

Overview of the Balancing and Settlement Code (BSC) Arrangements

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This document provides a high level explanation of the New Electricity Trading Arrangements (NETA) that were introduced in England and Wales in March 2001. Further information on these arrangements is contained in the Balancing and Settlement Code (BSC) and supplementary BSC documentation which you can download from the [ELEXON website](#).



If you have any questions, contact the BSC Service Desk on 0870 010 6950 or bscservicedesk@logica.com

The New Electricity Trading Arrangements

A principle of the design of the NETA is that electricity should be traded bilaterally between willing buyers and sellers at prices under terms agreed between the counter-parties. Trades are carried out primarily 'Over the Counter' (OTC) and on the Power Exchanges that have developed to support the arrangements.

However, the characteristics of electricity mean it is almost inevitable that quantities of energy generated and consumed will deviate from the quantities for which contracts have been struck in advance. Consequently, central arrangements are required to:

- meter the quantities produced and consumed by each party
- compare these with the quantities covered by bilateral contracts
- and provide financial settlement for the differences (known as 'imbalances')

These functions are collectively referred to as 'imbalance settlement'.

NETA also introduced an additional function, referred to as the 'balancing mechanism'. National Grid as the Transmission Company has a licence obligation to manage the Transmission System and, may anticipate that more energy will be generated than consumed, or vice versa. Unchecked, this would result in system frequency falling or rising to an unacceptable degree. The balancing mechanism provides a way for National Grid to buy or sell additional energy close to real-time to maintain energy balance, and also to deal with other operational constraints of the Transmission System.

Specifically, the balancing mechanism allows BSC Parties (if they wish) to submit Offers to sell energy (by increasing generation or decreasing consumption) to the system and Bids to buy energy (by decreasing generation or increasing consumption) from the system, at prices that the BSC Party chooses. These Offers and Bids can be submitted in respect of each unit of generation or consumption (known as a BM Unit) belonging to each BSC Party.



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National Grid accepts Offers and Bids as necessary to balance the system, and seeks to do so at least cost by taking the lowest-priced Offers and accepting the highest-priced Bids, consistent with factors such as transmission system constraints and the BSC Parties ability to deliver within the timescales necessary. The ‘cash-out’ or imbalance prices - System Buy Price (SBP) and System Sell Price (SSP) - applied to imbalances are derived largely as the weighted average prices of these accepted balancing mechanism Offers and Bids.

The Balancing and Settlement Code

The balancing and settlement arrangements and their governance are enshrined in the BSC (collectively known as the BSC arrangements). The requirement to have the BSC in force is placed on National Grid through its Licence. It is a condition of a Generation and Supply Licence that licensees are bound by the BSC, and that they must become BSC Parties by signing the BSC Framework Agreement (which gives contractual force to the BSC). Other parties who are not licensees can sign the BSC Framework Agreement, which provides them the right to notify energy contract volumes and register BM Units (if they are Interconnector Users or licence exempt). This exposes them to any charges and payments that result.

The BSC also defines the obligations on ELEXON, the Balancing and Settlement Code Company (BSCCo), in providing or procuring the services necessary to operate the BSC arrangements efficiently, and establishes the BSC Panel and defines its various responsibilities. A set of subsidiary documents including Balancing and Settlement Code Procedures (BSCPs), Communications Requirements and the Data File Catalogue are referenced by the BSC, and compliance with these is also a condition of the BSC.

Other parties are recognised by the BSC. The Transmission Company has many obligations under the BSC and is itself a Party to it. Also the roles of various Agents are described - these Agents are not Parties to the BSC but are appointed, either by ELEXON or by BSC Parties, to fulfil certain functions. Agents to the BSC include the Settlement Administration Agent (SAA), Central Data Collection Agent (CDCA), Energy Contract Volume Aggregation Agent (ECVAA) and the Funds Administration Agent (FAA), and these functions are performed under contract to ELEXON. Party Agents include the Energy Contract Volume Notification Agents (ECVNAs) and Meter Volume Reallocation Notification Agents (MVRNAs) that notify bilaterally contracted volumes on behalf of Parties. Other Party Agents, specific to those Parties that are Suppliers, are Half-Hourly and Non-Half-Hourly Data Collection, Data Aggregation and Meter Operator Agents. Together with Suppliers, these go to make up the ‘Supplier Hubs’, an important element of the arrangements for the metering of domestic and commercial customers, whereby consumption in each Half-Hourly Settlement Period can be determined either using a Half-Hourly meter or using a ‘demand profile’ which apportions Non-Half-Hourly metered consumptions to individual Settlement Periods. Finally, Distribution Companies are also bound by the BSC, essentially for the provision of certain metered data.

Changes to the Trading Arrangements

A significant aspect of the BSC arrangements is the ability for those arrangements to evolve as improvements and new requirements emerge. Accordingly, the BSC has mechanisms for the consideration, approval and incorporation of changes, known as Modification Proposals.

Any BSC Party, energywatch and, in limited circumstances, the BSC Panel can submit Modification Proposals. The administration of the procedures for the consideration and development of these Proposals is one of the prime functions of the BSC Panel, which is made up of:

- a Chairman (appointed by the Authority, via Ofgem)
- industry members (elected by Parties)
- a Transmission Company member (appointed by NGC)
- consumer members (appointed by the relevant consumer body)
- independent members (appointed by the Chairman)

The Modification Procedures culminate in a Modification Report to the Authority, via Ofgem, containing the BSC Panel's recommendation as to whether or not a Modification should be made. The final decision in each case typically rests with the Authority.

Further Information

You can find further explanation of the BSC arrangements in the following documents, all of which you can download from the ELEXON website.

- [Balancing and Settlement Code](#)
- [BSC Simple Guides](#)

If you have any questions please contact the BSC Service Desk on 0870 010 6950 or by email at bscservicedesk@logica.com.



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