

October 2002

**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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### 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 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:

**Proposed Modification 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](http://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 Procedure<sup>1</sup> 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.

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<sup>1</sup> 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](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, their determination that Proposed Modification P78 should be made, with an Implementation Date of 25 February 2003.

The Panel, at its meeting of 12 September 2002, noted the Authority determination on Modification Proposal P78 and considered the implications on the assessment of Modification Proposal P79.

The Panel noted that the Proposed Modification P78 revises the Energy Imbalance Price calculation, incorporating Energy Imbalance Price default rules within the proposed mechanism. Therefore the Panel agreed that the implementation of Proposed Modification P78 would remove the need to implement the default rules proposed under Modification Proposal P79, (and any potential Alternative), on the grounds that Modification Proposal P79 is only applicable to the pre-P78 Energy Imbalance Price calculations.

The Panel agreed to send Modification Proposal P79 directly to the Report Phase (in accordance with the BSC, Section F, 2.2.11), thus halting the Assessment Procedure. On the basis of that agreement, the draft Modification Report was drafted, recommending rejection of Modification Proposal P79. The draft Modification Report was issued for industry consultation on 27 September 2002, with responses due on 8 October 2002.

The Panel also requested the Authority to indicate whether legal drafting was required for Proposed Modification P79. On 16 September 2002, the Authority indicated that legal drafting would not be required for Proposed Modification P79 and therefore none is contained within the draft Modification Report.

Based on the Panel recommendation that Proposed Modification P79 should not be made, no Implementation Date is recommended and no legal drafting is provided in this Modification Report.

All responses agreed with the provisional recommendations of the Panel that Proposed Modification P79 should not be made (with one no comment). The responses contained no new, substantive arguments.

The Panel considered the consultation responses made in respect of the draft Modification Report at its meeting of 17 October 2002, and agreed unanimously to endorse the provisional recommendation that Proposed Modification P79 should not be made.

### 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](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](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](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.

In addition to these defaulting rules, the Panel, at its meeting of 17 October 2002, agreed that Urgent Modification Proposal P104 'Amendments to the Solution to P78 'revised Definition of System Buy Price and System Sell Price'' should be raised in order to clarify the P78 defaulting rules in the case when the Net Imbalance Volume is non-zero but the 'main' stack contains no energy balancing trades. However, the proposed solution to P104 does not in any way invalidate the argument that Modification Proposal P79 is no longer required.

#### **4 LEGAL TEXT TO GIVE EFFECT TO THE MODIFICATION PROPOSAL**

None provided, as agreed by the Authority.

#### **5 SUMMARY OF REPRESENTATIONS**

Nine responses, on behalf of forty-five Parties, were received in respect of the consultation on the draft Modification Report for Modification Proposal P79.

All responses agreed with the provisional recommendations of the Panel that Proposed Modification P79 should not be made (with one no comment). The responses contained no new, substantive arguments.

## ANNEX 1 – REPRESENTATIONS

### Responses from P79 Draft Report Consultation

Consultation issued 27 September 2002

Representations were received from the following parties:

No	Company	File Number	No. Parties Represented
1.	Powergen UK Ltd.	P79_DR_001	4
2.	TXU	P79_DR_002	21
3.	British Gas Trading	P79_DR_003	1
4.	NGC	P79_DR_004	1
5.	SEEBOARD Energy	P79_DR_005	1
6.	LE Group	P79_DR_006	7
7.	Scottish and Southern	P79_DR_007	4
8.	Aquila Networks	P79_DR_008	1
9.	Scottish Power	P79_DR_009	5

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#### P79\_DR\_001 – Powergen UK Plc.

This response to the consultation on the draft P79 report is made on behalf of Powergen UK plc, Powergen Retail Limited, Cottam Development Centre Limited & Diamond Power Generation Limited.

We agree with the recommendation of the modification group and the Panel that, in light of Ofgem's approval of P78, P79 should be rejected.

Yours sincerely,

Paul Jones

Trading Arrangements

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#### P79\_DR\_002 – TXU Energy

Thank you for the opportunity to comment on modification proposal P79. TXU Europe Energy Trading Ltd (on behalf of 21 TXU Europe BSC Parties) agrees with the recommendation that the proposal be rejected as it is no longer required.

Yours faithfully

Nicola Roberts

Market Development Analyst, TXU Europe Energy Trading Ltd



### **P79\_DR\_003 – British Gas Trading**

#### **Modification Proposal 79: Revised rules for default energy imbalance pricing**

British Gas Trading (BGT) agree that considering the recent implementation of Modification Proposal 78 the above named proposal has become redundant. We therefore support the rejection of this proposal.

Yours faithfully

Danielle Lane

Contracts Manager

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### **P79\_DR\_004 – NGC**

National Grid supports the recommendation of the Draft Modification Report that P79 "Revised Rules for Default Energy Imbalance Pricing" should not be made. We also agree with the rationale in the report that the perceived defect will be removed with the forthcoming implementation of modification proposal P78 and consequently modification proposal P79 is no longer relevant.

Regards

Richard Lavender

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### **P79\_DR\_005 – SEEBOARD Energy**

With respect to draft modification report for proposal P79 (Revised Rules for Default Energy Imbalance Pricing), dated 27th September 2002. We agree with recommendation within section 1 of this report.

Dave Morton

SEEBOARD Energy Limited

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### **P79\_DR\_006 – LE Group**

Thank you for the opportunity to comment on the P79 Draft Modification Report. We agree with the BSC Panel's recommendation that this Modification Proposal should not be made. This is because the Authority's decision to approve P78 (implementation date of 25th February 2003) results in the redundancy of P79.

Regards

Rob Hetherington

Wholesale Market Analyst,

for Liz Anderson, Energy Strategy & Regulation Manager, LE Group plc

BSC Parties responding on behalf of:

EPN Distribution Ltd, London Electricity plc, London Electricity Group plc, Jade Power Generation Ltd, London Power Networks plc, Sutton Bridge Power, West Burton Ltd

### **P79\_DR\_007 – Scottish and Southern**

This response is sent on behalf of Scottish and Southern Energy, Southern Electric, Keadby Generation Ltd. and SSE Energy Supply Ltd.

In relation to the draft Modification Report for Proposed Modification P79 contained in your note of 27th September 2002; we agree with the suggested BSC Panel recommendation to the Authority that this Modification Proposal P79 should not be made, given the Authority's decision in respect of P78.

Regards

Garth Graham

Scottish & Southern Energy plc

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### **P79\_DR\_008 – Aquila Networks**

Please find that Aquila Networks Plc Response to P79 Consultation on draft Modification Report is 'No Comment'.

regards

Rachael Gardener

Deregulation Control Group & Distribution Support Office, AQUILA NETWORKS

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### **P79\_DR\_009 – Scottish Power**

#### **P79 Draft Modification Report Comments**

With reference to the above, while we have previously supported P79: Revised Rules for Default Energy Imbalance Pricing, we however would support the Panel's recommendation in this Report.

We believe that the P78 decision does lay down clear default pricing rules which means there is no need for P79 to progress any further. As this was recognised from the outset by the Pricing Mods Group when P79 was submitted to Definition phase, we agree that lapse of P79 should be recommended.

I trust that you will find these comments helpful. Nonetheless, should you require further clarification of any of the above, please do not hesitate to contact me.

Yours Sincerely,

Man Kwong Liu

Calanais Ltd.

For and on behalf of: - *Scottish Power UK Plc.; ScottishPower Energy Trading Ltd.; Scottish Power Generation Ltd.; ScottishPower Energy Retail Ltd.; SP Transmission Ltd.*