

Modification Proposal

MP No: 79
(mandatory by BSCCo)

Title of Modification Proposal (mandatory by proposer):

Revised Rules For Default Energy Imbalance Pricing

Submission Date (mandatory by proposer): 12 April 2002

Description of Proposed Modification (mandatory by proposer):

The BSC energy imbalance price default rules should be amended so that they better facilitate the achievement of the Applicable BSC Objectives. In particular an Offer, or Bid, should not be a candidate for setting the default System Buy or Sell Price respectively, unless there is some applicable volume which would be available to NGC if it had chosen to accept the Offer or Bid. For example, in the case of an Offer from a producing BM Unit, if there is any separation between MEL and the FPN. Also, whatever adjustment (addition or subtraction) to the relevant system price from BSAD data would have occurred had there been a valid calculation, should be made to the default price.

Description of Issue or Defect that Modification Proposal Seeks to Address (mandatory by proposer):

Currently the default price rules do not, in generating the "lowest unaccepted Offer" or "highest unaccepted Bid", check as to whether there is any applicable volume underlying a Offer or Bid. Therefore a default System Buy Price is often calculated to be at £5 to £8/MWh - derived from Offer prices submitted by one of just five stations which have no real Offer volume available - and this price is then "bottom-stopped" at System Sell Price. We understand from Elexon's analysis presented in recent ISG and Panel papers that, if this feature of default price calculation rules was not present, the default System Buy Price would generally be several pounds above System Sell Price, i.e. considerably more realistic.

- if the default energy imbalance price calculation was modified to get rid of this drawback, the rules would better facilitate the promotion of effective competition in generation and supply as they would be robust against accidental or deliberate manipulation by any party and the default prices would be more meaningful. We note that the number of occasions when prices are calculated on a default basis has increased over time. For example the number of default SBP values was 16% of all Settlement Periods during the period 1st June to 14th September 2001, and rose to 24% during the period 1st November to 31st December.

Further, it is a natural expectation that, if a contribution to System Buy or Sell Price from BSAD was due in the event of a normally-calculated price, it should still be made in the case of a defaulted price. Currently, this is not the case.

There are a number of other factors that should be considered in progressing the modification :

(1) default prices are becoming more frequent as a result of recent price related BSC Modifications, e.g. P10 and P18A;

(2) the default price level depends critically on the existence or not of arbitrated Offers/Bids;

(3) the default price currently relies on an Offer or Bid which may be very obviously infeasible;

(4) the default price rules are gameable by suitably-priced infeasible Offers/Bids with no volume actually available for the delivery of the Offer or Bid, or alternatively subject to inadvertent manipulation in the same circumstances;

(5) the choice of the BRL parameter is currently under one of its regular reviews. It appears highly likely that a very high proportion of participants will favour significantly lowered BRL, based on the evidence available to them of the amount of reserve / part-loading freely available to NGC without the need for NGC to issue Bid-Offer acceptances. Indeed the evidence available seems to support a choice of 0 for BRL, but participants and the panel may be inhibited from selecting this value as it would mean 100% reliance on the defaulting rules.

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(6) Other reforms and improvements to the default pricing rules may be possible, and we intend that this modification may draw out appropriate ideas from other participants. There is a wide recognition that the current rules are flawed, and were designed without the expectation of being used frequently.

Impact on Code (optional by proposer):

Any change to the default rules will necessitate a change to the BSC Section T, where the rules are set out.

Impact on Core Industry Documents (optional by proposer):

None expected. No change should be required to the BSAD methodology document.

Impact on BSC Systems and Other Relevant Systems and Processes Used by Parties (optional by proposer):

As appropriate.

Impact on other Configurable Items (optional by proposer):

Justification for Proposed Modification with Reference to Applicable BSC Objectives (mandatory by proposer):

This Modification will facilitate the promotion of effective competition in generation and supply, 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 balancing as indicated by the actual balancing options available to NGC in the Balancing Market. This Modification will facilitate the achievement of Applicable BSC Objective (c): "promoting effective competition in the generation and supply of electricity".

Additionally, this Modification will promote efficiency in the implementation of the balancing and settlement arrangements as energy imbalance prices should better reflect the underlying costs of energy balancing for the half-hour when an imbalance price is defaulted. This should better facilitate Applicable BSC Objective (d) (promoting efficiency in the implementation of the balancing and settlement arrangements) than default prices set under the current rules.

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Attachments: NO

If Yes, Title and No. of Pages of Each Attachment: