



BSC Signatories, National Grid Electricity
Transmission plc and Other Interested Parties

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value for all customers*

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Dear Colleague

Decision to approve the Market Index Definition Statement

Ofgem¹ has carefully considered the Market Index Definition Statement (MIDS)² sent to the Gas and Electricity Markets Authority (the "Authority") on 13 January 2006.

The Balancing Settlement Code³ Panel (the "Panel") recommended that the MIDS should be approved with an effective date of 1 April 2006.

The Authority agrees with the Panel's recommendation. This letter explains the background to the proposed changes to the MIDS and sets out the reasons for the Authority's decision to approve the suggested changes.

Background

The MIDS

The MIDS was established as part of Approved Modification P78: 'Revised Definitions of System Buy Price and System Sell Price', which was implemented on 11 March 2003. Approved Modification P78 changed the derivation of Energy Imbalance Prices to create a main and reverse price⁴. The MIDS defines the parameters used by Market Index Data Providers (MIDP) in the provision of market index data used to calculate the reverse price. Under BSC condition T1.5.1 the Panel is required to establish and have in force at all times a MIDS that is approved by the Authority.

¹ Ofgem is the Office of the Gas and Electricity Markets Authority. The terms 'Ofgem' and the 'Authority' are used interchangeably in this letter.

² Market Index Definition Statement V 5.0.

³ The Balancing and Settlement Code (BSC) defines the acceptances of bids and offers on the electricity balancing mechanism.

⁴ The main price applies to Parties whose imbalances are in the same direction as the overall imbalance in the transmission system. The reverse price applies to Parties whose imbalances are in the opposite direction to the overall imbalance in the transmission system.



The MIDS is a BSCCo configurable item governed by BSCP40 'Change management', although changes to the parameters do not require a separate change proposal to be raised.

Amendments to the MIDS

Under section T 1.5.4 of the BSC, the Panel is required to review the MIDS 'at least once every 12 months' or sooner if there are any changes in circumstances or if another Approved Modification requires amendment to the statement. The Panel is required to assess the data previously provided by MIDP and consult with BSC Parties, and other interested parties, when the MIDS is reviewed. Following the review, the Panel's recommended amendments will be submitted to the Authority for approval.

The 2005 MIDS Review

The MIDS review, which was undertaken by the Imbalance Settlement Group (ISG) on behalf of the Panel, examined trends in the various factors related to the MIDS parameters from 1 November 2004 to 31 October 2005. Based on its review, on 28 November 2005 the ISG invited views from BSC Parties on three main areas of the MIDS. These are set out in the sections below.

Timeband and Product Weightings⁵

The ISG made two recommendations relating to the MIDS weightings. The first was that the weightings for timebands 1-8 should remain set to 1 and that zero weightings should continue to be assigned to timebands 9-13. The second was that weightings of 1 should continue to be assigned to the half-hour, 2-hour and 4-hour products and weightings of 0 should remain for the Overnight, Peak and Extended Peak products.

Individual Liquidity Thresholds (ILT)⁶

The ISG proposed three options for the ILT:

- ◆ set the ILT to 10MWh for settlements Periods 1-12, and retain 25 MWh for all other periods;
- ◆ set the ILT to 10 MWh for all Settlement Periods; or
- ◆ retain 25 MWh for all Settlement Periods

APXMIDP⁷

The ISG recommended that all nine products traded on the APXMIDP be included in future MIDS reviews instead of the current six.

Respondents' views

This section is intended to summarise the principal themes of the respondents' views and is not intended to provide a comprehensive overview of the responses received. Three

⁵ The MIDS splits 'short term' periods into 13 defined timebands and these are assigned weightings between 0 and 1 and the products traded on the APX exchange are also assigned weightings between 0 and 1.

⁶ The ILT sets a minimum requirement for the volume of trades in a given settlement period needed to calculate the market index price. This is designed to help ensure that the market index price reflects typical short term energy trades and is not based on a single or small number of trades. For market index data provided by APX (currently the only MIDP) the ILT is 25 MWh for settlement periods one to 48.

⁷ Market Index Data is provided by APX and their commonly used Market Index Data Provider ID is APXMIDP.

consultation responses, representing 16 BSC parties, were received in response to the review⁸.

ILT

Two respondents supported the proposal to retain the ILT of 25 MWh for all settlement periods and one respondent was in favour of reducing the ILT to 10 MWh for settlement periods one to 12. This respondent considered that lowering the ILT would assist in reducing the possibility of the reverse price defaulting to the main price during settlement periods one to 12. Another respondent stated that the ILT should be set at a limit that assisted in preventing the reverse price being set based on a single trade.

Timeband and Product Weightings

All three respondents agreed with the recommendation to retain the existing timeband and product weightings on the basis that the current weightings were still reflective of short term trades made close to the time of gate closure.

APXMIDP

Two respondents supported increasing the number of products considered in MIDS reviews from six to nine. They considered it provided the opportunity for the reverse price to be based on all nine APXMIDP products. However one respondent questioned the value of increasing the number of products included in the MIDS. They considered it was likely the new products would be weighted at zero and the provision of additional data could incur extra costs.

ISG's recommendation

The respondents' views were considered at the ISG meeting of 20 December 2005. Following this, the ISG recommended to the Panel:

- ◆ that the ILT, the timeband weightings and the product weightings should remain unchanged;
- ◆ that an impact assessment should be carried out as part of a future MIDS review to ascertain the cost of including all nine of the products traded on the APXMIDP exchange; and
- ◆ that the existing end-dates for the MIDS parameters should be removed. The ISG considered that these end dates are not required as these parameters are already considered as part of the required annual MIDS review process and a further review trigger is not necessary.

Panel's recommendation

The Panel met on 12 January 2006 and considered the consultation responses received and the recommendations of the ISG. This Panel agreed with the ISG's recommendation and considered that the proposed revisions to the MIDS should be approved.

⁸ Details of consultation responses are contained within the Panel meeting paper 105/109(d). This is available at;
http://www.elexon.co.uk/documents/BSC_Panel_and_Panel_Committees/BSC_Panel_Meetings_2005_-_105_-_Papers/105_009d.pdf

Ofgem's views

Having considered the views of respondents and the Panel in relation to the proposed amendments, Ofgem agrees with the proposed removal of the existing end dates associated with the MIDS parameters.

Ofgem agrees with the ISG and the Panel that the annual review of the MIDS parameters, required in accordance with section T 1.5.4 of the BSC, will ensure that these parameters are regularly reviewed. Given this, Ofgem agrees that there is no need for the additional review trigger created by the existence of end dates for the MIDS parameters. We therefore consider that the proposed revision will promote efficiency in the administration of the balancing and settlement arrangements. Ofgem considers that the proposed amendment would be consistent with its wider statutory duties.

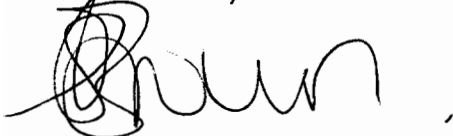
Ofgem further agrees with respondents and the Panel's recommendation that it has not been demonstrated that revising the ILT, the timeband weightings and the product weightings would offer any enhancement to the MIDS. We also support the Panel's recommendation that an impact assessment should be carried out as part of a future MIDS review to ascertain the cost of including all nine of the products traded on the APXMIDP exchange and to include additional APX products in the market index data used to calculate the reverse price.

The Authority's decision

For the reasons set out in this document and having regard to its principle objective and general duties, the Authority hereby approves the amendment to the MIDS under section T 1.5.4 of the BSC with an effective date of 1 April 2006.

If you have any further queries in relation to the issues raised in this letter, please feel free to contact Raihana Braimah on 020 79017421.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Sonia Brown', with a large, stylized initial 'S'.

Sonia Brown
Director, Wholesale Markets