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MODIFICATION REPORT
MODIFICATION PROPOSAL P72-
Correction of a Minor Inconsistency
in the BSC Arbitrage and Trade
Tagging Methodology

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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b Distribution

Name	Organisation
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Each BSC Agent	Various
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	Settlement Administration Agent (SAA) System Specification
Reference 2	Initial Written Assessment for Modification Proposal P72 'Half Hourly Receipt and Publication of BSAD'

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1 SUMMARY AND RECOMMENDATIONS

1.1 Recommendation

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

That the Proposed Modification, as set out in Section 6 of this Modification Report, be approved with an Implementation Date of [Authority Decision + 5WD].

1.2 Background

Modification Proposal P72 was raised by the BSC Panel on 14 March 2002 following ELEXON's recommendation. It 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. 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 P72¹. 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 and spuriously between settlement runs.

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

¹ The SAA System Specification states (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."

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.

Given that the SAA System Specification is already consistent with Modification Proposal P72, 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 this modification.

1.3 Rationale for Recommendations

During their meeting on 18 April 2002, the Panel decided that Modification Proposal P72 is of a minor and inconsequential nature, and that the Panel's recommendation for acceptance should be considered as self-evident. The Panel therefore decided that P72 should be submitted directly to the Report Phase, in accordance with Section F2.2.4 of the BSC.

The Panel directed ELEXON to produce and consult on a draft Modification Report containing the recommendation that this Modification be made with an Implementation Date of [Authority Decision + 5 WD]. The draft Modification Report was issued for consultation on 25 April 2002 allowing 10 Working Days for responses. ? responses were received representing ? parties.

On 16 May 2002, the Panel noted that ? out of ? of the consultation responses supported the Modification Proposal and reconfirmed (or not) their view that Modification Proposal P72 would better facilitate the achievement of Applicable BSC Objective 3(d).

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 P72 was raised by the BSC Panel on 14 March 2002, following a recommendation from ELEXON. 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.”

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.

The Panel considered the Initial Written Assessment for Modification Proposal P72 (Reference 2) on 18 April 2002 and agreed that P72 is of a minor and inconsequential nature. The Panel also determined that given the nature and history of this proposal the Panel's recommendation for acceptance should be considered as self-evident. The Panel therefore decided that P72 should be submitted directly to the Report Phase in accordance with Section F2.2.4 of the BSC².

The Panel also noted that BSC Central Systems had been consistent with Modification Proposal P72 since NETA Go-Live and expressed their view that an Implementation Date of [Authority Decision + 5WD] would be a pragmatic way forward for P72.

On 25 April 2002, ELEXON issued a draft Modification Report, containing the recommendation that Modification Proposal P72 be approved with the Implementation Date of [Authority Decision + 5WD]. This was issued for consultation allowing 10 Working Days for responses. <consultation>

On 16 May 2002, the Panel noted that ? out of ? the consultation responses supported the Modification Proposal. <further discussion, if any.>

On this basis, the Panel reconfirmed (or not) their view that Modification Proposal P72 better facilitates achievement of Applicable BSC Objective 3(d) which concerns “promoting efficiency in the implementation and administration of the balancing and settlement arrangements.”

5 DESCRIPTION OF PROPOSED MODIFICATION

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

² 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 could raise a new modification proposal. This could then be assessed against Applicable BSC Objectives.

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.

6 LEGAL TEXT TO GIVE EFFECT TO THE PROPOSED MODIFICATION

6.1 Conformed Version

See Annex A.

6.2 Clean Version

See Annex B.

7 ASSESSMENT

The implementation of Modification Proposal P72 would impact the following:

- BSC Annex T-1; and
- ELEXON's Trading Operations Monitoring and Analysis System (TOMAS).

As noted in Section 1.2 of this document, the SAA System Specification has been consistent with Modification Proposal P72 since NETA Go-Live. Therefore, 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.

8 SUMMARY OF REPRESENTATIONS

Pending consultation responses.