

Modification proposal:	Balancing and Settlement Code (BSC) P377: 'Amending Gate Closure references in Market Index Data to include trades up to the Submission Deadline in the Market Index Data Calculations'		
Decision:	The Authority ¹ has decided to approve this modification proposal ²		
Target audience:	National Grid Electricity Transmission Plc (NGET), Parties to the BSC, the BSC Panel and other interested parties		
Date of publication:	14 March 2019	Implementation date:	5 weeks following this decision

Background

The Market Index Definition Statement (MIDS) defines the parameters and methods for providing Market Index Data used to calculate the Market Price in respect of each Settlement Period³. Until 5 November 2015, the Market Price was used in Settlement as the reverse System Price in every Settlement Period. ELEXON now uses the Market Price in Settlement as a default price when there are no System Actions or priced System Actions available to carry out normal System Price calculations. The Market Price should reflect the price of wholesale electricity in Great Britain for delivery for each Settlement Period in the 'short term' market, where liquidity in the market for the relevant period is sufficient.

Modification P342, implemented in November 2017, changed the deadline for the purpose of submitting Energy Contract Volume Notifications (ECVNs) and Metered Volume Reallocation Notifications (MRVNs) for each Settlement Period from Gate Closure⁴ to the Submission Deadline⁵. P342 did not change the deadline included in the MIDS for the purpose of calculating the Market Price as the Workgroup suggested the 2018 MIDS review should be used to consider whether the volume of trades carried out between Gate Closure and the Submission Deadline following implementation of P342 would materially influence the System Price calculation.

ELEXON reviews the MIDS annually on behalf of the BSC Panel, as required by the BSC⁶, to ensure the parameters used in the MIDS calculations remain fit for purpose and meet the MIDS principles set out in the BSC⁷. ELEXON conducted its 2018 MIDS review in October

¹ 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.

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

³ A period of 30 minutes beginning on the hour or the half-hour

⁴ Gate Closure is the point of time one hour prior to a Settlement Period by which Physical Notifications (PNs) relating to that Settlement Period must be submitted. This deadline is the point by which Trading Parties, mainly generators, must notify their Final Physical Notifications (FPNs) and Bids and Offers for that Settlement Period to National Grid, acting as the Electricity System Operator (ESO).

⁵ The Submission Deadline for any Settlement Period is the time at the start of that Settlement Period.

⁶ BSC Section T1.5.4

⁷ BSC Section T1.5.3

2018⁸ (covering the period 1 August 2017 to 31 July 2018). This review proposed a number of changes to the MIDS, one of which also required a modification to the BSC.

We have been asked to make decisions on:

- A) the proposed modification to the BSC – P377; and
- B) a number of proposed changes to the MIDS. The changes to the MIDS do not require a BSC modification. However, under the BSC, changes to the MIDS recommended by the BSC Panel must be approved by the Authority⁹.

This letter sets out the Authority's decision on both sets of changes.

A. The BSC modification proposal

Currently, the MIDS is excluding trades following Gate Closure up to the Submission Deadline from the Market Index Data used to calculate the Market Price. ELEXON's 2018 MIDS Review concluded that the volume of trades occurring past Gate Closure is now significant enough that the calculation of the Market Index Data should include trades up to the Submission Deadline, instead of Gate Closure.

On 13 December 2018, ELEXON as Balancing and Settlement Code Company proposed to the BSC Panel that it should raise the draft modification proposal. The Panel agreed and raised P377. P377 seeks to amend the definition of 'short term' in the BSC in relation to the Market Index Data. BSC Section T 1.5.3(b) (iii) defines 'short term' in relation to Market Index Data as a time period of days or hours immediately before Gate Closure. The proposed solution would replace the reference to 'Gate Closure' with the 'Submission Deadline'.

The Proposer believes that this would make the Market Index Data more reflective of wholesale electricity prices in Great Britain. The Proposer believes P377 would therefore better facilitate BSC objective¹⁰(d): "promoting efficiency in the implementation and administration of the balancing and settlement arrangements", whilst it would have a neutral impact on all other BSC objectives.

BSC Panel recommendation

At the BSC Panel meeting on 10 January 2019, the BSC Panel unanimously agreed that P377 would better facilitate BSC objective (d) and recommended its approval.

Our decision

⁸ <https://www.elexon.co.uk/consultation/mids-review-2018-consultation/>

⁹ BSC Section T1.5.4.

The process for amending the MIDS is defined in Balancing and Settlement Code Procedure (BSCP) 40.

¹⁰ Applicable BSC objectives are set out in standard condition C3(3) of NGET's Transmission Licence, available [here](#).

We have considered the issues raised by the modification proposal and the Final Modification Report (FMR)¹¹ dated 16 February 2019. We have concluded that:

- implementation of the modification proposal will better facilitate the achievement of the applicable objectives of the BSC;¹² and
- directing that the modification be made is consistent with our principal objective and statutory duties.¹³

Reasons for our decision

We consider this modification proposal will better facilitate BSC applicable objective (d), and has a neutral impact on the other applicable objectives.

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

We note that the Market Index Volume (MIV)¹⁴ analysis, carried out under the 2018 MIDS review, shows that the daily average MIV in each month under review since the implementation of P342 (ie November 2017-July 2018) ranged between 570 MWh and 740MWh. The daily average MIV in each month under the same period would have been over 200MWh higher if trades in the hour between Gate Closure and the Submission Deadline had been included. The daily average MIV across the same period would have been 24% higher in this scenario. Based on the materiality of these volumes, we agree with the Proposer and the Panel that including the trades seen in the hour between Gate Closure and the Submission Deadline within the Market Index Data would provide a better reflection of the price of wholesale electricity for a given Settlement Period of delivery.

The FMR notes that there will be commercial impacts on parties who face the Imbalance Price as a result of P377. We note that the Market Index Data is being used more often where there are no priced System Actions available to carry out normal System Price calculations. As a result, while we note there may be a commercial impact on some parties, we consider this would be expected to be outweighed by the benefits of the proposal. We consider the accuracy of Market Index Data to be increasingly important for the efficiency of balancing and settlement arrangements. We also note that no concerns were expressed in response to ELEXON's consultation on the draft modification report or in relation to ELEXON's consultation on its 2018 MIDS review.

The BSC Panel queried whether the implementation cost that would be charged by one of the Market Index Data Providers would provide good value for money. ELEXON confirmed

¹¹ BSC modification proposals, modification reports and representations can be viewed on the Elexon website at www.elexon.co.uk

¹² As set out in Standard Condition C3(3) of NGET's Transmission Licence: <https://epr.ofgem.gov.uk>

¹³ 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.

¹⁴ The Market Index Volume is the traded volume across weighted timebands and products traded on the spot market in the short term and which is eligible for inclusion in the Market Index Data calculation.

that this cost related to testing a complex system change required as a result of the change in deadline proposed by P377. We consider the implementation costs to be low overall relative to the potential benefits of improved efficiency of imbalance settlement.

Decision Notice

In accordance with Standard Condition C3 of NGET's Transmission Licence, the Authority hereby directs that modification proposal BSC P377: 'Amending Gate Closure references in Market Index Data to include trades up to the Submission Deadline in the Market Index Data Calculations' be made.

B. Approval of proposed changes to the MIDS

As part of its 2018 MIDS Review, ELEXON recommended to the BSC Panel that the following changes are made to the MIDS:

- (i) amending references in the MIDS (for example, in the definitions and descriptions of the time weightings; timebands; and weighting principle (f)) to refer to the hours and days up to the Submission Deadline, instead of Gate Closure;
- (ii) amending the weighting for timeband 6 from '1' to '0';
- (iii) various housekeeping changes.

Proposed change (i) is consistent with the BSC modification proposed within P377. Proposed change (ii) would have the effect of removing timeband 6 (12 to 8 hours prior to the appropriate deadline) from the Market Index Data used to calculate the Market Price. We note that there has been a low volume (of less than 2% as a proportion of total MIV), traded in timeband 6 over the past 3 MIDS review periods, and that this would remain true for the 2017/18 review period if trades were included up until the Submission Deadline.

We agree with ELEXON and the Imbalance Settlement Group's conclusion that excluding timeband 6 would be consistent with weighting principle (f) in the MIDS which says that "weightings may be set to ensure the Market Index Price is reflective of the price of trades as close as possible to Gate Closure"¹⁵. We also note that ELEXON's analysis shows that removing timeband 6 would not have had an adverse impact on the liquidity volume thresholds for individual products that are used to calculate the Market Index Price, or the instances of the Market Index Price defaulting to 0 because of lack of liquidity.

Proposed change (iii) would correct grammatical and formatting errors in the MIDS.

For the reasons above, we agree with all of the proposed changes to the MIDS.

Chris Thackeray

Head of GB Wholesale Markets

Signed on behalf of the Authority and authorised for that purpose

¹⁵ Under proposed change (i) to the MIDS, the reference to Gate Closure would be amended to the Submission Deadline.