

June 2002

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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Name	Organisation
Each BSC Party	Various
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The Gas and Electricity Markets Authority	Ofgem
Each BSC Panel Member	Various
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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

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II CONTENTS TABLE

I	Document Control	2
a	Authorities	2
b	Distribution	2
c	Related Documentation.....	2
d	Intellectual Property Rights and Copyright.....	2
II	Contents Table	4
1	Summary and Recommendations	5
1.1	Recommendation.....	5
1.2	Background.....	5
1.3	Rationale for Recommendations	5
2	Introduction	6
3	Purpose and Scope of the Report	6
4	History of Proposed Modification	6
5	Description of Proposed Modification	8
6	Legal Text to Give Effect to the Proposed Modification	8
7	Assessment	8
8	Summary of Representations	8
9	Responses to P68 Draft Modification Report Consultation	10
APPENDIX – 1	14

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, 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. A draft Modification Report was produced on the basis of this endorsement and used for consultation on 23 May 2002.

1.3 Rationale for Recommendations

The Panel notes 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 agrees with the VAMG determination that Modification Proposal P68 would ensure that the appropriate Supplier Charges are applied to non-performing Suppliers. The Panel notes that 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 supports 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

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.

A draft Modification Report for Modification Proposal P68 was issued for consultation on 23 May 2002. Eight responses, representing forty Parties, were received. With the exception of one response (representing one Party), where no comment was given, the majority of respondents supported the Modification Proposal and the draft Modification Report. No new issues were raised by the consultation.

At the Panel meeting on 13 June, BSCCo raised an issue relating to the legal text contained within the draft Modification Report. The P68 amendments to Section S-1 3.8.2 contained an anomaly where the denominator used in the calculation of Supplier GSP Group Caps (GSP_{DT}) contained both active import and export energy values. This meant that the sum of the numerators (being the sum of all Supplier Cap Take for a GSP Group) would not equal the sum of the denominator and this would distort the cap calculations.

The Panel agreed that the legal text should be modified, in accordance with Section F 2.7.5 (b), to reflect that the definition of GSP_{DT} should be the sum of the active import values in

a GSP Group. The Panel considered whether it would be prudent to issue the amended text for re-consultation. It was agreed that on the basis of efficiency (considering the costs associated with re-consultation) and the understanding that Parties had been consulted on the intention of the Modification Proposal, which was clear, not to re-consult. The Authority agreed with this approach.

On the basis of the support for Modification Proposal P68 the Panel recommends to the Authority that the Modification Proposal as set out in this report be made.

5 DESCRIPTION OF PROPOSED MODIFICATION

Modification Proposal P68 proposes that in the setting of monthly Supplier GSP Group Caps for Supplier Charges, 'Supplier Deemed Take' is replaced by a newly defined term 'Supplier Cap Take'. Supplier Cap Take is a measure of the volume of a Suppliers' Active Import 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

Eight responses (40 Parties) were received in response to the consultation on the draft Modification Report. In summary six responses supported the proposed Modification and draft Modification Report.

One Party supported the principle of the Modification but felt there may not be a net benefit for Parties. The materiality analysis carried out as part of the Assessment Report showed the materiality was small, however the Modification Group and the remaining respondents agreed that the anomaly needs to be corrected to ensure the application of Supplier charges is performed in the manner originally intended.

One response was 'no comment'.

One respondent suggested an implementation date six months after the Authority decision to allow greater time for testing and implementation of the changes to the SVAA systems. A Detailed Level Impact Assessment, carried out by SVAA during the report phase, has

identified that three months was sufficient time to complete the necessary amendments to the SVAA systems.

9 RESPONSES TO P68 DRAFT MODIFICATION REPORT CONSULTATION

Consultation issued 23 May 2002

Representations were received from the following Parties:

No	Company	File Number	No. Parties Represented
1.	TXU Europe	P68_MR_001	21
2.	SEEBOARD Energy	P68_MR_002	1
3.	LE Group	P68_MR_003	6
4.	British Gas Trading	P68_MR_004	1
5.	Aquila Networks	P68_MR_005	1
6.	Scottish and Southern Energy	P68_MR_006	4
7.	Scottish Power	P68_MR_007	5
8.	Powergen	P68_MR_008	1

P68_MR_001 – TXU Europe

We confirm our support for the Report as drafted.

For 21 TXU BSC Parties

P68_MR_002 – SEEBOARD Energy

With respect to draft modification report for proposal P68 (Modification to BSC Relating to Setting Supplier Caps for use in Supplier Charges (LD) Calculation). Whilst we still agree with principles behind this modification we are disappointed that this report does not contain any estimate of materiality of financial benefits expected to accrue from this modification. Whilst costs are relatively small, when compared to other changes, there is no evidence that this modification will create a net benefit for BSC Parties beyond closing a theoretical loophole in BSC code.

Dave Morton
SEEBOARD Energy Limited

P68_MR_003 – LE Group

In response to the draft Modification report, LE Group supports the proposal to incorporate the calculation of Supplier Cap Take, which facilitates improved accuracy in determining Supplier Charges (Liquidated Damages). We believe that the implementation of this modification into the BSC will remove the manifest error that was identified in the calculation of Supplier GSP Group Cap.

This response is made on behalf of the following BSC Parties:
London Electricity plc, SWEB Ltd, Jade Power Generation Ltd, Sutton Bridge Power Ltd, London Power Networks plc and EPN Distribution Ltd.

Liz Anderson
Energy Strategy & Regulation Manager
31 May 2002

P68_MR_004 – British Gas Trading

Thank you for the opportunity of responding to the consultation on P68. British Gas would like to confirm the Draft Modification Report does better meet BSC objectives, subject to implementation and operational costs being confirmed.

We support the proposal in replacing the Supplier Deemed Take, which can be a negative figure, with the proposed new Supplier Cap Take in the calculation of Supplier Charges (Liquidated Damages) as it will correct a minor problem. The method of calculating the Supplier Cap Take using Active Import (AI) and Unmetered Supply (UMS) data only, capped at '0', would be the best representation of what each Supplier has supplied in the month within a GSP Group.

However we are a little concerned at the implementation time especially with a system solution and would suggest that a minimum of 6 months be allowed from the Authority's decision to full implementation. This will allow time to ensure all systems are fully tested and any corrective action resolved before becoming live.

Should you wish to discuss any of the above please feel free to give me a call on the above number.

Yours faithfully

Andrew Latham
Account Manager

P68_MR_005 – Aquila Networks

Please find that Aquila Networks response to P68 Consultation on draft Modification Report is 'No Comment'.

regards
Rachael Gardener

Deregulation Control Group &
Distribution Support Office
AQUILA NETWORKS

P68_MR_006 – Scottish and Southern Energy

This response is sent on behalf of Scottish and Southern Energy, Southern Electric, Keadby Generation Ltd. and SSE Energy Supply Ltd.

Further to your note of 23rd May 2002, and the associated Draft Modification Report for P68, we agree with the proposed BSC Panel recommendation to the Authority that this Modification Proposal P68 should be approved. In addition, we agree with the proposed BSC Panel recommendation on the timing for the Implementation Date, as outlined in Section 1.1 of the Modification Report.

Regards

Garth Graham
Scottish & Southern Energy plc

P68_MR_007 – Scottish Power

P68 Draft Modification Report Comments

With reference to the above, I would refer you to our previous comments on the proposal.

In this consultation response, we wish to reiterate the view, which we have previously provided in support of Mod P68: Modification to the BSC relating to the setting of Supplier Caps for use in the Supplier Charges (Liquidated Damages) calculation.

I trust that you will find these comments helpful. Nonetheless, should you require further clarification of any of the above, please do not hesitate to contact me.

Yours Sincerely,

Man Kwong Liu
Calanais Ltd.

For and on behalf of: - *Scottish Power UK Plc.; Scottish Power Energy Trading Ltd.; Scottish Power Generation Ltd.; Scottish Power Energy Retail Ltd.; SP Transmission Ltd.*

P68_MR_008 – Powergen

Laone/David,

I am happy with the above draft report and agree that the proposal should be implemented.

Regards

Paul Jones
Powergen

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 **active import** 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 **active import** energy attributable to all Suppliers determined as the **sum of Supplier Cap Take for all Suppliers-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_{Hzi}) shall be determined by the SVAA according to the following formula:

$$SCT_{Hzi} = \max \left(\sum_{i=1}^{HZ} \sum_{N(AI)} CORC_{iNj} , 0 \right)$$

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

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

$\sum_{N(AI)}$ = 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_{H2.1}</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>