

Modification proposal:	<b>Balancing and Settlement Code (BSC) P243: Publication of Generator Forward Availability by Fuel Type (P243)</b>		
Decision:	The Authority <sup>1</sup> directs that the Alternative Proposal be made <sup>2</sup>		
Target audience:	National Grid Electricity Transmission Plc (NGET), Parties to the BSC and other interested parties		
Date of publication:	20 January 2010	Implementation Date:	04 November 2010

## Background to the modification proposal

Currently, the Balancing Mechanism Reporting Service (BMRS) website provides near real-time information on actual generation volumes (out-turn) exported onto the Transmission System. The data is reported at both national and BM Unit (BMU) level and is also broken down by fuel type. NGET also publishes Output Useable (OU) data via the BSC website. OU data is an aggregate forecast, across all BMUs, of how much generating capacity is expected to be available and is based on information submitted by generators in compliance with Grid Code obligations in Operating Code 2 (OC2). The data takes into account planned outages and is currently published on a zonal basis.

Both out-turn generation and OU data include data on the whole of the National Electricity Transmission System (NETS), known as 'national' data. However, unlike out-turn data, OU data is not broken down by fuel type, is not published on the BMRS and is not published on a BMU basis. Therefore, while a detailed breakdown for out-turn data is available at BMU level, a comparable breakdown of OU data is not. This means that:

- Detailed comparisons between the OU and out-turn data cannot be made. Only high level comparisons are possible; and
- The future availability of a plant cannot be viewed.

## The modification proposal

P243 was raised on 28 July 2009 and seeks to publish additional information on generation capacity availability via the BMRS. In addition to the Proposed Modification, an Alternative Modification was developed by the P243 Modification Group.

### Proposed Modification

The modification proposes to:

- Publish (2-14 days ahead and 2-52 weeks ahead) the aggregated national OU data in the same fuel type categories as the out-turn data on the BMRS;
- Publish OU data for every Interconnector (2-14 days ahead and 2-52 weeks ahead) where available. A Grid Code modification would be raised to facilitate this as Interconnectors are currently not obliged to provide OU data;
- Transfer publication of OU/Generating Plant Demand margin data from the BSC website to the BMRS to ensure it resides in the same place.

### Alternative Modification

The Alternative Modification is identical to the Proposed Modification but also requires OU data is published at BMU level as well as by fuel type for the same time periods.

<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.

## Related Modifications

Another BSC Modification, P244, also seeks to publish data on the BMRS and would also require amendments to the BMRS and NGET systems. These two Modifications were assessed jointly by the same Modification Group. The Group agreed that, although P243 and P244 are not contingent on one another, if approved they should be implemented together due to implementation cost savings. Ofgem's decision to approve Modification P244 has also been published today<sup>3</sup>.

## **BSC Panel<sup>4</sup> recommendation**

The draft Final Modification Report (FMR) was considered by the BSC Panel at its meeting on 11 December 2009. The Panel unanimously agreed that the Proposed and Alternate Modifications both better facilitated Applicable BSC Objectives (b) and (c) when compared to the current arrangements. The Panel also agreed, by a majority, that the Alternative Modification would better facilitate the achievement of the Applicable Objectives when compared with the Proposed Modification.

## **The Authority's decision**

The Authority has considered the issues raised by the modification proposal and the FMR dated 11 December 2009. The Authority has considered and taken into account the responses to Elexon's<sup>5</sup> consultation are attached to the FMR<sup>6</sup>. The Authority has concluded that:

1. Implementation of the Alternative Modification will better facilitate the achievement of the relevant objectives of the BSC<sup>7</sup>; and
2. Directing that the Alternative Modification be made is consistent with the Authority's principal objective and statutory duties<sup>8</sup>.

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

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

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

We agree with the views of the majority of the Panel and the majority of respondents that the additional transparency provided by both the Proposed and Alternative Modifications, will allow market participants to take better decisions on future market prices which could help NGET in the efficient and economic operation of the Transmission

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<sup>3</sup> P244 decision letter and other relevant documents can be found at:

<http://www.elexon.co.uk/changeimplementation/ModificationProcess/ModificationDocumentation/modProposalView.aspx?propID=269>

<sup>4</sup> The BSC Panel is established and constituted pursuant to and in accordance with Section B of the BSC.

<sup>5</sup> The role and powers, functions and responsibilities of Elexon are set out in Section C of the BSC.

<sup>6</sup> BSC modification proposals, modification reports and representations can be viewed on the Elexon website at [www.elexon.com](http://www.elexon.com)

<sup>7</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>8</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.

System. Improved information on plant outages may allow parties to more accurately estimate the marginal source of generation which could lead to more efficient dispatch, although we recognise, that under certain circumstances, this may result in higher costs for customers through higher pricing of offers in the BM.

In our view, P243 is likely to result in a more efficient spread of outages allowing NGET to operate a more economic and efficient Transmission System as generators would refine their availability plans to take into account when other generators are on outage. We also agree with the majority of the Panel that the Scottish Transmission Companies may have a greater opportunity to better align their outages with those of other generators as they currently do not see this information and there is the potential for them to assist in the alleviation of Scottish transmission constraints.

We therefore consider that P243 is likely to improve the efficient, economic and co-ordinated operation of the NETS and should allow the market as a whole to operate more efficiently. For these reasons, we consider that P243 will help to better facilitate Applicable Objective (b).

A number of respondents were concerned that a true like-for-like comparison between OU data and Out-turn data cannot be made because the BMUs that submit OU data to NGET are not the same as the BMUs that have operational metering and provide Out-turn data. However, the inclusion of a 'health warning' in the BMRS help text which notes that the OU data and out-turn data for each fuel type category are not directly comparable should help resolve the concerns regarding the accuracy of the information. Ofgem would also suggest other limitations of the data are appropriately highlighted when it is published on the BMRS, i.e. that the availability figures may change due to technical reasons.

*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*

We agree with the majority of the Panel and the majority of respondents that P243 would better facilitate Applicable Objective (c) by improving information transparency. We consider that market participants should be able to make more informed trading decisions and compete more effectively in the market by having a clearer view of market conditions. Further, we consider that publication of the proposed data on the BMRS will help to create a level playing field by promoting transparency and accessibility to key market data for all market participants, including smaller market participants, and new entrants. This is likely to increase competition and decreases barriers to entry.

Some respondents indicated that further increasing transparency through the Alternative Modification would increase liquidity in the wholesale electricity markets. Whilst the degree to which liquidity increases, following implementation of the Alternative Modification, is difficult to quantify, it is our view, as stated in the June 2009 discussion document *Liquidity in the GB wholesale energy markets*<sup>9</sup>, that: "an important requirement in ensuring a market is liquid is that market participants have equal access to all the information they require to trade. In addition to price information, this includes relevant information about the underlying 'fundamentals' which drive price developments such as information on unplanned outages. Without such information market participants may lack the confidence to trade in the wholesale energy markets".

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<sup>9</sup> <http://www.ofgem.gov.uk/Markets/WhlMkts/CompanEff/Documents1/Liquidity%20in%20the%20GB%20wholesale%20energy%20markets.pdf>

The proposer of P243 provided evidence that other energy markets which publish disaggregated information on capacity availability have greater levels of liquidity, such as the German and Nordic markets (although it noted that, clearly the structure of these markets are very different from GB and there will be other factors that account for the higher levels of observed liquidity).

The Modification Group was concerned about possible gaming that could result from the publication of data under P243. For instance, a participant may declare plant offline during a period of low capacity availability to create a constraint, forcing NGET to increase (potentially more expensive) generation, and thereby gaining financially. However, as stated previously, Ofgem believes that increased transparency should make it easier to identify such behaviour.

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

Ofgem agrees that having the data located in one central location, i.e. on the BMRS, is more efficient. However, the estimated implementation costs for both proposals are high. We believe that these costs will be offset in time by the longer term benefits in terms of efficiency and balancing arrangements and that the Alternative Modification is therefore neutral with respect to Objective (d).

Discrimination

There was a split in respondents' views on whether the Proposed and Alternative Modifications discriminate against certain market participants, and the Panel sought further views. Under the Proposed Modification, the concern was that discrimination arises due to the small number of operators of specific fuel types such as pumped storage with the result that it would be possible to identify the operator where the data changes. It was suggested that the Alternative Modification addresses this concern as all generators would be treated equally as outage data would be published at the same time and with the same granularity (BMU level) for all market participants. However, a number of respondents disagreed on the grounds that smaller market generators' forward availability may strongly correlate to their output, and consequently outage plans may also reveal their trading positions. In determining whether discrimination is a material concern, the key issue in our view is the extent of the harm.

It appears that the key risk of harm arising from publication of capacity availability data relates to whether market participants use the knowledge that a particular generator will be offline and bid up the price for the period that generator will be offline. Whilst this assumes the presence of market power, if such behaviour were possible it is likely to disproportionately affect smaller generators and those generators with predominately baseload generation capacity.

We do not believe that any significant harm is likely to arise for two reasons. Firstly, there is a delay between a generator submitting data to NGET and the data being published by NGET on the BMRS giving generators time to close out any unhedged positions that may arise before the outage is highlighted on the BMRS. While recognising some comments that the market may not be liquid enough to trade out of an outage position, we would note that the June 2009 discussion document *Liquidity in the GB wholesale energy markets*<sup>10</sup> found that prompt (close to real time) markets were more

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<sup>10</sup><http://www.ofgem.gov.uk/Markets/WhlMkts/CompanEff/Documents1/Liquidity%20in%20the%20GB%20wholesale%20energy%20markets.pdf>

liquid than trading further along the curve. This view was supported by the majority of respondents to the discussion document, including smaller market participants, a number of whom suggested that prompt liquidity in particular was sufficient for their trading needs. Secondly, because the data is published 2-14 days ahead, it is possible that outage plans may change over time. It is also important to note that any instances of market power being unduly exercised would result in the possibility of an investigation under the Competition Act 1998 which should act as a deterrent to participants engaging in this type of behaviour. Ofgem also believes that the increased transparency should make it easier to identify such behaviour.

It has been noted that larger market participants are already able to estimate outage plans of other generators', therefore the modification is effectively creating a more level playing field, with smaller market participants gaining most from increased data transparency. With respect to the Proposed Modification, one respondent suggested that no discrimination arises as publication of availability does not expose generators' positions any more than Maximum Export Limit (MEL) data which is already published on the BMRS. In addition, they note that availability could change. With respect to the Alternative Modification, there was a view that larger market participants can already estimate outage information and the Alternative Modification helps to create a more level playing field.

We therefore believe that any harm from discrimination that may occur under the Modification Proposal and/or the Alternative is not likely to be material. In addition market participants can act to avoid any possible harm.

#### Proposed Modification Versus Alternative

We have carefully weighed up both the Proposed and Alternative Modifications both in terms of the costs and benefits and arguments put forward by respondents. In particular we note concern that forward availability may reveal trading positions, particularly of independent generators. However, for the reasons outlined above we believe the risk of harm arising from this concern is unlikely to be significant.

We appreciate the risk that P243 could result in small suppliers having a large volume of information to digest however, in discussions with small market participants as part of the liquidity work stream this was not raised as a significant concern.

Therefore, on balance, we believe that increased granularity under the Alternate Modification compared to the Proposed Modification, makes it easier for market participants to analyse data, especially those that currently do not have access to such information or to analytical expertise. We also believe that greater transparency on plant availability is likely to better facilitate price discovery and market competition.

A concern was expressed by a number of market participants that P243 may lead to deterioration in the quality and timeliness of availability information currently sent to NGET as some market participants may not want to disclose what they consider to be market sensitive information. This could potentially adversely affect the efficient and economic operation of the NETS. We would be concerned if this were to occur and would ask NGET to monitor this situation and raise the issue through the code compliance arrangements and with Ofgem if it considers that this is happening.

#### EU Directive

We are aware of a potential proposal for an EU Directive to increase transparency in the electricity market. However, proposals are some way from being finalised and implemented. We would also note that capacity availability requirements in other

markets are more transparent than those proposed under P243, for instance in the Nordic market all trading is prohibited until details of any unplanned outages are released to the market.

### Costs

We note concerns expressed by respondents regarding the cost of BSC modifications that involve changes to NGET's systems. However, we consider that P243 will, on balance, provide benefits for the industry and customers. We also note that the costs of implementing P243 are similar to those incurred for previous modifications seeking to provide additional information on the BMRS.

We would welcome open dialogue between NGET and 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>11</sup>.

### Implementation

As noted above, Modifications P243 and P244 are related with respect to implementation costs. As both Modifications would involve changes to NGET's IT systems, we agree that it would be more cost-efficient to implement both Modifications at the same time. It is estimated that there would be an overall 19% cost saving in progressing and implementing both modifications together.

The Panel's recommended implementation approach was for the Alternative Modification to be implemented on:

- 4 November 2010 if an Authority decision is received on or before 28 January 2010, or
- The next suitable BSC Systems Release following an Authority decision.

In order to ensure the most cost efficient implementation approach, we are issuing approval decision letters for both P243 and P244 at the same time to achieve joint implementation in November 2010.

### **Decision notice**

In accordance with Standard Condition C3 of NGET's Transmission Licence, the Authority, hereby directs that Alternative modification proposal BSC P243: 'Publication of Generator Forward Availability by Fuel Type' be made.

### **Ian Marlee**

Partner, Trading Arrangements

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

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<sup>11</sup> Currently estimated to take place in 2012 although this date is subject to change.