

Modification proposal:	Balancing and Settlement Code (BSC) P220: Provision of new data items for improving market information (P220)		
Decision:	The Authority ¹ directs that the Alternative proposal be made ²		
Target audience:	National Grid Electricity Transmission Plc (NGET), Parties to the BSC and other interested parties (Customers)		
Date of publication:	2 April 2008	Implementation Date:	6 November 2008

Background to the modification proposal

National Grid Electricity Transmission (NGET) raised Modification Proposal P220 on 26 October 2007. It followed work by NGET to identify the information requirements of customers and industry parties. In particular, NGET issued a consultation document in August 2007 and engaged in a number of industry meetings (including the Demand Side Working Group (DSWG) and the Electricity Operational Forum). In addition, Elexon have worked closely with NGET and have sought to identify the most effective way for these information requirements to be provided to the market.

Following further discussions between NGET, Elexon and industry groups (including the DSWG) it was agreed that there was a requirement for a single, central data summary page which would contain key market information to allow participants to take a snapshot view of the market. It was also agreed that this summary page should be hosted on the Balancing Mechanism Reporting System (BMRS). The BMRS was chosen due to the lower cost implications than the alternatives identified and its high level of resilience.

The information proposed to be published on the electricity data summary page includes data items already hosted on the BMRS and new data which would be provided to the (Balancing Mechanism Reporting Agent) BMRA by NGET as the transmission company. Phase 1 of the summary page which includes data already available on the BMRS, went live on 12 March 2008.

In addition to the data to be provided by NGET for inclusion on the summary page, NGET also identified, through its consultation with the industry, a requirement to publish Non-Balancing Mechanism (BM) Short Term Operating Reserve (STOR) Instructed Volumes. As with other data items to be published under modification proposal, this data will be provided by NGET to the BMRA for inclusion on the BMRS. However it will be hosted separately on the BMRS as it is unlikely that all market participants would want to view it on a daily basis on the summary page.

The Modification Proposal

In addition to the Proposed Modification, an Alternative Modification was proposed by the Modification group. Both proposals are summarised below.

Proposed Modification

Proposed Modification P220 requires the Transmission Company (NGET) to provide the following information to the BMRA and for this information to be published on the BMRS:

- Out-turn and reference temperatures;
- Wind generation forecast;

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

² This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989.

- Instantaneous and half-hourly generation by fuel type (including 'real-time' total demand outturn data and half-hourly Interconnector flows);
- Daily energy volumes transported across the Transmission System (based on Transmission System Demand); and
- Non-Balancing Mechanism (BM) Short Term Operating Reserve (STOR) Instructed Volumes.

Alternative Modification

The Alternative Modification requires the same data items set out under the Proposed Modification to be published on the BMRS other than the daily energy volumes which would be based on Initial National Demand Out-Turn rather than Transmission System Demand. In addition, the Alternative Modification would also require NGET to provide the BMRA with trend data for daily energy volumes transported across the transmission system as well as real time transmission system frequency data.

With the exception of the Non-BM STOR data, the data items set out in the Proposed Modification and the Alternative Modification will be included on the electricity data summary page noted above.

BSC Panel³ recommendation

The Draft Modification Report was considered by the BSC Panel at its meeting on 13 March 2008. The Panel agreed that the both the Proposed Modification and the Alternative Modification better facilitated relevant BSC objectives (b), (c) and (d). They further considered that the Alternative Modification would better facilitate the achievement of the relevant code objectives when compared with the Proposed Modification. Please see section 6 of the Final Modification Report (FMR) for details of their views.

The Authority's decision

The Authority has considered the issues raised by the modification proposal and the FMR dated 14 March 2008. The Authority has considered and taken into account the responses to Elexon's⁴ consultation which are attached to the FMR⁵. The Authority has concluded that:

1. Implementation of the Alternative Modification Proposal will better facilitate the achievement of the relevant objectives of the BSC⁶; and
2. Directing that the Alternative Modification be made is consistent with the Authority's principal objective and statutory duties⁷.

Reasons for the Authority's decision

We agree with the Panel that both the Proposed Modification and the Alternative Modification would better facilitate relevant code objectives (b), (c) and (d). We consider that because of the value added by the additional data items required by the Alternative Proposal, that this would better facilitate the relevant code objectives when compared

³ The BSC Panel is established and constituted pursuant to and in accordance with Section B of the BSC.

⁴ The role and powers, functions and responsibilities of Elexon are set out in Section C of the BSC.

⁵ BSC modification proposals, modification reports and representations can be viewed on the Elexon website at www.elexon.com

⁶ As set out in Standard Condition C3(3) of NGET's Transmission Licence, see:

http://epr.ofgem.gov.uk/document_fetch.php?documentid=4151

⁷ 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.

with the Proposed Modification. In particular, the trend lines provide context within which to view the daily energy volume data and the provision of frequency response data by NGET represents a more robust mechanism for this data to be sent to the BMRA and hosted on the BMRS than is currently the case. We therefore agree with the view of the Panel that the Alternative Modification proposal should be made.

Objective (b) – the efficient, economic and co-ordinated operation of the GB Transmission System

Experience of past winters (in both the gas and electricity industry) has highlighted the importance of market participants having access to timely, good quality information to allow the market to operate efficiently. In line with the views expressed by the Panel and the majority of respondents, we consider that, by delivering the additional transparency provided by the modification proposals, participants will have the opportunity to better understand the operation of the market. In particular, by providing better and more easily accessible information, market participants will have the opportunity to more effectively self balance and manage their electricity market costs, risks and opportunities.

Improvements to an individual market participant's ability to self balance should help to reduce the overall level of market imbalance and therefore the role of the NGET as residual balancer. We consider that this is likely to improve the efficient, economic and co-ordinated operation of the GB Transmission System and should allow the market as a whole to operate more efficiently.

We recognise that some respondents were concerned at the lack quantification of the benefits of improved market behaviour arising from the proposal or that any such benefits were based on behavioural assumptions. While we understand that there are difficulties in assessing such benefits, we are of the view that this proposal will provide better, more easily accessible information, and will allow market participants to develop a better understanding of the operation of the market, particularly over time. As set out above, we consider that this may then allow parties to better balance their positions and hence lead to a reduction in system balancing costs, producing benefits for the market and ultimately consumers.

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

Information availability and transparency of data

We consider that P220 will better facilitate Relevant Objective (c) by providing improved access to information that should enable market participants to make more informed operating decisions and to therefore compete more effectively in the market. Further, we consider that publication of the proposed data on the BMRS will help to create a level playing field by promoting transparency and ease of access to key market data for all market participants, including customers.

We note the concerns of several respondents that some participants may have invested in systems that would provide them with similar information to a number of the data items included in this modification proposal. We therefore recognise that the proposal may have the most significant benefits for small participants, customers and occasional BMRS users who are unlikely to have the resources to derive this data through other existing sources or to pay a third party to do so on their behalf. However, we consider that both the Proposed and Alternative Modifications would be likely to deliver benefits to all market participants, for example, where parties have invested in their own information

derivation systems, the modification may provide a useful additional source of check data. This should therefore assist parties in making more informed trading decisions.

Barriers to entry

We recognise that this information flow by itself is unlikely to be sufficient to attract new entrants to the market. However, further enhancing the current arrangements to provide for an open and transparent market with access to timely information, is likely to improve market understanding more widely. As such, the proposal may therefore improve competition by contributing to a reduction in costs associated with understanding the market environment.

Market signals and understanding

We are also of the view that the modification proposals, by publishing additional information on important market drivers, will allow market participants the opportunity to better understand the operation of the market, thus further improving market confidence. In particular, we consider that the Alternative Proposal should provide market participants with more information to enable them to better assess supply and demand. This should in turn assist market participants in making more commercial and efficient responses to market events, thereby facilitating more efficient market signals. We consider that the delivery of more efficient market signals should ultimately benefit downstream customers in terms of price and service.

For example, with the additional information published, market participants may notice a change in fuel generation mix from the data and build this into their assessment of supply and demand (and potential imbalance prices) and use the data to inform their own commercial decisions and manage their imbalance positions. Similar considerations would apply to the use of wind forecast and temperature data both of which are relevant to supply and demand within the market.

We also consider that greater confidence and understanding of the market will promote product innovation and competition, and potentially improve trading activity and liquidity. Further, we consider that providing information which facilitates a more in-depth understanding of the market will encourage greater participation by the demand side and potentially greater volumes of demand-side response. For example, the publication of wind forecast and fuel generation mix data should assist the demand side to identify shortages in supply and thereby encourage efficient market entry in the form of demand side response. The promotion of efficient market entry (for example, on the demand side) should in turn provide benefits to customers to the extent that it is increasing competition.

In addition to the information to be published on the BMRS electricity summary page, we note the proposal to provide non-BM STOR information separately on the BMRS. We understand that this will increase the transparency of demand side actions taken by the System Operator, thereby allowing market participants to gain a better understanding of the market's operation. As noted above, by facilitating a better understanding of the market, participants will be in a better position to compete more effectively within the market.

Objective (d) - Promoting efficiency in the implementation and administration of balancing and settlement arrangements.

We agree with the view of the Panel that P220 would better facilitate relevant code objective (d) by reducing the existing fragmentation in the location of key market data, thereby enabling more efficient administration of the market.

We note that some respondents expressed concern about the lack of quantification of the benefits of improved information - we also recognise that there are inherent difficulties in quantifying the benefits of information provision. We agree with the Panel that significant effort has been made by the Modification Group and respondents to provide evidence of benefits. We further note that qualitative analysis has been provided and attempts have been made to quantify what benefits would need to be accrued to outweigh the costs of the proposals.

For the reasons set out above we remain of the view that improved access to information will allow market participants to develop a better understanding of the operation of the market particularly over time which will produce benefits for the market and ultimately consumers.

An example of the potential value that can be attributed to easy access key market information can be seen through the development of the gas daily summary page. This webpage summary of key data in the gas industry was introduced in October 2005. Use of the gas daily summary page has now far exceeded initial expectations. During the period Winter 2005/06 there were 250,000 hits on the gas daily summary page. By Winter 2006/07 this had increased to 3.5 million hits. This significant increase in hits to the gas daily summary page demonstrates the value that can be placed on access to credible and authoritative market data.

Further issues

Ofgem recognises the proactive efforts made by NGET in seeking to understand the market's requirement for information and in raising modifications to deliver these requirements. Ofgem is encouraged that, as part of its consultation exercise, NGET has actively sought to engage the views of large customers and the smaller industry players as well as other industry interests. We further welcome the work undertaken by Elexon to assist in identifying the market's data requirements and to deliver the BMRS electricity data summary page. We consider that both Phase 1 (already implemented) and Phase II (to be implemented through the P220 Alternative Proposal) of this project will improve the ability of the customers and industry parties to quickly understand key market information.

The Panel and respondents to the assessment report and Draft Modification Report expressed a view that P220 should be implemented together with P219⁸. By doing this, a saving of £200k was likely to be achieved in NGET's implementation costs. The Panel and respondents also expressed a wish for the change to be implemented on 6 November 2008 (i.e. in time for winter 08/09). To meet these requirements Ofgem is issuing its approval decision letters for P219 and P220 today and in advance of the 3 April 2008 cut-off date specified in the FMR necessary to achieve a joint November 2008 implementation. In this instance we are satisfied that we have been able to give full consideration to the issues in time to meet the industry's preferred timescales. However, we would urge the Panel, Modification Proposers and Modification Groups to give better (i.e. earlier) consideration to the timescale that Ofgem would reasonably require in order to be able to make its decision.

We note the concerns expressed by some parties in relation to the costs of modifications to the BSC that involve changes to NGET's systems. As set out above, we consider that on balance this modification will provide benefits for the industry and customers.

⁸ P219 seeks to require the Transmission Company (NGET) to provide improved Forecast and Out-turn Demand data to the BMRA and for this information to be published on the BMRS. For further details can be viewed on Elexon website at www.elexon.com

However, we would welcome NGET opening a dialogue with market participants on their requirements for greater inherent flexibility in NGET's systems and the ability to amend these systems at lower cost. We note that such a discussion would be beneficial well in advance of the proposed re-procurement of its BM systems⁹.

We welcome the efforts of the Panel and Modification Group to identify the benefits of the modification but note the concerns expressed that this quantitative information was difficult for parties (in particular smaller industry parties and customers) to derive. Whilst we recognise that the benefits of transparency and improved information release may be difficult to accurately quantify, we consider that it would be helpful if the Panel gave further consideration to how such analysis could potentially be provided in the future. For example, it may be possible to present a cost benefits analysis in the form of ranges using different scenarios and assumptions. Such analysis could supplement any qualitative analysis that has also been undertaken.

Decision

In accordance with Standard Condition C3 of NGET's Transmission Licence, the Authority, hereby directs that Alternative Modification Proposal BSC P220: Provision of new data items for improving market information be made.



Kersti Berge

Head of GB Markets

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

⁹ Currently estimated to take place in 2012 although this date is subject to change.