



April 2002

**INITIAL WRITTEN ASSESSMENT
(IWA) FOR MODIFICATION
PROPOSAL P72**

**Correction of a Minor
Inconsistency In the BSC Arbitrage
and Trade Tagging Methodology**

Prepared By ELEXON Limited

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a Authorities

Version	Date	Author	Signature	Change Reference
0.1	03/04/02	Emrah Cevik		
1.0	18/04/02	Trading Development		

b Distribution

Name	Organisation
	BSC Panel
	BSC Parties
	BSC Agents
	The Authority
	National Electricity Consumers Council
	Core Industry Document Owners
	BSC Website

c References

Reference 1: "Settlement Administration Agent (SAA) System Specification"

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I	CONTENTS TABLE	
a	Authorities	2
b	Distribution	2
c	References	2
d	Intellectual Property Rights and Copyright	2
I	Contents Table	3
1	Introduction.....	4
2	Executive Summary and Recommendations	4
3	Details of the Modification Proposal.....	5
3.1	History of the Modification Proposal	5
3.2	Description of the Modification Proposal	5
4	Impact on Systems and Processes.....	7
5	Impact on Balancing and Settlement Code.....	7
6	Impact on ELEXON.....	7
7	Impact on Financial Arrangements and Budget	7
8	Process and Timetable for Progressing the Proposal	8
9	Issues.....	8
	Annex 1 – Modification Proposal	9

1 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.

An electronic copy of this document can be found on the BSC website, at www.elexon.co.uk

2 EXECUTIVE SUMMARY AND RECOMMENDATIONS

Modification Proposal P72 was raised by the BSC Panel on 14 March 2002 and seeks to rectify a minor inconsistency in the BSC Arbitrage and Trade Tagging Methodology. The issue was first noted during the final stages of the NETA Programme. Clarification was given by the NETA Programme to the Central Service Provider that the tagging methodology should be implemented in BSC Central Systems as described in this Modification Proposal. As a result, the Settlement Administration Agent (SAA) System Specification is already consistent with Modification Proposal P72. However, the BSC itself was not changed at the time to reflect this clarification. Modification Proposal P72 seeks to incorporate the clarification within Annex T-1 of the BSC, and to ensure consistency between the BSC and its software implementation within BSC Central Systems.

An initial assessment of Modification Proposal P72 has identified the following potential areas of impact:

- Changes would be required to Annex T-1 of the Balancing and Settlement Code; and
- Changes would be required to ELEXON's Trading Operations Monitoring and Analysis System¹ (TOMAS).

Whilst it is recognised that there may be alternative ways of amending the BSC, the aim of Modification Proposal P72 is to rectify a minor problem in Annex T-1 and to ensure consistency with the current software implementation within BSC Central Systems. If any Party would like to propose an alternative tagging methodology, the Panel believe that such a Party can raise a new modification proposal.

The Panel are invited to:

- **NOTE the results of the Initial Written Assessment;**
- **DETERMINE that Modification Proposal P72 be progressed directly to the Report Phase (in accordance with Section F2.7 of the BSC) with the recommendation that the Proposed Modification should be made;**
- **NOTE that draft legal text will be provided and a draft Modification Report issued for consultation by 9 May 2002;**
- **AGREE that 10 business days be allowed for consultation on the draft Modification Report; and**

¹TOMAS has not been used as an operational system since 28 March 2002, following the deployment of Phase B of the BSC Systems Delivery Programme. TOMAS has now reverted to its original purpose as a market monitoring and analysis tool within ELEXON.

- **NOTE that the draft Modification Report will be completed and submitted to the Panel following the receipt of consultation responses.**

3 DETAILS OF THE MODIFICATION PROPOSAL

3.1 History of the Modification Proposal

Modification Proposal P72 was raised by the BSC Panel on 14 March 2002 and seeks to rectify a minor inconsistency in the BSC Arbitrage and Trade Tagging Methodology. As endorsed by the Imbalance Settlement Group (ISG) on 26 February 2002, ELEXON recommended to the Panel and the Panel agreed, that this Modification Proposal meets the conditions set out in Section F2.1.1 paragraphs (i) and (iv) of the BSC, and in particular that it facilitates Applicable Code Objective C3(d) of the Transmission License, as it would be useful in “promoting efficiency in the implementation and administration of the balancing and settlement arrangements.”

P72 seeks to address a minor issue which was first noted during the final stages of the NETA Programme. During the implementation of NETA, clarification was given by the NETA Programme to the Central Service Provider that the tagging methodology should be implemented in BSC Central Systems as described in this Modification Proposal. As a result, the Settlement Administration Agent (SAA) System Specification is already consistent with Modification Proposal P72. However, the BSC itself was not changed at the time to reflect this clarification. Modification Proposal P72 seeks to incorporate the clarification within Annex T-1 of the BSC.

The issue concerns the current wording of Annex T-1, which provides a high-level specification of the algorithms to be performed during arbitrage and trade tagging. Annex T-1 requires the contents of certain sets of Accepted Offers (or Bids) to be ranked in decreasing or increasing price order, depending on the calculation being performed. If several of these Offers (or Bids) have the same price as each other, the BSC states that the ranking of such Offers (or Bids) will be random.

Under the current wording of the BSC, any arbitrage or trade tagging would take place sequentially, based on the relevant ranking. If several accepted Offers (or Bids) had the same price as each other and if the Transmission Loss Multipliers (TLMs) assigned to the Balancing Mechanism Units (BMUs) submissions these Offers (or Bids) were different, then Energy Imbalance Prices would in general be sensitive to the random ranking of such Offers (or Bids.) As a consequence, Energy Imbalance Prices could change randomly between settlement runs.

3.2 Description of the Modification Proposal

Modification Proposal P72 proposes that if several Offers (or Bids) have the same price as each other and if any one of them is in line for arbitrage or trade tagging according to the relevant price ranking as described in Annex T-1, then each equally priced Offer (or Bid) will be tagged in proportion to its accepted volume. In other words, when the ranking of several Offers (or Bids) is random, the tagging algorithms will not respect this random ranking. Instead, they will tag each equally priced Offer (or Bid) in proportion to its accepted volume.

As clarification was given by the NETA Programme to the Central Service Provider during NETA implementation, the Settlement Administration Agent (SAA) System Specification is already consistent with Modification Proposal P72 and states (Reference 1, Section 4.3.10): “If a number of BM units have the

same price and only some of the associated volume is removed by arbitrage or notional reserve, all bid/offer volumes at that price are reduced by the same proportion.” Modification Proposal P72 seeks to phrase this clarification in precise language and incorporate it within Annex T-1 of the BSC.

It is not expected that any changes to BSC Central Systems or associated documentation (beyond the change to the BSC itself) will be required to implement Modification Proposal P72.

A copy of the Modification Proposal form, as submitted by the BSC Panel, can be found as Annex 1 to this report.

4 IMPACT ON SYSTEMS AND PROCESSES

System / Process	Potential Impact of Proposed Modification
Central Systems and SO	No impact identified at this time. The SAA System Specification is already consistent with Modification Proposal P72.
Party Systems	No impact identified at this time

5 IMPACT ON BALANCING AND SETTLEMENT CODE

BSC Section	Potential Impact of Proposed Modification
T: Annex T-1: Settlement and Trading Charges	Revision will be required to Annex T-1 of the BSC.
X: ANNEX X-2 Technical Glossary	No impact identified at this time. However, changes may be required to Annex X-2, should legal text introduce new terminology.

6 IMPACT ON ELEXON

Area of Business	Potential Impact of Proposed Modification
ELEXON Systems	The TOMAS System will be impacted. (As of 28 March 2002, TOMAS is used only as a market monitoring and analysis tool within ELEXON.) The impact is believed to be minor.
ELEXON Procedures	No impact identified at this time

7 IMPACT ON FINANCIAL ARRANGEMENTS AND BUDGET

Progression of this Modification Proposal will not require Modification Group meetings or impact assessments. It is not expected that any changes to BSC Central Systems or associated documentation (beyond the change to the BSC itself) will be required. The impact on the TOMAS system is also believed to be minor. Therefore, it is not expected that there will be any significant costs associated with this modification.

8 PROCESS AND TIMETABLE FOR PROGRESSING THE PROPOSAL

ELEXON recommends that this Modification Proposal be progressed directly to the Report Phase, in accordance with Section F2.7 of the BSC, containing a recommendation that the modification should be made.

ELEXON will prepare a draft Modification Report and issue it for consultation by 9 May 2002 (allowing 10 working days for responses.) The draft Modification Report, including any representations received, will then be submitted to the Panel following the receipt of consultation responses.

9 ISSUES

Whilst it is recognised that there may be alternative ways of amending the BSC, the aim of Modification Proposal P72 is to rectify a minor problem in Annex T-1 and to ensure consistency with the current software implementation within BSC Central Systems, as clarified by the NETA Programme prior to NETA Go-Live. If any Party would like to propose an alternative tagging methodology, the Panel believe that such a Party can raise a new modification proposal.

Annex 1 – Modification Proposal

Modification Proposal	MP No: P72 <i>(mandatory by BSCCo)</i>
Title of Modification Proposal <i>(mandatory by proposer)</i> : Correction of a Minor Inconsistency in the BSC Arbitrage and Trade Tagging Methodology	
Submission Date <i>(mandatory by proposer)</i> : 14 March 2002	
Description of Proposed Modification <i>(mandatory by proposer)</i> : The Modification Proposal seeks to correct a minor inconsistency in the BSC Arbitrage and Trade Tagging Methodology and to bring the BSC in line with the current software implementation within Central Systems. The proposal is to amend the BSC so that if several Offers (or Bids) have the same price as each other and one of them is in line for arbitrage or trade tagging according to the ranking of accepted Offers (or Bids), then each equally priced Offer (or Bid) will be tagged in proportion to its accepted volume.	
<p>Description of Issue or Defect that Modification Proposal Seeks to Address <i>(mandatory by proposer)</i>:</p> <p>It is possible to illustrate the issue by considering the System Buy Price (SBP) and trade tagging. Other cases involving the System Sell Price (SSP) or arbitrage tagging are entirely analogous.</p> <p>According to Annex T-1 of the BSC, the set of all accepted Offers, which are neither De Minimis Offers nor Arbitrage Offers will be ranked in price order, most expensive first. When several accepted Offers have the same price as each other, the BSC states that the ordering of such Offers will be random.</p> <p>Under the current BSC, any trade tagging of Offers would take place sequentially, based on the ranking of Offers. If several accepted Offers had the same price as each other and if the Transmission Loss Multipliers (TLMs) assigned to the Balancing Mechanism Units (BMUs) submitting these Offers were different, then the System Buy Price would, in general, be sensitive to the result of the random ordering of such Offers. In particular, the SBP could change randomly between settlement runs.</p> <p>The materiality of the issue is potentially large but, in practice, has been small.</p>	
Impact on Code <i>(optional by proposer)</i> : Annex T-1 of the BSC.	
Impact on Core Industry Documents <i>(optional by proposer)</i> : None.	
Impact on BSC Systems and Other Relevant Systems and Processes Used by Parties <i>(optional by proposer)</i> : None	
Impact on other Configurable Items <i>(optional by proposer)</i> : None.	
<p>Justification for Proposed Modification with Reference to Applicable BSC Objectives <i>(mandatory by proposer)</i>: This Modification Proposal rectifies a minor inconsistency in the BSC Arbitrage and Trade Tagging Methodology. The proposed clarification was agreed by the Central NETA Programme during NETA implementation and was reflected in the Settlement Administration Agent System Specification. However, the BSC itself was never amended to reflect this clarification and is therefore inconsistent with the (clarified) implementation within BSC Central Systems. ELEXON has recommended to the Panel, and the Panel have agreed, that this Modification Proposal meets the conditions set out in Section F2.1.1 paragraphs (i) and (iv) of the BSC, and in particular that it facilitates Applicable Code Objective C3(d) of the Transmission License, as it would be useful in "promoting efficiency in the implementation and administration of the balancing and settlement arrangements."</p>	

Modification Proposal	MP No: P72 <i>(mandatory by BSCCo)</i>
Details of Proposer: Name: BSC Panel Organisation: Telephone Number: Email Address:	
Details of Proposer's Representative: Name: Emrah Cevik Organisation: ELEXON Telephone Number: 020 7380 4375 Email Address: emrah.cevik@elexon.co.uk	
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Attachments: NONE If Yes, Title and No. of Pages of Each Attachment:	