

Modification proposal:	<b>Balancing and Settlement Code (BSC) P219: Consistency between Forecast and Out-turn Demand (P219)</b>		
Decision:	The Authority <sup>1</sup> directs that this proposal be made <sup>2</sup>		
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 P219 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).

P219 seeks to address ambiguity surrounding the forecast and out-turn demand data reported on the Balancing Mechanism Reporting System (BMRS) and to align the BSC definitions with the Grid Code. The aim is to improve consistency, clarity and details of forecast and out-turn demand information, and also allow a fuller comparison of forecast and out-turn demand data than can be achieved at present.

Currently, the components of the National Demand Forecast vary throughout the day. This inconsistency decreases the value of the data and makes it difficult to compare with out-turn demand data on a consistent basis. As an example of how the defect manifests itself: NGET's National Demand Forecast published at 09:00 **does not** include Interconnector flows or Demand from station transformers and pumped storage units. However, the revised National Demand Forecast published at 11:00am **does** include this data. This is inconsistent and does not allow effective comparison with the National Demand Out-turn data which currently **does not** include data from Interconnector flows or Demand from station transformers and pumped storage units.

## The Modification Proposal

Proposed Modification P219 requires two sets of Demand Forecast and Demand Out-turn data to be provided by NGET as the Transmission Company to the Balancing Mechanism Reporting Agent (BMRA) and for it to be published on the BMRS. One set of demand and out-turn data (the Transmission System Demand Forecast and Initial Transmission System Demand Out-turn) will **include** Interconnector flows, Demand from station transformers and pumped storage units and the other set (National Demand Forecast and Initial National Demand Out-turn) will **exclude** Interconnector flows, Demand from station transformers and pumped storage units.

To facilitate the publication of the two sets of Demand Forecast and Demand Out-turn data several changes will need to be made to BSC definitions. Note that additionally, P219 seeks to amend several other BSC definitions in order to align them with the definitions used in the Grid Code. Both sets of definitional changes are set out below:

1. New BSC definitions for:
  - Transmission System Demand;
  - Transmission System Demand forecast; and

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

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

- Initial Transmission System Demand Out-turn.
- Note that National Demand Out-turn will remain unchanged.

2. Amended BSC definitions for:
  - Indicated Imbalance;
  - Indicated Margin; and
  - National Demand.

### **BSC Panel<sup>3</sup> recommendation**

At its meeting on 13 March 2008 the Panel recommended that P219 should be made. The Panel unanimously agreed that the Proposed Modification better facilitated relevant BSC objectives (b), (c) and (d). Please see section 7 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's<sup>4</sup> consultation which are attached to the FMR<sup>5</sup>. The Authority has concluded that:

1. implementation of the modification proposal will better facilitate the achievement of the relevant objectives of the BSC<sup>6</sup>; and
2. directing that the modification be made is consistent with the Authority's principal objective and statutory duties<sup>7</sup>.

### **Reasons for the Authority's decision**

We agree with the view of the Panel that this modification should be made. Providing comprehensive and consistent demand forecast and out-turn data should better facilitate relevant code objectives (b), (c) and (d).

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

Experience of past winters, where the market has required demand side participation to manage periods of tight supply margin, has highlighted the importance to all market participants of having access to timely, good quality information. As evident throughout the P219 consultation process, the demand forecast and out-turn data published on the BMRS is used by a wide range of market participants, for a variety of purposes. This information will be used by parties to help facilitate a better understanding of the market.

As such, we believe it is essential to ensure that demand forecast and out-turn data is easily accessible, accurate, unambiguous and provided in the level of detail required by the market. Where market participants are supplied with accurate information and market signals, then this will increase market certainty. This in turn will improve participants' ability to balance their own positions more accurately. As a consequence, it

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

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

<sup>5</sup> BSC modification proposals, modification reports and representations can be viewed on the Elexon website at [www.elexon.com](http://www.elexon.com)

<sup>6</sup> As set out in Standard Condition C3(3) of NGET's Transmission Licence, see: [http://epr.ofgem.gov.uk/document\\_fetch.php?documentid=4151](http://epr.ofgem.gov.uk/document_fetch.php?documentid=4151)

<sup>7</sup> 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.

is less likely that NG will be required to take balancing actions, thereby promoting the efficient operation of the Transmission System. For these reasons we consider that P219 will help to better facilitate relevant objective (b).

We recognise that some respondents were concerned at the lack of 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 unambiguous, 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*

Transparency in market arrangements will promote competition and efficiency. We consider that P219 should promote effective competition by providing all market participants with easy access to unambiguous and comparable demand forecast and out-turn data.

We recognise that some parties may have sought to account for the current difficulties in interpreting demand forecast and out-turn data, for example by applying their own views on anticipated interconnector flows, demand from station transformers and pumped storage units. Typically this information asymmetry exists between parties without the resource to derive accurate demand data through existing means, and players who can. Removing this asymmetry and improving access to information should allow all market participants to make more informed purchasing decisions and thereby permit them to compete more effectively within the market. The provision of this information by a central and authoritative source should therefore help to create a more level playing field.

We also consider that further enhancing current demand forecast and out-turn data and publishing as set out in P219 on the BMRS, will provide for an open and more transparent market. We recognise that this information flow by itself is unlikely to be sufficient to attract new entrants to the market. However, we consider this will likely improve market perception more widely and as such, may also help to lead to a reduction in entry barriers.

For these reasons we consider that addressing ambiguity surrounding the forecast and out-turn demand data reported on the BMRS and to align the BSC definitions with the Grid Code will help to better facilitate relevant objective (c).

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

By ensuring that demand forecast and out-turn data is unambiguous and easily accessible, P219 will promote efficiency in the implementation and administration of the balancing and settlement arrangements. For example, it will negate the need for parties to estimate and separately take account of demand from interconnectors, station transformers and pumped storage units to correctly interpret demand data.

In line with the view of the majority of respondents, we also consider this should benefit National Grid and Elexon by reducing the administrative and resource burden resulting from queries related to the inconsistent data.

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.

### ***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 these via the BMRS.

The Panel and respondents to the assessment report and Draft Modification Report expressed a view that P219 should be implemented together with P220<sup>8</sup>. 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.

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. 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 systems<sup>9</sup>.

We welcome the efforts of the Panel and Modification Group to identify the benefits of the modification. In particular, we recognise the efforts of the Panel to request further information from the Modification Group at its January 2008 meeting following initial submission of the Assessment Report. We 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.

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<sup>8</sup> P220 seeks to require the Transmission Company (NGET) to provide new market information 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](http://www.elexon.com)

<sup>9</sup> Currently estimated to take place in 2012 although this date is subject to change.

## **Decision**

In accordance with Standard Condition C3 of NGET's Transmission Licence, the Authority, hereby directs that modification proposal BSC P219: Consistency between Forecast and Out-turn Demand be made.

A handwritten signature in black ink, appearing to read 'Kersti Berge'.

**Kersti Berge**  
**Head of GB Markets**

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