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**Draft MODIFICATION REPORT
MODIFICATION PROPOSAL P79 –
Revised Rules for Default Energy
Imbalance Pricing**

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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The Gas and Electricity Markets Authority	Ofgem
Each BSC Panel Member	Various
energywatch	Energywatch
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c Related Documents

Reference	Document
Reference 1	Modification Proposal P79 'Revised Rules for Default Energy Imbalance Pricing' 12 April 2002
Reference 2	Initial Assessment of Modification Proposal P79 'Revised Rules for Default Energy Imbalance Pricing' (IWA079, 16 May 2002)
Reference 3	Modification Proposal P79 'Revised Rules for Default Energy Imbalance Pricing' Definition Report (P079DR, 11 July 2002)
Reference 4	Modification Proposal P74 'Single Cost-reflective Cash-out Price' Modification Report (P074RR10, 16 August 2002)
Reference 5	Modification Proposal P78 'Revised Definition of System Buy Price and System Sell Price' Assessment Report (P078AR10, 18 July 2002)
Reference 6	Modification Proposal P78 'Revised Definition of System Buy Price and System Sell Price' Modification Report (P078RR V1.0, 16 August 2002)

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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:

Modification Proposal P79 should not be made.

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 MODIFICATION PROPOSAL P79

3.1 Background

Modification Proposal P79 'Revised Rules for Default Energy Imbalance Pricing' (Reference 1) was submitted by London Electricity Group on 12 April 2002. The Modification Proposal seeks to amend the rules for calculating default values of System Buy Price (SBP) and System Sell Price (SSP), in order to ensure that:

- A Bid or Offer does not set the default price unless it has some available volume; and
- Default prices include the Price Adjustment element of Balancing Services Adjustment Data (BSAD), in the same way as non-default prices.

The Modification Proposal argues that this will facilitate the promotion of effective competition in supply and generation, as the new default energy prices will be more meaningful, more robust against accidental or deliberate manipulation, and more reflective of the actual costs of energy balancing.

At their meeting of 16 May 2002 the Panel, in considering the Initial Written Assessment for Modification Proposal P79 (Reference 2), agreed that Modification Proposal P79 should be submitted to the Definition Procedure¹ and that a Definition Report should be presented to the Panel meeting on 18 July 2002. The Panel also decided that the Definition Procedure be undertaken by the Pricing Issues Modification Group (PIMG).

The PIMG met on 29 May 2002 to discuss P79. On 13 June 2002 the PIMG issued a consultation document, presenting their views on the definition issues raised by Modification Proposal P79, and inviting views from BSC Parties and other interested parties. Responses were requested by 5 p.m. on Monday 24 June. Eleven responses were received, representing the views of forty-nine BSC Parties.

¹ Pursuant to Section F2.5 of the Code.

The results of the Definition Procedure are provided in the Modification Proposal P79 Definition Report (Reference 3), available on the BSC Website as follows:

ftp://www.elexon.co.uk/ta/modifications/modsprops/P079/P79_DR.pdf

The Definition Report was submitted to the Panel meeting of 18 July 2002, where the Panel agreed to submit Modification Proposal P79 to a three month Assessment Procedure, to be undertaken by the PSMG, with the Assessment Report to be submitted to the Panel meeting of 17 October 2002.

The PSMG met on 24 July 2002 to commence the Assessment Procedure for Modification Proposal P79. The PSMG recognised the interaction between Modification Proposal P79 and Modification Proposals P74 'Single Cost-reflective Cash-out Price' (Reference 4) and P78 'Revised Definition of System Buy Price and System Sell Price' (Reference 5), both nearing the end of their Assessment Procedure. The PSMG noted that both Modification Proposals P74 and P78 sought to revise the Energy Imbalance Price calculation, incorporating Energy Imbalance Price default rules specific to the proposed mechanisms. Therefore the PSMG acknowledged that if either of Modification Proposals P74 or P78, or their Alternatives, were approved for implementation by the Authority, that there would be no requirement to implement Modification Proposal P79, or any Alternative, on the grounds that Modification Proposal P79 is only applicable to the existing Energy Imbalance Price calculations.

On 9 September 2002, part way through the Assessment Procedure for Modification Proposal P79, the Authority issued their decision in respect of Modification Proposals P74 and P78. The Authority determined that:

- Proposed Modification P78 should be made, with an Implementation Date of 25 February 2002;
- Alternative Modification P78 should not be made;
- Proposed Modification P74 should not be made; and
- Alternative Modification P74 should not be made.

The PSMG were requested, on 11 September 2002, to provide a view as to the future of Modification Proposal P79 in light of the Authority decision on Modification Proposals P74 and P78. All of the PSMG that responded, including the Proposer, agreed that the Assessment Procedure for Modification Proposal P79 should be halted and the Modification Proposal sent to report, with a recommendation for rejection.

The Panel, at its meeting of 12 September 2002, considered the Authority decision on Modification Proposals P74 and P78. The Panel discussed the implications of the Authority decision that Proposed Modification P78 should be made, on the assessment of Modification Proposal P79 under Any Other Business.

The Panel agreed to exercise its right, under the BSC, Section F, 2.2.11, to send a Modification Proposal in the Definition or Assessment Procedure directly to the Report Phase, thus halting the Definition / Assessment. On the basis of that agreement, this Modification Report was drafted, recommending rejection of Modification Proposal P79, for submission to industry for consultation, such that the Modification Report is submitted to the Panel meeting of 17 October 2002.

The Panel acknowledged that, at the time of discussing the future of Modification Proposal P79, not all PSMG members had indicated support of the recommendation for rejection of Modification Proposal P79, although all that had replied at the time supported this approach. Therefore the Panel requested that if any PSMG members disagreed with the approach, that this be set out in the Modification Report.

To date, all PSMG members who have responded (a majority of the members) have supported the recommendation to go to the Report Phase with a recommendation to reject Modification Proposal P79.

Following the Panel meeting, the Authority indicated that legal drafting would not be required for Modification Proposal P79, therefore none is provided. On this basis, it is not appropriate to provide an Implementation Date for Modification Proposal P79, as there is no legal text to give effect to the Modification Proposal, and therefore no solution to implement.

The draft Modification Report was issued for industry consultation on 27 September 2002, with responses due on 8 October 2002. *The consultation responses received in respect of the draft Modification Report indicated that ... Pending receipt.*

3.2 Rationale for Panel Recommendation

The rationale for the Panel's recommendation is that Modification Proposal P78 significantly changes the Energy Imbalance Price default rules in Section T of the Code. The Energy Imbalance Price default rules to be implemented as part of Proposed Modification P78 do not have the defect that Modification Proposal P79, according to the Modification Proposal, sought to address in the previous Energy Imbalance Price default calculations (i.e. pre Authority acceptance of Proposed Modification P78). The defects identified by Modification Proposal P79 were that:

- A Bid or Offer may set the default Energy Imbalance Price where it has no available volume for the Transmission Company to have made an acceptance; and
- Default prices do not include the Price Adjustment element of Balancing Services Adjustment Data (BSAD), so they are inconsistent with the derivation of the non-default Energy Imbalance Prices.

Since Proposed Modification P78 uses either the market based reverse price, or the Energy Imbalance Price taken from actual balancing actions taken by the Transmission Company, as the default, depending upon the circumstances (as set out below), the defects identified by Modification Proposal P79 are not relevant and Modification Proposal P79 is not required.

Modification Proposal P78 'Revised Definition of System Buy Price and System Sell Price' was raised by National Grid (the Transmission Company) on 5 April 2002. The Modification requires that the definition of the Energy Imbalance Prices be revised such that there is a main and reverse price. The Modification Proposal requires that the main price be calculated from those balancing actions (including net system and energy BSAD) taken to alleviate the Net Imbalance Volume (NIV) of the overall system. Thus, for a Settlement Period:

- Where the larger stack is the Bid stack, then the main price will be the System Sell Price, and the reverse price will be the System Buy Price; and
- Where the larger stack is the Offer stack then the main price will be the System Buy Price and the reverse price will be the System Sell Price.

The reverse price is derived from a market price, based on trading on the forwards and spot markets.

The Assessment Report for Modification Proposal P78 (Reference 5) contains the detailed background and history of Modification Proposal P78, and this report can be found on the BSC Website, as follows:

ftp://www.elexon.co.uk/ta/modifications/modsprops/P078/P78_AR.pdf

The Modification Report for Modification Proposal P78 (Reference 6) contains the legal drafting for the Proposed Modification P78, and this report can be found on the BSC Website, as follows:

ftp://www.elexon.co.uk/ta/modifications/modsprops/hP078/P078_Final_Mod_Report.pdf (Modification Report); and

ftp://www.elexon.co.uk/ta/modifications/modsprops/hP078/P078_Proposed_Legal_Text.pdf (Legal drafting).

Where the default Energy Imbalance Price rules for Proposed Modification P78 are invoked, they can be summarised as follows:

- If the sum of all the traded volumes is equal to zero for a Settlement Period (i.e. either the MIDPs were below their Individual Liquidity Thresholds, or no Market Index Data has been received), then the SAA / BMRA will default the reverse price to the main Energy Imbalance Price (calculated from the Net Imbalance Volume).
- Where there is a negative spread between the main and the reverse Energy Imbalance Prices, i.e. the System Sell Price is greater than the System Buy Price, then both the System Sell Price and the System Buy Price default to the main Energy Imbalance Price derived from the Net Imbalance Volume.
- Where the Net Imbalance Volume is zero, then both the System Buy Price and the System Sell Price default to the market based reverse Energy Imbalance Price, i.e. calculated from Market Index Data. For the avoidance of doubt, where the Net Imbalance Volume is zero AND the sum of all traded volumes ($\sum_s QXP_{sj}$) provided by the Market Index Data Providers is zero, then both the System Buy Price and the System Sell Price will be zero.

4 LEGAL TEXT TO GIVE EFFECT TO THE MODIFICATION PROPOSAL

None provided, as agreed by the Authority.

5 SUMMARY OF REPRESENTATIONS

Pending receipt ...

ANNEX 1 – REPRESENTATIONS

Pending receipt ...