable BSC Objective (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 majority of the Group considered that the data the Modification proposed to make available is already available to those Parties who chose to receive it via Settlement Reports and that the BMRS was not designed as a tool to report prices used within Settlement. Further that some Parties had already developed their own systems for storing and analysing this information, as they were encouraged to do at Go Live.

The majority of the Group considered that as the Modification Proposal would result in the duplication of data held by different BSC Agents (the SAA and BMRA) and duplication of systems and processes already developed by Parties the Modification Proposal would not introduce increased efficiency. Therefore the majority of the Group considered that the Modification Proposal would not better facilitate the achievement of Applicable BSC Objective (d) promoting efficiency in the implementation and administration of the balancing and settlement arrangements.

One Group member considered that the ability to manipulate and analyse data is a legitimate source of competition which would be undermined by the Modification Proposal. This Group member also considered that market based solutions could develop to allow third parties to carry out data analysis on behalf of those participants who did not have the resources to do so themselves.

The Group also noted from the Impact Assessment, the BSC Central Service Agent development and implementation costs associated with the Modification Proposal of £1,947,342 and 307 man days effort from ELEXON. In addition to these costs, the Modification Proposal would incur a further £872,628 for the annual operation and maintenance costs.

The majority of the Group considered that the benefits to increased competition were outweighed by the detrimental effect to efficiency in the BSC and therefore that achievement of the Applicable BSC Objectives would not be better facilitated by the introduction of Modification Proposal P103.

ELEXON published a draft Modification Report on 3 February 2003, which invited respondents' views by 21 February 2003.

### **Respondents' views**

ELEXON received eight responses to the consultation on the draft Modification Report. Seven respondents did not support the Modification Proposal and the remaining respondent supported the Modification Proposal.

Of the respondents that did not support the Modification Proposal the majority view was that the changes proposed to the BMRS would needlessly alter its purpose. One respondent did not believe that the BMRS was designed to replicate data already provided to Parties via the Settlement Report, but that the BMRS was designed to provide non-commercial real time information and not long term enduring commercial data. Some respondents also considered that the high implementation costs were not only unnecessary, but that it would also be unfair to develop the BMRS to the extent proposed in view of the costs and work already undertaken by some Parties in developing their systems. Three of the respondents considered that the

Modification Proposal would result in a cross-subsidisation from BSC Parties to other market participants.

The respondent in favour of the Modification Proposal suggested that the information provided to Parties in Settlement Reports should also be available to other interested persons. The respondent suggested that the Modification Proposal would enable smaller parties to become more competitive by allowing greater access to information. It accepted that the Modification Proposal would introduce inefficiencies, but did not accept that these would outweigh the promotion of competition that would occur.

### **Panel's recommendation**

The Panel met on 13 March 2003 and considered the Modification Proposal P103, the draft Modification Report, the views of the Group and the consultation responses received.

The Panel recommended that the Authority should reject the Proposed Modification. The Panel recommended that, if approved, the Proposed Modification should be implemented on 29 June 2004 if an Authority decision is received from the Authority prior to 20 June 2003; or 2 November 2004 if an Authority decision is received on or after 20 June 2003 and prior to 24 October 2003.

The majority of the Panel agreed with the view of the Group that the inefficiencies introduced by the Modification Proposal outweighed the benefit arising from increased competition in the generation and supply of electricity and hence on balance that the achievement of the Applicable BSC Objectives would not be better facilitated by the introduction of Modification Proposal P103.

### **Ofgem's view**

Ofgem considers, having had regard to the Applicable BSC Objectives and its statutory duties, that Modification Proposal P103 will not better facilitate achievement of the Applicable BSC Objectives.

In wholesale gas and electricity markets Ofgem considers that transparency of information is vitally important for facilitating effective competition between market participants. As the Modification Proposal would make more data available Ofgem considers that it would result in increased transparency which potentially could promote competition. Ofgem agrees with the majority of the Group and the Panel that the Modification Proposal would better facilitate the achievement of Applicable BSC Objective (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.

Ofgem agrees with the majority of the Group and the Panel that as the Modification Proposal would result in the duplication of data held by different BSC Agents (the SAA and BMRA) the Modification Proposal would not benefit efficiency in the balancing and settlement arrangements. Ofgem agrees with the majority of the Group and the Panel that the Modification Proposal would not better facilitate the achievement of the Applicable BSC Objective (d)

promoting efficiency in the implementation and administration of the balancing and settlement arrangements.

On balance, Ofgem agrees with the majority of the Group and the Panel that the inefficiencies introduced by the Modification Proposal would outweigh the potential benefits to competition and therefore that the achievement of the Applicable BSC Objectives would not be better facilitated overall by the introduction of the Modification Proposal.

Ofgem also agrees with one Group member that market based solutions could allow third parties to carry out data analysis on behalf of those participants who did not have the resources to do so themselves. Ofgem considers that the market provides more efficient and competitive services for data querying facilities than if this service were to be provided centrally by the BMRA with the costs being smeared back across the industry as a whole, which would result in cross-subsidies between Parties.

Ofgem considers that some improvements could be made to the BMRS, for example, it would be useful to provide some additional data items if this can be provided at a low cost. Ofgem considers that the relevant Standing Modification Group could look at making efficient improvements to the BMRS if a Party chooses to raise the issue.

### **The Authority's decision**

The Authority has therefore decided not to direct that Proposed Modification P103, as set out in the Modification Report for Modification Proposal P103, should be made and implemented.

Having regard to the above, the Authority, in accordance with Section F1.1.4 of the BSC, hereby notifies NGC that it does not intend to direct NGC to modify the BSC as set out in the Modification Report.

If you have any queries in relation to the issues raised in this letter contact me on the above number or alternatively contact Adam Higginson on 020 7901 7410.

Yours sincerely,

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

**Sonia Brown**

**Director, Electricity Trading Arrangements**

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