

May 2002

**DRAFT MODIFICATION REPORT**  
**MODIFICATION PROPOSAL P68-**  
Modification to the BSC relating to the  
setting of Caps for use in the Supplier  
Charges (Liquidated Damages)  
Calculation

Prepared by ELEXON on behalf of the Balancing  
and Settlement Code Panel

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## I DOCUMENT CONTROL

### a Authorities

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0.1	22/05/02	Assurance		
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### b Distribution

Name	Organisation
Each BSC Party	Various
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The Gas and Electricity Markets Authority	Ofgem
Each BSC Panel Member	Various
energywatch	Energywatch
Core Industry Document Owners	Various

### c Related Documentation

Reference	Document
Reference 1	Initial Written Assessment for Modification Proposal P68 'Modification to the BSC relating to the setting of Caps for use in the Supplier Charges (Liquidated Damages) Calculation' (IWA 068 Version 1.0 issued on 14 March 2002)
Reference 2	Assessment Report for Modification Proposal P68 'Modification to the BSC relating to the setting of Caps for use in the Supplier Charges (Liquidated Damages) Calculation' (P068AC Version 1.0 issued on 16 May 2002)

Copies of these documents can be obtained from the ELEXON website at [www.elexon.co.uk](http://www.elexon.co.uk)

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## 1 SUMMARY AND RECOMMENDATIONS

### 1.1 Recommendation

On the basis of the analysis, consultation and assessment undertaken in respect of this Modification Proposal during the Assessment Phase and the resultant findings of this report, the BSC Panel recommends that:

**the Proposed Modification P68, as set out in Section 6 of this Modification Report, be approved with an implementation date of the first day of the fourth calendar month after the calendar month in which the Authority approves the Modification Proposal.**

### 1.2 Background

Modification Proposal P68 was raised by the BSC Panel, on the recommendation of the BSCCo, on 14 February 2002 and seeks to correct the mechanism for the setting of monthly Supplier Caps, for use in the Supplier Charges calculation, with one that does not reward under-performance in certain circumstances.

The Panel considered the Initial Written Assessment (Reference 1) for Modification Proposal P68 at its meeting of 14 March 2002 and agreed to submit the Modification Proposal to a three month Assessment Procedure to be undertaken by the Volume Allocation Modification Group (VAMG).

The VAMG considered Modification Proposal P68 during three meetings on 26 March 2002, 16 April 2002 and 2 May 2002. The Assessment Report (Reference 2) for Modification Proposal P68 was submitted for consideration at the Panel meeting of 16 May 2002. The Panel agreed with the determinations of the VAMG and decided to submit Modification Proposal P68 to the Report Phase. The recommendation was that the proposed Modification be approved with an implementation date of the first day of the fourth calendar month after the calendar month in which the Authority approves the Modification Proposal.

### 1.3 Rationale for Recommendations

The Panel noted that both the majority of the VAMG and the majority of the Assessment consultation responses supported the Modification Proposal, and that the VAMG believed Modification Proposal P68 would better facilitate the achievement of applicable BSC Objectives.

The Panel agreed with the VAMG determination that Modification Proposal P68 would ensure that performing Suppliers are recompensed for additional costs arising from the actions of non-performing Suppliers. Supplier Charges are set at a level that reflects the costs imposed on Suppliers through under performance by an errant Supplier. Correct application of this technique can only stimulate effective competition in supply (BSC Objective (c)). The Panel further agreed with the VAMG that implementation of the Modification Proposal would better facilitate achievement of BSC Objective (d) as implementing this change will correct the BSC and the supporting systems to what they should have been.

On this basis, the Panel supported the VAMG assertion that Modification Proposal P68 better facilitates achievement of Applicable BSC Objectives 3(c) and 3(d), as follows:

- (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;
- (d) Promoting efficiency in the implementation and administration of the balancing and settlement arrangements.

## 2 INTRODUCTION

This Report has been prepared by ELEXON Ltd., on behalf of the Balancing and Settlement Code Panel ('the Panel'), in accordance with the terms of the Balancing and Settlement Code ('BSC'). The BSC is the legal document containing the rules of the balancing mechanism and imbalance settlement process and related governance provisions. ELEXON is the company that performs the role and functions of the BSCCo, as defined in the BSC.

This Modification Report is addressed and furnished to the Gas and Electricity Markets Authority ('the Authority') and none of the facts, opinions or statements contained herein may be relied upon by any other person.

An electronic copy of this document can be found on the BSC website, at [www.elexon.co.uk](http://www.elexon.co.uk)

## 3 PURPOSE AND SCOPE OF THE REPORT

BSC Section F sets out the procedures for progressing proposals to amend the BSC (known as 'Modification Proposals'). These include procedures for proposing, consulting on, developing, evaluating and reporting to the Authority on potential modifications. This report has been drafted in accordance with the obligations set out in Section F of the Code.

## 4 HISTORY OF PROPOSED MODIFICATION

Modification Proposal P68 was raised by the BSC Panel, on the recommendation of the BSCCo, on 14 February 2002. Modification Proposal P68 seeks to replace the mechanism for the setting of Supplier Monthly Caps with one that does not reward under-performance in certain circumstances.

The Panel considered the Initial Written Assessment (Reference 1) for Modification Proposal P68 at its meeting of 14 March 2002 and agreed to submit the Modification Proposal to a three month Assessment procedure to be undertaken by the Volume Allocation Modification Group (VAMG).

The VAMG considered Modification Proposal P68 during three meetings on 26 March 2002, 16 April 2002 and 2 May 2002.

The VAMG considered the defect identified in the Modification Proposal and recommended a change to the BSC that replaces the use of Supplier Deemed Take in the calculation of the Supplier Monthly Cap by a new defined quantity, termed Supplier Cap Take. The VAMG initially considered three options. All the options involved the use of the existing Energy

values known as Active Import (AI), Active Export (AE) and Unmetered Supplies (UMS). The three options were: -

- Introducing a new quantity, based on AI + UMS, capped at '0'.
- Introducing a new quantity based on the absolute values of AI+AE+UMS.
- Amending the definition of the existing quantity, Supplier Deemed Take (which is  $[(AI+UMS) - AE]$ ).

It was recognised that Supplier Deemed Take is used in the core settlement calculation and by ELEXON for monitoring purposes. Any amendment to this defined term would impact the settlement calculations and this option was therefore discounted. The VAMG decided against using AE in the calculation of a Suppliers share of consumption in any GSP Group. The VAMG were interested only in what units had been supplied by Suppliers regardless of whether that energy was gained through forward contracting or as exemptable generation. The Modification Group felt that the use of AI + UMS would be the most appropriate values to use for consideration of setting each Supplier Cap. These are import values that reflect the energy volumes that a Supplier has supplied within each GSP Group and thus reflect the overall impact a Supplier could have through under-performance.

The Assessment Report for Modification Proposal P68 was submitted for consideration at the Panel meeting of 16 May 2002. The Panel agreed with the determinations of the VAMG and decided to submit Modification Proposal P68 to the Report Phase. The recommendation was that the proposed Modification be approved with an implementation date of the first day of the fourth calendar month after the calendar month in which the Authority approves the Modification Proposal.

On the basis of the Assessment Report, the Panel supported the VAMG assertion that Modification Proposal P68 better facilitates achievement of the Applicable BSC Objectives 3(c) and 3(d), as follows:

- (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;
- (d) Promoting efficiency in the implementation and administration of the balancing and settlement arrangements.

## **5 DESCRIPTION OF PROPOSED MODIFICATION**

Modification Proposal P68 proposes that 'Supplier Deemed Take' is replaced by 'Supplier Cap Take' in the setting of monthly Supplier GSP Group Caps for Supplier Charges. Supplier Cap Take is a measure of the volume of a Suppliers Active Import and Unmetered Supplies supplied over a calendar month within a given GSP Group, capped at zero.

## **6 LEGAL TEXT TO GIVE EFFECT TO THE PROPOSED MODIFICATION**

Is attached as Appendix 1.

## **7 ASSESSMENT**

The implementation of Modification Proposal P68 has the following impacts:

- The Balancing and Settlement Code, Annex S-1 3.8.2, Annex S-2 additional item (9.7) and Annex X-2
- An additional item to be sourced from the Supplier Volume Allocation Agent (SVAA) that will require an update to the SVAA Design Functional Specification.

There are no impacts on Core Industry Documents.

## **8 SUMMARY OF REPRESENTATIONS**

Responses from the consultation on the Draft Report will be presented here

## 9 RESPONSES TO P68 DRAFT MODIFICATION REPORT CONSULTATION

Will be presented here



## APPENDIX – 1

### Annex S-1: Performance Levels And Supplier Charges (V 2.0)

Amend paragraph 3.8.2 as indicated.

3.8.2 A Supplier's Monthly Cap for any month in respect of a GSP Group shall be calculated by the Performance Assurance Board on or before the end of the next succeeding month (on the basis of the then latest available Volume Allocation Run) according to the following formula:

$$S_C = GSP_{MC} \times \left( \frac{SCT_{DT}}{GSP_{DT}} \right)$$

where:-

$S_C$  means the Supplier's Monthly Cap for the relevant month;

$GSP_{MC}$  means the GSP Group liability cap for the relevant month, calculated in accordance with paragraph 3.8.3;

$SCT_{DT}$  means the total quantity of energy attributable to that Supplier determined as the sum of Supplier **Deemed Cap Take** for that Supplier in the relevant GSP Group across all Settlement Periods in the relevant month; and

$GSP_{DT}$  means the total quantity of energy attributable to all Suppliers determined as the GSP Group Take in the relevant GSP Group across all Settlement Periods for the relevant month.

### Annex S-2 'Supplier Volume Allocation rules' (V 2.0)

Insert the following new paragraph after paragraph 9.6.

#### 9.7 Determination of Supplier Cap Take

9.7.1 The Supplier Cap Take (SCT) shall be determined by the SVAA according to the following formula:

$$SCT_{HZj} = (\max \sum Hzi (\sum N_{(A)} CORC_{iNj}), 0)$$

### Annex X-2 'Technical Glossary' (V 6.0)

Insert the following into new summation at the end of Table X-5:

$\sum N (A_i)$  = summed over all Consumption Component Classes N that are associated with active import.

Insert the following new expression into Table X-6:

Expression	Acronym	Units	Definition
<u>Supplier Cap Take</u>	<u>SCT</u>	<u>MWh</u>	<u>The deemed take (active import) at GSP Group level for a SVA Supplier during a Settlement Period pursuant to paragraph 9.7 of Annex S-2</u>