

# BSC SIMPLIFICATION OPPORTUNITIES

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<b>MEETING NAME</b>	BSC Panel
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<b>Purpose of paper</b>	Decision
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<b>Classification</b>	Public
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<b>Summary</b>	This paper highlights two areas where the BSC arrangements could be simplified and recommends that the Panel raise two BSC Modifications.
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## 1. Introduction

- 1.1 As the Panel is aware and as highlighted in this year's BSCCo Business Plan the energy sector is subject to unprecedented levels of change. The drivers for change are many and varied be they originating from consumers and prosumers; from existing and new market entrants; from European and Government policy or from technology and data driven solutions.
- 1.2 In the face of such change we continue to see an increasing and often publically stated view that the governance and regulatory framework is an increasing barrier to innovation, the introduction of new operating models and pose a barrier to entry. Appendix 1 provides further context and cites a number of examples which both challenge and criticise the complexity of the current regulatory arrangements.
- 1.3 More so than ever, this year's BSCCo Business Plan highlights the need for greater cooperation and closer alignment between code administrators; reduced fragmentation in the delivery and operation of code services and the promotion of opportunities for the simplification of code governance arrangements such that the BSC is seen to enable, rather than stifle and frustrate, the introduction of innovation and change.
- 1.4 To this end, we have already brought forward a modification to the BSC rules, [P362](#) 'Introducing BSC arrangements that facilitate and electricity market sandbox' which will promote and enable the BSC as a vehicle for the introduction of new and innovative ways of working, hopefully delivering a BSC that is simplified and proportionate in the way that BSC rules are applied.
- 1.5 The purpose of this paper is to highlight two further areas where the BSC arrangements could be simplified and to recommend that the Panel raise two BSC Modifications.

## 2. Simplification Opportunity 1: Organisations that may raise proposals to modify the Code

- 2.1 The list of organisations that may raise BSC Modifications is prescribed in BSC Section F: 'Modification Procedures'. As well as the BSC Parties that may raise Modifications, Section F2.1.1 (c) states that a Modification Proposal may be made by "such other bodies representative of interested third parties as may be designated in writing for this purpose by the Authority from time to time".
- 2.2 The Authority's consent process was recently tested (the first time since the BSC was introduced in 2001) and proved to be time consuming, adding additional weeks to the front-end of the Modification Procedure. Furthermore, Authority consent timescales were unknown as were the criteria used to make its determination.
- 2.3 It is ELEXON's view that this consent process should be moved from the Authority to the BSC Panel leaving the Authority potentially, as the appeals body.



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### 2.4 Moving the consent process would:

- promote improvements in the Panel's self-governance arrangements;
- simplify access to the Modification Procedures to "interested third parties" and for such parties to engage directly with the BSC Panel;
- address any perception that the BSC is a "closed-shop" that is only accessible to BSC Parties; removing perceived barriers to innovation and change;
- be complementary to other proposed changes, particularly P362: 'Introducing BSC arrangements to facilitate an electricity market sandbox' to the extent that it facilitates increased engagement with non-BSC Parties; and
- improve process transparency through the development and publication of the criteria to be used by the Panel to determine which "bodies representative of interested third parties...." may be designated as organisations that may raise Modification Proposals.

## 3. Simplification Opportunity 2: Speeding up the process for publication of data on the BMRS

- 3.1 The BMRS (Balancing Mechanism Reporting Service) has, over time, evolved into a 'one stop shop' for the publication of electricity market information for the industry. Much of the scope of the BMRS is set out in BSC Section V: 'Reporting' with some of the lower level detail (the data items included in each of the reports set out in Annex V-1) captured in the Reporting Catalogue or Interface Definition and Design Documents (IDDs), documents that are subject to the change control arrangements set out in BSCP 40 – 'Change Management'.
- 3.2 Over the last six to nine months we have observed increasing public criticism of the timescales for the publication of data on the BMRS arising from the requirement (in most cases) to follow the BSC Modification Procedures. Set out below are some of the comments recently received:
- at National Grid's (NGs) October 2017 Operational Forum NG stated that it had considered using the BMRS as a publication route for its balancing services trades but had rejected the BMRS as being too slow to implement when coupled with the BSC Modification process;
  - in their draft Forward Work Plan published on 12 February 2018, the National Grid Electricity System Operator (NG ESO) state that "Stakeholders have told us that they want information about trades enacted by the ESO to be published more quickly than via ELEXON"; and
  - at National Grid's April 2018 Operational Forum NG stated that it is considering moving away from the BMRS because the change cycle takes too long.
- 3.3 Usage of the BMRS continues to grow, particularly since the introduction of the API (Application Programming Interface) service. As an example, in April 2017 there were 336k data requests via the API service; in April 2018 that number had increased 1.2m and there are now 14k users accessing the BMRS APIs. It would be disappointing and extremely inefficient and costly, if the further use and evolution of the BMRS as industry's one-stop-shop for electricity market information was frustrated due to the constraints of the Modification Procedures.
- 3.4 It is ELEXON's view that much of the detail contained in BSC Section V 'Reporting' could be moved into subsidiary documents (the Reporting Catalogue or Interface Definition and Design Documents (IDDs)). This approach that was taken in the implementation of [P329](#) 'Changes to REMIT inside information reporting' in the June 2017 BSC System Release, where detail from BSC Section Q: 'Balancing Mechanism Activities' was transferred to the Reporting Catalogue or the IDD.



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### 3.5 Moving the detail out of Section V would:

- create a more agile and responsive publication service but at the same time, retain the change control disciplines;
- enable the BMRS to continue to evolve as industry's one-stop-shop for publication of electricity market information;
- potentially avoid further fragmentation, wasted investment and proliferation of websites publishing electricity market information;
- address an increasing perception, particularly as voiced by the NG ESO, that the BSC Modification Procedures, specifically in relation to the publication of data on the BMRS, are too slow to change. It is important to note that whilst ELEXON is not one of the organisations that is permitted to raise Modifications, it is permitted to raise Change Proposals (CPs) which we believe will provide for a more responsive and agile mechanism, once the detail has been removed from the BSC;
- achieve a more proportionate balance between the content of the BSC itself and the CSDs and the application of BSC change processes.

### 3.6 The approach proposed here is not new; the 2013 BSC Review report<sup>1</sup> made similar proposals. However, the report's proposals did not achieve sufficient traction with Panel and industry and a Modification was not raised.

## 4. Next Steps

- 4.1 Subject to Panel's consideration of the two simplification opportunities, any Modification Proposals will be raised in accordance with the provisions of F2.1.1 (d) (i) "on the recommendation of BSCCo in accordance with Section 3.8.8...." which requires BSCCo to "...keep under review whether any possible modification of the Code from time to time would better facilitate the objective in Condition C3(3)(d) of the Transmission Licence, and shall recommend to the Panel any particular such modification which in BSCCo's opinion would do so".
- 4.2 It is ELEXON's view that these proposals better facilitate Objective (d) "Promoting efficiency in the implementation of the balancing and settlement arrangements".
- 4.3 The Panel is invited to comment on these simplification opportunities and to share any thoughts or suggestions that will help shape the scope of the Modifications. Subject to the Panel's views, including whether the Panel propose other simplification opportunities, draft Modification Proposals will be presented at subsequent Panel meetings.

## 5. Recommendations

### 5.1 We invite you to:

- a) **COMMENT** on the two simplification opportunities;
- b) **COMMENT** on any other simplification opportunities that Panel believe ELEXON should consider; and
- c) **AGREE** that ELEXON draft two Modification Proposals which will be presented to the Panel for review and agreement.

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<sup>1</sup> [https://www.elexon.co.uk/wp-content/uploads/2012/09/215\\_07\\_BSC\\_Review\\_2013\\_v1-0.pdf](https://www.elexon.co.uk/wp-content/uploads/2012/09/215_07_BSC_Review_2013_v1-0.pdf)



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## Appendices

Appendix 1 – Comments and criticisms of central arrangements complexity

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## Appendix 1 - Comments and criticisms of central arrangements complexity

### Industry Comments

1. In a Utility Week survey of March 2018, CEOs identified policy and regulatory instability as the highest rated factors impacting businesses today followed by change and uncertainty relating to new technologies and commercial models (Brexit was relatively low). More than half of CEOs “believe the regulatory regime under which they currently operate is not fit for purpose”.
2. In the next five years, CEOs expect considerable change in their business models, with respondents rating the expected scale of change at 6.7 out of ten in the next five years. This rises to 8.7 out of ten in the next ten years, and a transformational 9.3 out of 10 in the next 15 years. The time is right to advocate change in central services.

### Ofgem Comments

3. In October 2017 Ofgem’s Chief Executive challenged “does the current regulatory framework threaten to block these exciting innovations and their benefits to consumers?” noting that “The [BSC] also does not permit consumers to have more than one supplier. This has forced new entrants wanting to trial peer to peer energy trading to scale back their plans.” In November he added “This creates a barrier for new entrants wishing to offer consumers peer-to-peer trading opportunities”.
4. The Panel Chairman responded and BSC criticisms have ceased but the sentiment lingers. ELEXON has subsequently developed a P2P solution which will be published shortly and we will progress through industry change processes.

### Policy Exchange

5. Policy Exchange published a [paper](https://policyexchange.org.uk/wp-content/uploads/2016/09/governing-power.pdf) (<https://policyexchange.org.uk/wp-content/uploads/2016/09/governing-power.pdf>) in 2015 suggesting DECC could improve the administration of the energy industry by consolidating the existing energy policy delivery, code and central systems into 3 entities; An Energy Delivery Body, An Industry Codes Body and Independent Systems Operator (which would absorb ELEXON and Xoserve).
6. Policy Exchange argues that the complexity creates significant costs for participants in attempting to engage with central industry functions, track policies and changes and ensure compliance. This may also act as a barrier to entry and prohibits smaller industry organisations from playing a proactive part in shaping industry change (the latter theme was reflected by the CMA) in its findings. The report also had input from KPMG and Catherine Mitchell from University of Exeter (see below). The report provides justification for consolidation that reflects some of the benefits described in this paper. The report identified £500m pa costs attributable to central roles (including system operator but excluding DECC/BEIS).

### University of Exeter

7. The UoE Energy Policy Group has published its own proposals (<http://projects.exeter.ac.uk/igov/wp-content/uploads/2016/11/GB-Energy-Governance-for-Innovation-Sustainability-and-Affordability.pdf>) in November 2016 for amending the energy governance design for the UK, this also proposes consolidation. However UoE propose that an independent system operator function is integrated with a code management function (in what they call an Independent Integrated System Operator (IISO)).

### CMA Adverse Effect on Competition (AEC) of energy industry governance

8. The CMA stated within its report in June 2016 there was an AEC related to industry governance. The complexity and nature of industry governance is alleged to prohibit or limit participation by smaller organisations such that



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the shaping of the industry was within the control of larger organisations. The CMA did not propose consolidation as a remedy (instead they recommended code reform and licensing).

### **IET/Energy Systems Catapult 'Future Power System Architecture (FPSA)' Project**

9. In June 2017 the IET/ESC published the end report of the second phase of its FPSA project. This work is sponsored by Innovate UK (which is accountable to BEIS). The report highlights the need for governance and institutional changes to provide the right conditions for the shift to a low carbon UK. Part of the report notes the complexity and limited participation and rights of the industry codes as a threat to change. FPSA recommends government undertakes work to create entities responsible for assessing system design and industry rules.

### **Challenging Ideas**

10. "Challenging Ideas" stated objective is to: contest incumbent thinking; question orthodoxy within your business and organisation; test new business models, new products and services; model economic, social and environmental threats and offer a creative centre for those thinking the unthinkable!
11. At the recent "Reshaping Regulation" forum and the "Innovation and Governance for Future Energy Systems" Challenging Ideas proposed radical reform to the current regulatory (Licensing and Codes) framework.
12. At its most extreme the proposed approach would dispense with current Licenses and Codes (and by implication, the organisations that administer them) and replace them with arrangements that would almost entirely be underwritten through insurance arrangements. Although there is little in Ofgem's Forward Work Plan to indicate there support for such ideas Ofgem appears interested in these new models and is creating a platform for these ideas to be shared.

### **Other global energy governance models**

13. Across the world energy markets are supported by central functions, however nowhere else appears to be as complex as what has evolved in GB although the New Zealand model is close. There are numerous models that revolve around an Independent System Operator (ISO) or Market Operator that can be cited as an example (such as the Australian model, Singapore, USA (New England, New York)).