July 2002

# MODIFICATION REPORT

# MODIFICATION PROPOSAL P74 – Single Cost – Reflective Cash-out Price

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

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## b Distribution

| Name | Organisation |
|---|---|
| Each BSC Party | Various |
| 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 Documents

| Reference | Document |
|---|---|
| Reference 1 | Modification Proposal P74 'Single Cost – Reflective Cash-out Price' Assessment Report (P074AR10, 18 July 2002) |
| Reference 2 | Modification Proposal P78 'Revised Definition of System Buy Price and System Sell Price' Assessment Report (P078AR10, 18 July 2002) |
| Reference 3 | 'Proposed Revisions to Balancing Services Adjustment Data (BSAD) Methodology Statement – Consultation by National Grid July 2002' (23 July 2002) |

## d Intellectual Property Rights and Copyright

# II CONTENTS TABLE

# 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 Procedure, and the resultant findings of this report, the BSC Panel recommends that:

**Alternative Modification P74 should be made, with an Implementation Date of 25 February 2003 where an Authority decision is received by 6 September 2002. Where an Authority decision is received after this date, but before 19 February 2003, the Implementation Date should be 24 June 2003.**

**Proposed Modification P74 should not be made. However, if the Authority determine that the Proposed Modification should be made, the Implementation Date should be 25 February 2003, where an Authority decision is received by 6 September 2002. Where an Authority decision is received after this date, but before 12 March 2003, the Implementation Date should be 24 June 2003**

## 1.2 Background

The Assessment Report for Modification Proposal P74 (Reference 1) contains the detailed background and history of Modification Proposal P74, and this report can be found on the BSC Website, as follows:

ftp://www.elexon.co.uk/ta/modifications/modsprops/P074/P74_AR_Final.pdf

Modification P74 'Single Cost-reflective Cash-out Price' was submitted on 4 April 2002 by Electricity Direct. Modification Proposal P74 seeks to amend the application of Energy Imbalance Prices, such that where the Total System Energy Imbalance Volume for a Settlement Period is:

- Negative, then the Imbalance volumes on all Energy Accounts are to be cashed out at the System Buy Price (SBP);
- Positive, then the imbalance volumes on all Energy Accounts are to be cashed out at the System Sell Price (SSP);
- Zero, then the imbalance volumes on all Energy Accounts are to be cashed out at a default Energy Imbalance Price, which will be the arithmetic mean of the System Buy Price and System Sell Price.

The Initial Written Assessment for Modification P74 was considered by the Panel at its meeting of 18 April 2002. The Panel agreed to submit Modification Proposal P74 to the Assessment Procedure at that meeting, with the Assessment to be undertaken by the Pricing Issues Modification Group (PIMG). The Panel also tasked the PIMG with defining the Terms of Reference for Modification Proposal P74.

The Panel also agreed, at its meeting of 18 April 2002, that Modification Proposal P74 should be considered in parallel with Modification Proposal P78 'Revised Definition of System Buy Price and System Sell Price' (Reference 3), as they both address similar perceived defects in the Balancing and Settlement Code.

During the Assessment Procedure, the PIMG met ten times (on 25 April 2002, 1, 8, 15, 22 and 29 May 2002, 12 and 19 June 2002, and 3 and 10 July 2002). Two consultations were issued, the first on 27 May 2002 (responses due 11 June 2002) and the second on 4 July 2002 (responses due 11 July 2002).

One detailed level impact assessment was performed by the BSC Central Service Agent, BSC Parties and ELEXON on 21 June 2002 (CPC0196, responses due 8 July 2002).

The PIMG submitted the Terms of Reference for the Assessment Procedure to the Panel, which endorsed them at its meeting of 18 May 2002. The PIMG submitted an interim report to the Panel meeting of 13 June 2002. In this report the PIMG requested an extension to the Assessment Procedure of one month in recognition of the complex issues raised by this Modification and the requirement for further analysis and assessment. The Panel agreed to an extension to the Assessment Procedure for Modification Proposal P74.

However, the Authority issued a notice pursuant to the BSC Section F 1.4.3, directing that the extension to the Assessment Procedure should not be made. The reasons for such direction were provided in the notice (dated 19 June 2002) as follows:

"*It has been acknowledged by NGC and the industry that the issues that the Modification Proposals* [P74 and P78] *seek to address are of great importance, which is demonstrated by the considerable amount of time the industry has already devoted to assessing the Modification Proposals to date.*

*Having had regard to the relevance and importance of the outcome of these Modification Proposals in relation to a number of aspects of the regulatory regime, Ofgem considers that Modification Proposals P74 and P78 should be dealt with within the timeframes as set out within F2.2.9 of the BSC. Therefore Ofgem considers that it is essential for the 3-month Assessment Procedure to be adhered to."*

The PIMG, (19 June 2002), in recognition of the time constraints, revised and agreed their work plan for the remainder of the Assessment Procedure, such that an Assessment Report for Modification Proposal P74 could be presented to the Panel on 18 July 2002, thus adhering to the three months Assessment Procedure.

The PIMG noted that, as a consequence of the time constraints, they were unable to fulfil one of the Terms of Reference for the Assessment Procedure, namely a quantitative comparison of Modification Proposal P74 (and any Alternative) with Modification Proposal P78 (and any Alternative). However, the PIMG felt able to provide a qualitative comparison between the Modifications and their Alternatives and this was provided in the relevant Assessment Reports.

The PIMG agreed the provisional recommendations with regards to Modification Proposal P74 (3 July 2002). These were provided, in a draft of the Assessment Report, for industry consultation on 8 July 2002 (responses due 15 July 2002).

With due consideration to the second assessment consultation responses, the PIMG confirmed the provisional recommendations.

The Panel considered the Assessment Report at its meeting of 18 July 2002, and agreed to submit Modification Proposal P74 to the Report Phase. The Panel also unanimously agreed to provisionally endorse the recommendations of the PIMG, namely that:

- The Alternative Modification should be made, with an Implementation Date of 25 February 2003, where an Authority decision is received by 6 September 2002; and
- The Proposed Modification should not be made, but if an Authority decision to the contrary is received, the Implementation Date should be 25 February 2003, where such an Authority decision is received by 6 September 2002.

At the Panel meeting of 18 July 2002, the Authority were requested to provide an indication as to whether legal drafting would be required for the Proposed Modification. Subsequent to that meeting, the Authority indicated that no such drafting would be required.

The draft Modification Report, containing the provisional recommendations of the Panel, was provided to Industry for consultation on 1 August 2002, allowing five (full) working days for consultation (responses due 7 August 2002).

It should be noted that the legal drafting provided in this draft Modification Report for Alternative Modification P74 is dependent upon the results of the Transmission Company Balancing Services Adjustment Data (BSAD) consultation (Reference 3), (see section 1.4).

*The consultation responses, made in respect of this draft Modification Report, indicate that … pending receipt of such responses.*

*The Panel considered the consultation responses made in respect of this draft Modification Report at its meeting of 15 August 2002 and …*

## 1.3 Rationale for Recommendations

The Assessment Report for Modification Proposal P74 (Reference 1) contains the detailed rationale of the PIMG as to the recommendations made by the PIMG to the Panel.

However, with specific regards to the facilitation of the achievement of the Applicable BSC Objectives, the PIMG believe that both the Proposed and the Alternative Modification better facilitate achievement of the Applicable BSC Objectives for the following reasons:

- Reduction in the risk of exposure to imbalance, as a consequence of the removal of the buy – sell spread, and the associated costs from implementation of a single Energy Imbalance Price will help to promote competition in generation and supply;
- A proposed outcome of both the Proposed and the Alternative Modification is that the market will come closer to balance, and consequently parties will not hold so much self reserve. On this basis, the system operator should be able to balance the market more efficiently and effectively;
- The increased incentive for parties to balance their individual positions ahead of Gate Closure should result in increased accuracy of information provided to the system operator ahead of Gate Closure, thus enabling it to make informed decisions about balancing the system, improving efficiency and economic operation; and
- Improving the cost-reflectivity of the Energy Imbalance Prices should promote this Objective by providing more accurate signals to the system operator of the costs of balancing the system.
- The implementation of a more cost-reflective cash-out price regime could incentivise participants to balance their individual positions ahead of Gate Closure, therefore minimising the actions that the system operator has to take to correct the system energy imbalance. Thus, this assists in minimising the role of centrally administered mechanisms and facilitates the bilateral trading of energy; and
- Reduction in the risk of exposure to imbalance, whilst maintaining the incentives to balance, and therefore trade bilaterally, ahead of Gate Closure, may have the effect of encouraging participants to trade closer to real-time, with the associated effect of improving liquidity in the forwards and spot markets, thus increasing competition.

The Proposed and the Alternative Modification may or may not better facilitate achievement of the Applicable BSC Objectives for the following reason (depending upon perspective):

– The Proposed and the Alternative Modification value 'uninstructed assistance' to the system (i.e. imbalances in the opposite direction to the overall system imbalance) at the same price as imbalances in the same direction to the overall system imbalance, this may not be reflective of the costs they may be imposing on the system. However, there is no value of uninstructed assistance that can be definitively more cost-reflective and no evidence that the price for such assistance is not cost – reflective;

However, the Proposed and the Alternative Modification may not better facilitate achievement of the Applicable BSC Objectives for the following reasons:

– If the cost-reflectivity of the Energy Imbalance Price for imbalances in the opposite direction to the overall system imbalance is dubious, it means that the cost of energy balancing is less correctly targeted at those causing the imbalance, and therefore this reduces competition by promoting cross-subsidies; and

– A single cash-out regime may have the effect of encouraging the development of Contracts for Difference, thus removing trading from the forwards and spot markets (although it could be argued that liquidity is merely moving to a different market), and reducing the incentive to trade bilaterally, ahead of Gate Closure, which may in turn have the effect of discouraging participants to trade closer to real-time, with the associated effect of decreasing liquidity in the forwards and spot markets, thus reducing competition, in this particular market.

However, the majority of the PIMG believe that the benefits from the achievement of the Applicable BSC Objectives (set out above) outweigh the detrimental impacts. The majority of the PIMG believe that the Alternative Modification better facilitates achievement of the Applicable BSC Objectives than the Proposed Modification. Therefore the majority of the PIMG recommend that the Alternative Modification should be made.

The Panel supported the rationale of the PIMG regarding the recommendations made in respect of the Proposed and Alternative Modification P74.

## 1.4 Balancing Services Adjustment Data (BSAD) Amendments

The Alternative Modification (section 4) requires amendment to the Balancing Services Adjustment Data, as follows.

Currently BSAD is formulated and reported on a gross basis, and includes only energy balancing actions taken ahead of Gate Closure by the Transmission Company. However, the mechanism for calculating the Net Imbalance Volume (as set out in Section 4 of this Modification Report) requires that all balancing actions, system and energy, be utilised in order to derive a true net imbalance (i.e. the energy imbalance of the system). Therefore, the Transmission Company propose to provide a system component for the BSAD, and to report the BSAD on a net basis.

During the Assessment Procedure for Modification Proposal P74, the Transmission Company indicated that they would provide either (as a consequence of the net reporting, explored in section 4 of this Modification Report, and in the Assessment Report for Modification Proposal P74 (Reference 1)):

– The (net) Buy Price Volume Adjustment and a Buy Price Cost Adjustment; or

– The (net) Sell Price Volume Adjustment and a Sell Price Cost Adjustment.

The volume adjustment was proposed to contain a MWh figure derived from both energy and system actions, whereas the cost adjustment would contain only the cost of energy balancing (in £), as it is deemed to be inappropriate to include the cost of the system balancing (as this could then pollute the Energy Imbalance Price). Therefore the net volume adjustment would include both system and energy volumes, whereas the cost adjustment would include only energy.

During the legal drafting to support the Alternative Modification, it was realised that this methodology would not be robust in terms of derivation of a £/MWh price (required for placing BSAD into the Bid – Offer stack for Net Imbalance Volume derivation, and for Net Imbalance Volume Tagging), the following (simple) example indicates why this is the case:

– Energy balancing ahead of Gate Closure was 100 MWh at a total cost of £1000; and

– System balancing ahead of Gate Closure was 150 MWh, no cost notified.

Therefore the price for inclusion in the Bid – Offer stack is price / volume to give a £/MWh price, which results in a price of:

– £1000 / (100 + 150) MWh = £4 / MWh.

However, the actual price should have been:

– £1000 / 100 MWh, i.e. the energy component, = £10 / MWh.

This has a material effect on the placing of the BSAD in the Bid – Offer stack, and therefore to the amount to be tagged out, or not. This could lead to system volumes being included in the Energy Imbalance Price.

The Transmission Company provided this approach as an option (Option 1) in their BSAD consultation document, but indicated that they did not believe this option to be robust. However, the Transmission Company indicate that this option had been provided for consultation as a consequence of it being the approach explored in the Assessment Report for Modification Proposal P74.

The Transmission Company therefore defined Option 2 in their BSAD consultation in order to address the above deficiency in the BSAD reporting and usage, and indicated that this would be their preferred option as a consequence of the potential lack of robustness in their Option 1.

Option 2 splits the energy and system portion such that they are reported separately, as follows:

– (Net) Volume Adjustment (Energy) (MWh);

– (Net) Cost Adjustment (Energy) (£); and

– (Net) Volume Adjustment (System) (MWh).

It is believed that this is entirely consistent with the approach documented for Modification Proposal P74, i.e. the formulation and reporting of system BSAD volume with no associated price, and energy volumes with an associated price, but effected differently than originally proposed to ensure a robust and correct solution. Therefore it is believed that Option 2 is different only in effect to Option 1, but is the same in intent.

Therefore it should be noted that the legal drafting provided (for both the Proposed and the Alternative Modification) is based on and therefore consistent with, Option 2 set out in the BSAD consultation (Reference 3).

# 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 HISTORY OF THE MODIFICATION

Modification Proposal P74 has been extensively assessed by the PIMG, and the detail of the assessment is provided in the Assessment Report for Modification Proposal P74 (Reference 1), and is therefore not repeated here.

# 4 DESCRIPTION OF ALTERNATIVE MODIFICATION

At a high level, Alternative Modification P74 will be effected as follows:

The Balancing Mechanism Reporting Agent (BMRA) receives Balancing Services Adjustment Data (BSAD) and Bid – Offer Acceptances for a Settlement Period. These are published on the BMRA (as for now, noting the requirement to report amended BSAD for Alternative P74). BMRA, at the end of the relevant Settlement Period, will calculate the Energy Imbalance Price by deriving the Net Imbalance Volume and the associated Energy Imbalance Price. These will be displayed on the BMRA (to the same service levels as currently), although it should be noted that there will be additional data (derived from the Net Imbalance Volume calculation) displayed.

The Settlement Administration Agent (SAA) will, when performing a Settlement Run, derive the Net Imbalance Volume and calculate the associated Energy Imbalance Price, using the same mechanism as the BMRA, but with the latest data. The SAA will report the results of the Settlement Run as currently, via the Settlement Report (SAA – I014, sub flows 1, 2 and 3).

The Settlement Report will contain the (relevant) new variables used for the calculation of the Net Imbalance Price.

The Assessment Report for Modification Proposal P74 (Reference 1) contains a description of the detailed amendments (system functionality and documentation) required to support Modification Proposal P74, including the Alternative.

The legal drafting to support Alternative Modification P74 is provided in Section 5 of this Modification Report.

## 4.1 Detailed Overview of the Alternative Modification

Alternative Modification P74 derives a (single) Energy Imbalance Price from balancing actions (including BSAD) taken to alleviate the energy imbalance of the system. The Alternative Modification proposes a new mechanism for determining the energy imbalance of the system, by 'stacking' all system and energy balancing actions (BSAD purchases and Offer Acceptances on one stack, and BSAD sales and

Bid Acceptances on the other stack), the volumes are then netted to leave the Net Imbalance Volume, which is deemed to be the energy imbalance of the system (with the netted off balancing actions deemed to have been taken for system balancing purposes).

It should be noted that Alternative Modification P74 requires amendment to the formulation and utilisation of Balancing Services Adjustment Data (BSAD). The Transmission Company are currently consulting on the proposed amendments, and the following description (and the associated legal drafting) is based upon Option 2 of the Transmission Company's consultation (Reference 3), as this is the preferred option of the Transmission Company, as a consequence of Option 1 (based upon the amendments defined in the P74 Assessment Report, (Reference 1)) being insufficiently robust (section 1.4 of this Modification Report).

Figures 4.1 and 4.2, below, are high level schematics reflecting the stacking of all balancing actions, and the derivation of the Net Imbalance Volume.

**System Short:**
Note that BSAD (Energy and System) is net, so only appears in one stack.

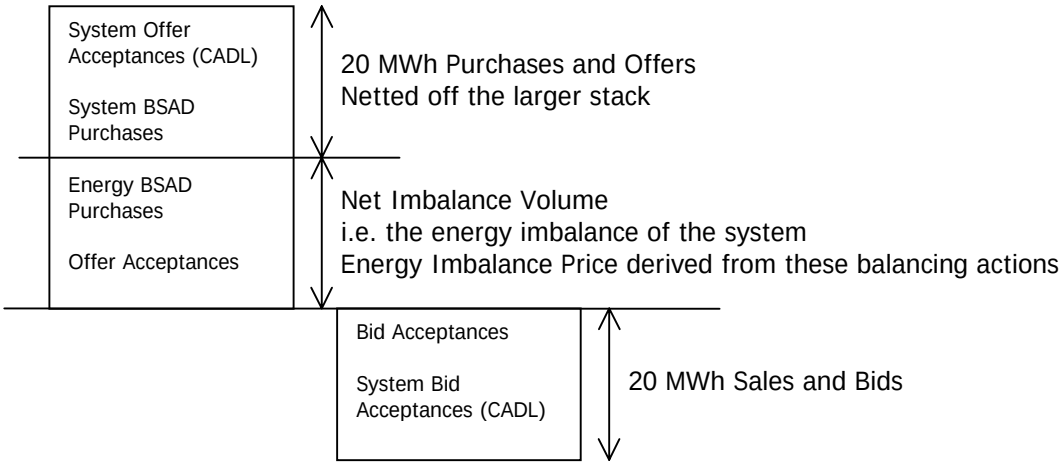


**Figure 4.1**: Net Imbalance Volume Derivation where the System is Short

**System Long:**
Note that BSAD (Energy and System) is net, so only appears in one stack.

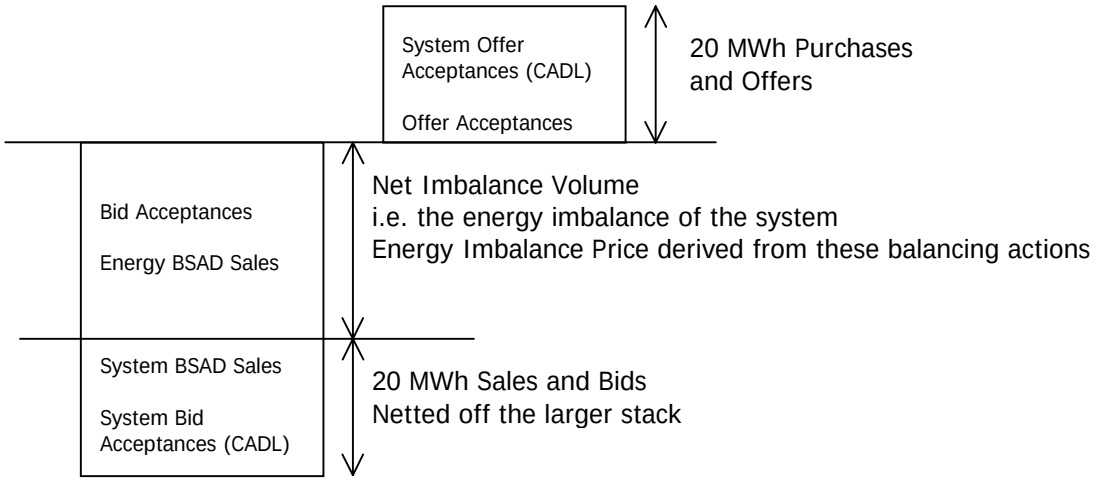


**Figure 4.2**: Net Imbalance Volume Derivation where the System is Long

Currently, Bid –Offer Acceptances for a Settlement Period have the Continuous Acceptance Duration Limit (CADL) applied to remove Acceptances deemed to have been taken for system balancing purposes. Then De-minimis Acceptances are identified and removed. The remaining Bid – Offer Acceptances are then stacked in price order (as defined in Annex T-1 of the BSC), and subjected to Arbitrage Tagging and Trade Tagging (to the level of the Balancing Reserve Limit). The Acceptances remaining after this tagging is applied go forward to set the Energy Imbalance Prices. BSAD sales (SCA and SVA), purchases (BCA and BVA) and options fees (BPA and SPA) are also included in the Energy Imbalance Price calculation.

It is generally acknowledged that the current mechanism has the potential to include system balancing actions in the Acceptances going forward to set Energy Imbalance Price, especially on the shorter stack, where they may have an undue influence on the resulting Energy Imbalance Price. However, given the difficulty in distinguishing between a system and an energy balancing action, this could be considered to be inevitable.

Alternative Modification P74 creates a mechanism for better differentiating between energy and system balancing actions by netting off all system and balancing actions (as reflected in Figures 4.1 and 4.2), to derive the Net Imbalance Volume, i.e. the energy imbalance of the system, and deeming all balancing actions 'outside' of the Net Imbalance Volume to have been taken for system purposes (and therefore disregarded for the purposes of setting the Energy Imbalance Price). Those balancing actions taken to alleviate the energy imbalance of the system (the Net Imbalance Volume) are therefore deemed to be attributable to energy balancing only.

The resulting Energy Imbalance Price is then derived from the (energy) balancing actions taken to alleviate the Net Imbalance Volume (Figures 4.1 and 4.2).

This requires amendment to the way in which Bid – Offer Acceptances and BSAD are treated when deriving the Energy Imbalance Price, as follows:

The Bid – Offer Acceptances have the Continuous Acceptance Duration Limit (CADL) applied to determine those Acceptances deemed to have been taken for system balancing purposes.

The De-minimis Acceptances are removed, and Arbitrage Tagging is undertaken.

Then the Bid – Offer Acceptances and BSAD are stacked as follows, in order to derive the Net Imbalance Volume:

The Offer (and purchase) stack is 'built' by:

– The Total System Un-priced Accepted Offer Volume (i.e. CADL'ed Offers) is placed in the Offer stack as if it were the most expensive Offer (i.e. at the top);

– The (net) Buy Price Volume Adjustment (System) (SBVA) is placed in the Offer stack as if it were the second most expensive Offer (i.e. below the CADL'ed Acceptances, but above the Priced Accepted Offers);

– The Priced Offer Acceptances are stacked in price order (below the CADL'ed Offers and the SBVA), placing the most expensive Offers first; and

– The (net) Buy Price Volume Adjustment (Energy) (EBVA) is placed into the Offer stack in order of price (derived from EBCA / EBVA, i.e. a £/MWh price).

This is represented schematically in Figure 4.3 below.

The Bid (and sale) stack is 'built' by:

– The Total System Un-priced Accepted Bid Volume (i.e. CADL'ed Bids) is placed in the Bid stack as if it were the cheapest Bid (i.e. at the bottom);

– The (net) Sell Price Volume Adjustment (System) (SSVA) is placed in the Bid stack as if it were the second cheapest Bid (i.e. above the CADL'ed Acceptances, but below the Priced Accepted Bids);

– The Priced Bid Acceptances are stacked in price order (above the CADL'ed Offers and the SBVA), placing the most expensive Bids first; and

– The (net) Sell Price Volume Adjustment (Energy) (ESVA) is placed into the Bid stack in order of price (derived from ESCA / ESVA, i.e. a £/MWh price).

This is represented schematically in Figure 4.4 below.

**Offer (Purchase) Stack**

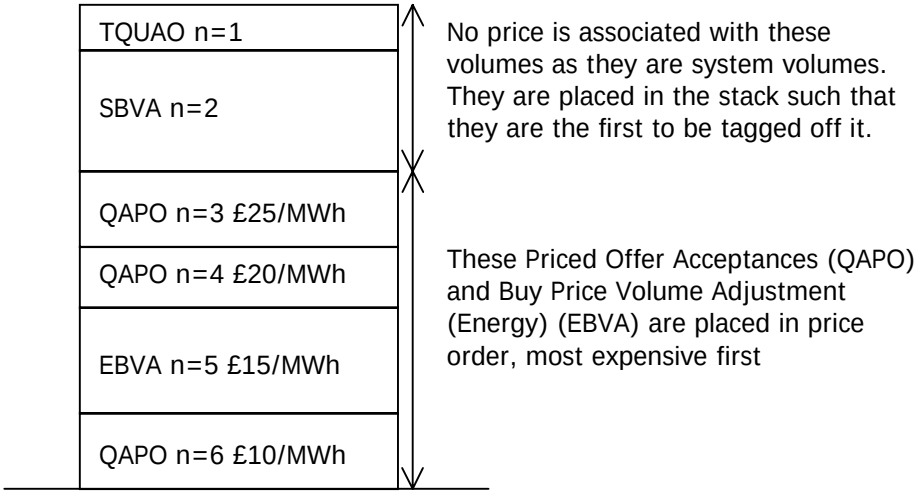


**Figure 4.3**: Composition of the Offer (Purchase) Stack

**Bid (Sale) Stack**

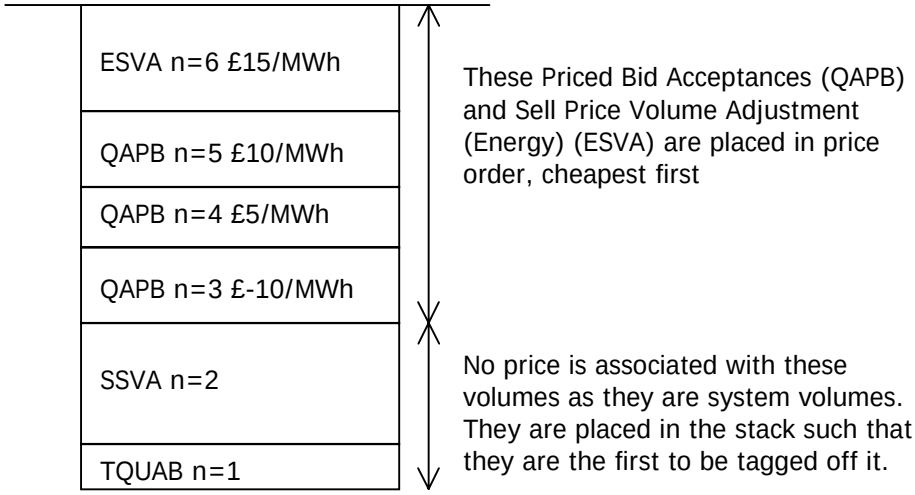


**Figure 4.4**: Composition of the Bid (Sale) Stack

Once the stacks have been built, the Net Imbalance Volume can be derived by netting, via tagging, the volume of the smaller stack (Offer stack where the system is long, and Bid stack where the system is short) off the larger stack. This is represented schematically in Figure 4.5, where a long system (i.e. more Bid Acceptances (and BSAD sales) than Offer Acceptances (and BSAD purchases)) is used as an example. It should be noted that this schematic assumes net BSAD energy and system volumes in the same direction as the system (i.e. net sales).

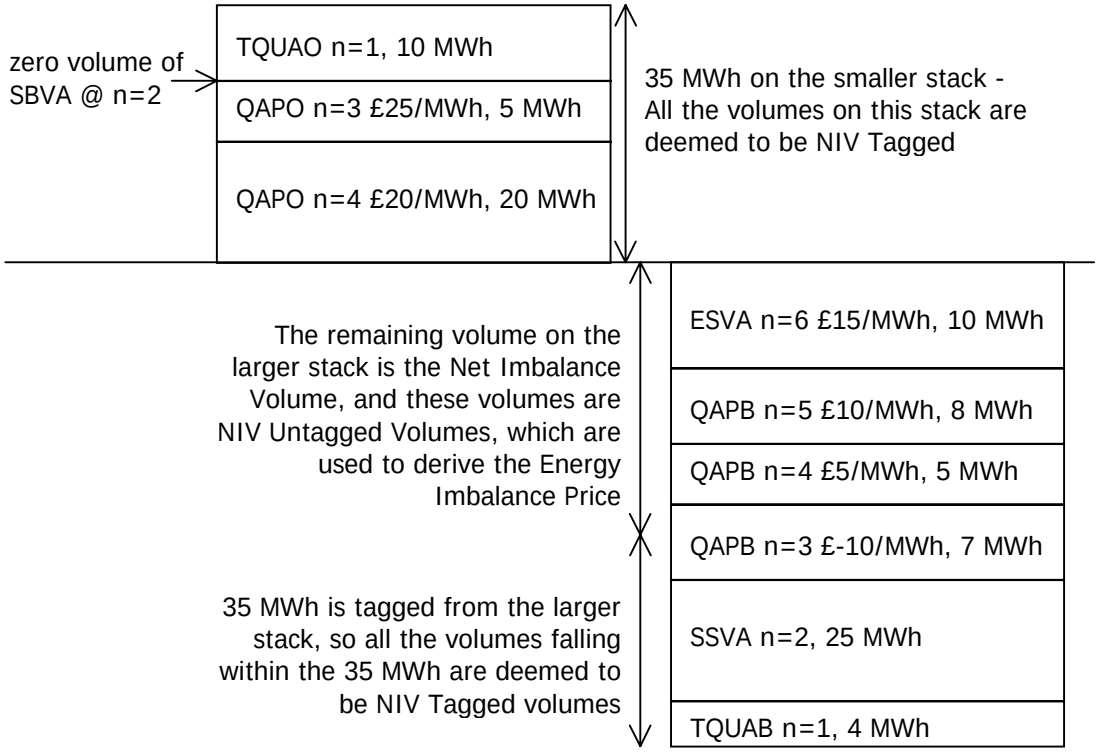


**Figure 4.5**: Net Imbalance Volume Tagging Example

Once the Net Imbalance Volume has been derived, the balancing actions that comprise it go forward to the Energy Imbalance Price calculation. A weighted average Energy Imbalance Price is derived from the balancing actions taken to alleviate the Net Imbalance Volume.

If the Net Imbalance Volume is zero, then the default Energy Imbalance Price rules are invoked, and this requires setting the Energy Imbalance Price from the maximum of the cheapest non Arbitrage Offer Acceptance, or the most expensive non Arbitrage Bid Acceptance, or where there are no such Bid – Offer Acceptances, zero.

For the avoidance of doubt, the single price calculated as the Energy Imbalance Price will continue to be reported and applied as System Buy Price and System Sell Price, in order that participant systems have minimal impact in terms of verification and calculation of Trading Charges. Therefore it should be noted that the System Buy Price will always be equal to the System Sell Price under this Modification.

## 4.2 Balancing Services Adjustment Data Amendments

Alternative Modification P74 requires amendment to the formulation and reporting of Balancing Services Adjustment Data (BSAD), as described in sections 1.4 and 4.1 of this Modification Report.

Currently BSAD reflects energy balancing only, and is reported as follows:

– Buy Price Cost Adjustment, BCA (£);

– Buy Price Volume Adjustment, BVA (MWh);

– Buy Price Price Adjustment, BPA (£);

– Sell Price Cost Adjustment, SCA (£);

– Sell Price Volume Adjustment, SVA (MWh); and

– Sell Price Price Adjustment, SPA (£).

However, for the derivation of a 'true' Net Imbalance Volume under the mechanism proposed by Alternative Modification P74, the volumes attributable to system balancing should also be formulated and reported by the Transmission Company for use in the Settlement calculations.

However, it should be noted that only a volume attributable to system balancing will be provided, as it is not considered to be appropriate to 'pollute' the Energy Imbalance Price with 'known' system balancing actions. Therefore the system volumes are (only) used to derive the Net Imbalance Volume.

The following figure, (figure 4.6) taken from the Transmission Company document 'Modification Proposal P78: Revised SBP & SSP' (an expanded annex to Modification Proposal P78, provided in Annex 6 of the P78 Assessment Report (Reference 2)), reflects how the Transmission Company perceive any effect from gross reporting to be ameliorated by the incorporation of net BSAD.

In support of Figure 4.6 the Transmission Company asserts that in the gross reporting of BSAD the Energy Imbalance Price would reflect only BSAD trades, despite them resolving only a proportion of the Net Imbalance Volume, therefore this would not be robust against the Transmission Company (System Operator) having to unwind its pre-Gate Closure trades in the Balancing Mechanism.

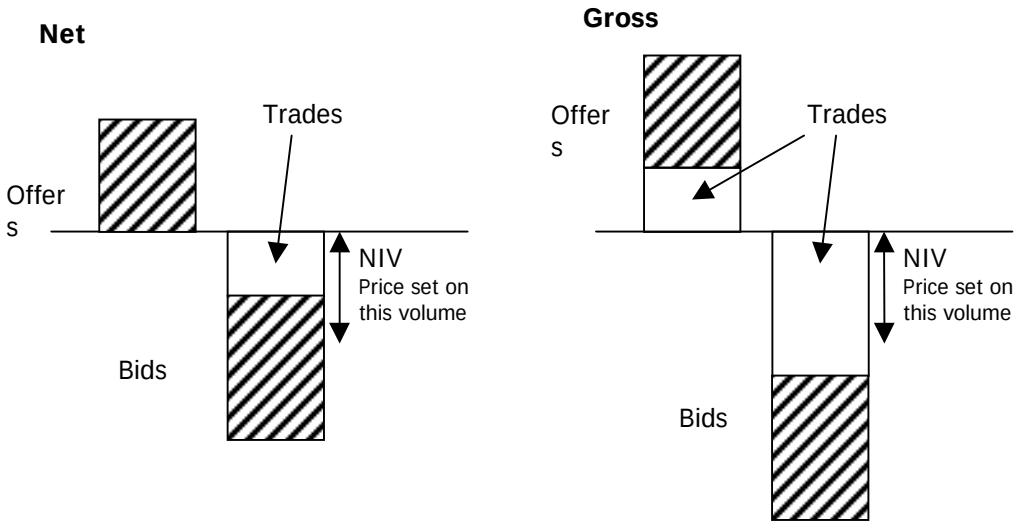


**Figure 4.6**: Net vs Gross Reporting / Usage of BSAD in the Energy Imbalance Price calculation.

Therefore the Transmission Company is proposing to report only net BSAD, as follows:

– (net) Buy Price Cost Adjustment (Energy) (EBCA) (£);

– (net) Buy Price Volume Adjustment (Energy) (EBVA) (MWh);

– (net) Buy Price Volume Adjustment (System) (SBVA) (MWh);

– Buy Price Price Adjustment (BPA) (£);

– (net) Sell Price Cost Adjustment (Energy) (ESCA) (£);

– (net) Sell Price Volume Adjustment (Energy) (ESVA) (MWh);

– (net) Sell Price Volume Adjustment (System) (SSVA) (MWh);

– Sell Price Price Adjustment (SPA) (£).

This will be validated on receipt to ensure, for the net reported variables, that where a net buy is reported (i.e. values for either or both EBVA and SBVA), that the net sell variables, i.e. ESVA and SSVA, are zero, and vice versa.

# 5 LEGAL TEXT TO GIVE EFFECT TO THE ALTERNATIVE MODIFICATION

It should be noted that the Authority have indicated that legal drafting for the Proposed Modification P74 is not required, therefore no text is provided here.

## 5.1 Conformed Version

See attached document 'P074RR_Conformed Text.doc'.

## 5.2 Clean Version

See attached document 'P074RR_Clean Text.doc'.

# 6 SUMMARY OF REPRESENTATIONS

*[Pending receipt]...*

# ANNEX 1 – REPRESENTATIONS

*Pending receipt...*