



Short term power trading in Great Britain - How to enter the market

A guide for non-physical
traders

BRADY.

Introduction

The Great Britain (GB) wholesale power market is competitive and offers lucrative short-term trading opportunities for non-physical traders. However, the market is also unique in its structure and mechanism compared to Continental Europe.

If you are considering entering this market, you need to ensure you have a certified system in place to meet the complex operational requirements of the Market Operator – Elexon. It is important to be aware that Elexon has amongst the most complicated file formats and strictest information exchange protocols in Europe.

This guide provides an overview of GB requirements for short-term trading, nominations, communications and imbalance settlement reporting. It offers advice on resources and system capabilities you will need to help maximise trading profits and minimise imbalance costs.

You will learn:

- The **processes** that non-physical traders need to follow
- The **types of reports** that are issued and the frequency in which they are received
- The **risks you face** by not meeting Elexon's requirements and deadlines
- What **criteria a 'fit-for-purpose' system should meet** to enable you to run a trading operation in GB successfully

We will now explore the 3 core processes of **trading**, **nominations** and **imbalance settlement** reporting in more detail.



Trading

Trading strategy

As a non-physical trader, your primary objective is to optimise value between day ahead auctions, intraday continuous and imbalance markets, whilst recognising the risks in the imbalance market. You are not expected to participate in the balancing mechanism and ancillary services market, as required for traders owning generation assets.

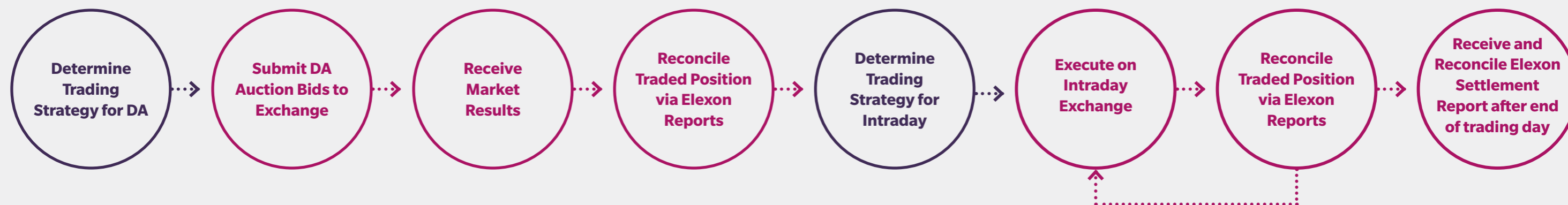
When pursuing a short-term trading strategy in the brokered market, there are two main exchanges for European power trading to choose from

- EPEX and Nord Pool. When considering which exchange is suitable for your business' needs, important factors to consider include their trading volumes, fees, onboarding process (typically time consuming and paperwork rich) and how long this takes.

Capability to provide connectivity to multiple exchanges from a single place will support extension of trading activities to other European markets. This flexibility from your trading solution will enable you to choose the right market and exchange to facilitate profit growth.

Day ahead trading

The following diagram portrays the typical sequence of events followed for day ahead power trading in GB.



If you are trading day ahead, you need to be able to submit auction bids at the last minute. This means being able to send and validate submissions near real-time, as close to the gate closure as possible. When buying and selling on an hourly basis for day ahead trading, there is a degree of peace of mind afforded in that should something go wrong, you have 24 hours to rectify.

Intraday strategy

If you are trading intraday, the environment becomes more complex as you have more trading instruments available to you, as summarised in the table below.

GB Market Products	Delivery Time
Baseload	24-hour product starting at 23:00 ending the following day
Extended Peak	16-hour product starting at 07:00 ending at 23:00
Peak	12-hour product starting at 07:00 ending at 19:00
Overnights (Block 1&2)	8-hour product starting at 23:00 ending at 07:00
Block 3&4	8-hour product starting at 07:00 ending at 15:00
4 Hour Block	Block 1 - Starting at 23:00 ending at 03:00 Block 2 - Starting at 03:00 ending at 07:00 Block 3 - Starting at 07:00 ending at 11:00 Block 4 - Starting at 11:00 ending at 15:00 Block 5 - Starting at 15:00 ending at 19:00 Block 6 - Starting at 19:00 ending at 23:00
2 Hour Block	2-hour product
1 Hour Block	Single hour product starting on the hour
Half Hour Block	30-minute product starting on the hour and on the half hour

You have the option to trade everything from base load, 24 hour contracts to half hour contracts via the intraday continuous market operated by either EPEX or Nordpool. These two exchanges also operate an intraday half hourly auction which takes place after the results of the day ahead auction have been published. When trading at more granular times it is very important to get your position updated as close to real-time as possible when you transact, there is far less room for operational error, as exemplified in the following two scenarios.

High imbalance price

You risk being exposed to a high imbalance price if you are short and the system has an extreme event such as a large generating unit failure.

Low imbalance price

You risk being exposed to a low imbalance price if you are long, there is too much generation in the system and the Transmission System Operator is forced to curtail generation at low prices.

Having a system in place to keep track of rolling imbalances helps minimise financial loss and protect profits.

Even if you are a non-physical trader with no generation assets, you still need to be able to monitor what is happening in the physical transmission market, as unforeseen events can impact your revenue.



Nomination & Market Operator Communication

The GB wholesale power market works on the basis of single notification where the trading exchanges conduct all the notifications on your behalf. This nomination and communication process differs to Continental Europe, where each party has to notify their position to individual Transmission System Operators.

However, you are still required to monitor and reconcile your traded position in this market.

Monitoring and reconciling positions

In the context of market operator communications, it is critical that you have ability to receive key communications from Elexon, acknowledge receipt of their files and resend your data back to specific deadlines.

Elexon has a thorough verification process that each new party must undertake prior to being accepted, known as Central Volume Agency (CVA) qualification testing. It is important to recognise that it is not possible to nominate or receive any communications from Elexon directly without having passed the certification with a proven system in place. Spreadsheets are not a viable option when it comes to communicating with Elexon due to their highly strict protocol and complicated file formats.

Key Elexon Terminology

In the table below, we summarise the key reports Elexon sends, which you are required to address at the stated frequency.

Report Name	Description	Frequency
Notification Report (ECVAA-I014)	Issued to each trading party summarising Energy Contract Volumes and Metered Volume Reallocations relating to the contract day	Daily
Forward Contract Report (ECVAA-I022)	Issued to parties summarising notifications received relating to the party for the next 7 days	4 times per day: 09:00 14:30 18:30 22:00
ECVN Acceptance Feedback Report (ECVAA-I028)	Issued for any accepted ECVN where the effective date of the ECVN is no greater than 72 settlement periods ahead	After each trade notified to Elexon by either party

Imbalance Settlement

Managing your imbalance settlement is crucial to a profitable trading outcome. The financial consequences of what could happen if you do not balance your position to zero can be severe. Imbalance settlement is defined as the amount (megawatt) that you are out of balance multiplied by the system imbalance price. It is important in the early days of trading in GB to keep in balance until you are experienced in the market to take more risks for greater potential gains.

You are required to keep track of how much money you owe Elexon and pay them on a **rolling 29 day basis**. When you start trading, you need to provide credit to Elexon in advance to cover potential imbalance scenarios. Elexon closely monitors the financial stability of all market participants. For example, as soon as your exposure reaches 85% of your limit threshold, your exposure is published online to allow counterparties to know your company's status. You can post more cash or make certain trading decisions to get out of such a position. However, imbalance settlement needs to be closely monitored to avoid being in a situation where your company's unfavourable financial status is published.

Even with strict protocols in place it is not uncommon for market participants to get over exposed and go bankrupt quickly. This further highlights the need to ensure you have the right financial backing in place before embarking on power trading in GB.



Settlement Administration Agent Reports

In the table below, we summarise the key reports you are required to submit to Elexon and the timeframes to adhere to.

SAA Reports	Description	Frequency
Indicative Settlement Report (SAA-I0014)	Indicative settlement report detailing bid-offer data, acceptance data and trading charges for the party along with prices for the whole system	D+1
Initial Settlement Report (SAA-0014) (II)	Interim settlement report detailing bid-offer data, acceptance data and trading charges for the party along with prices for the whole system	Approx 5 Working Days (5-11 Calendar days) after D
Initial Settlement Report (SAA-0014) (SF)	Initial settlement report detailing bid-offer data, acceptance data and trading charges for the party along with prices for the whole system	Approx 17 Working Days (29 Calendar days) after D
Reconciliation Settlement Report (SAA-0014) (R1, R2, R3)	Time-tabled settlement reconciliation report detailing bid-offer data, acceptance data and trading charges for the party along with prices for the whole system	R1 - 35 (53) R2 - 80 (114) R3 - 150 (217)
Final Reconciliation Report (SAA-0014) (RF)	Final settlement reconciliation report detailing bid-offer data, acceptance data and trading charges for the party along with prices for the whole system	Approx 290 Working Days (418 Calendar days) after D

This information is published daily at 02:00 hrs by Elexon and sent to market participants directly. There are a number of iterations of each daily settlement report up to 18 months after the event. Interpreting this information manually is a highly challenging task.

You are required to extract the key information (principally the energy imbalance charge) from these Elexon SAA-0014 reports and highlight variances between each iteration.

Examples of Financial Implications

Here are some scenarios to consider based on small and large trading volumes.



For relatively small trading volumes

If you leave your position 5MW short out of balance in one half hour, with a system imbalance price of £50 per MWh, your half hourly imbalance charge would be £125.

If everything stayed the same, this would cost you £6,000 per day or £174,000,000 over the Elexon imbalance charging period.



For large trading volumes (typically asset owners)

If you leave your position 100MW short out of balance in one half hour, with a system imbalance price of £50 per MWh, your half hourly imbalance charge would be £2,500

If everything stayed the same, this would cost you £120,000 per day or £3.48M over the Elexon imbalance charging period.

As can be seen, once figures multiply up, the consequences become startling.





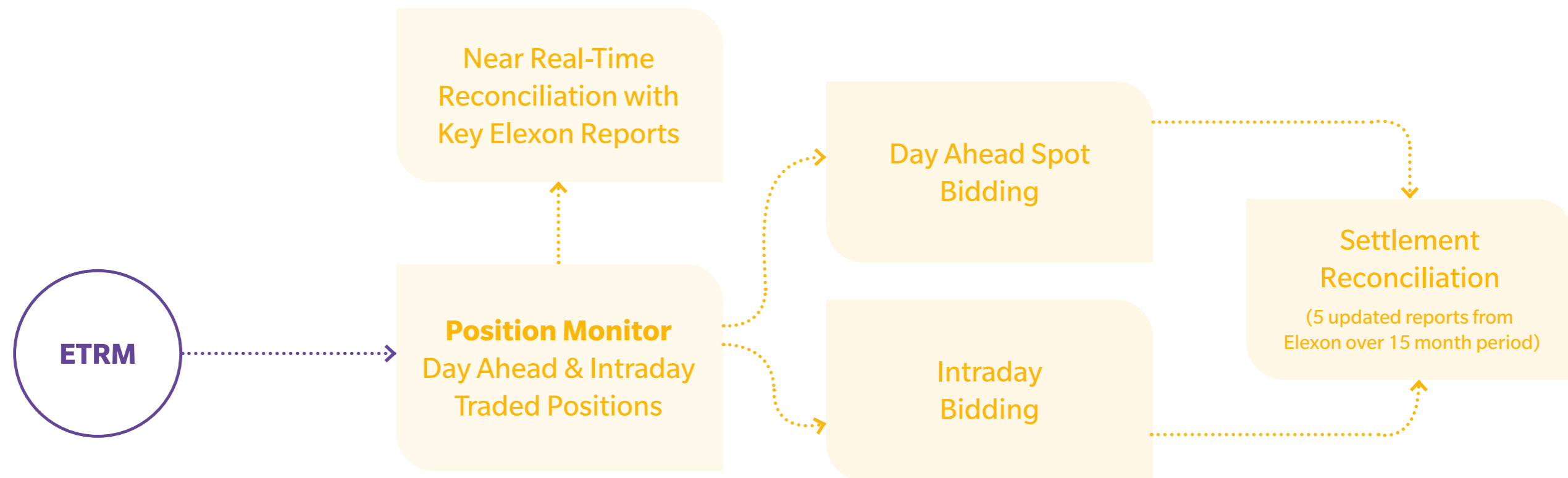
Is your system fit-for-purpose?

A fit for purpose system to support short-term trading in the GB power market must meet the following 5 key criteria:

- 1 Support Elexon's CVA qualification process, acknowledge receipt of files sent by Elexon automatically**
- 2 Easily connect to other European power markets to support business expansion and profit growth**
- 3 Extract key information from Elexon's notification, forward contract and acceptance reports**
- 4 Keep track of your rolling imbalance**
- 5 Extract the key information from Elexon SAA-0014 reports and highlight variances between each iteration**

The Brady Solution

Brady offers a proven solution that meets the criteria above and more. You can have peace of mind knowing that your files will be administered according to the demands of Elexon to avoid inaccuracies in data processing and delays in meeting deadlines.



Future expansion

Should you wish to expand your short-term trading activities in the future, we also offer scheduling and balancing solutions for the majority of power transmission system operators across Europe, including the interconnectors for GB-France (IFA MCN), GB-Belgium (NemoLink) and GB-Netherlands (BritNed).

About Brady

Brady has been providing trading, risk and logistics management software solutions to European energy markets for over 30 years. Our mission is to empower you to trade confidently, profitably and sustainably today and in the future.

Our customers include start-ups to leading multinational utilities trading in power, gas and renewables. Whether you trade your own assets, trade on behalf of others, have small or large portfolios, you can scale selected functions and pay simply for what you need.

We are an independent company, agile in the way we do business and how we provide customer service.

The Brady Advantage

Each Brady Energy Customer benefits from:



A dedicated Account Manager



Free participation in product webinars



Free access to the Brady Customer Portal



Opportunity to participate in product User Councils



Opportunity to participate at Brady's annual Energy Summit with peer-to-peer networking



Tailored support to successfully complete Elexon's Qualification process



Inclusion of the latest software version in rental/maintenance contracts

Our team of experts have a wealth of experience in GB and European energy markets. We will support you through the nuances so you can start trading in fast paced short-term power markets quickly.

**Let us help you run your power trading
operation in GB successfully today**

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