

January 2002

**ASSESSMENT REPORT  
MODIFICATION PROPOSAL P45  
Introduction of Price Adjusters for  
Settlement Days 5 April 2001 to 24  
September 2001**

Prepared by the Pricing Issues Modification Group  
on behalf of the Balancing and Settlement Code  
Panel

<b>Document Reference</b>	024AMU
<b>Version no.</b>	1.0
<b>Issue</b>	1
<b>Date of Issue</b>	11/01/02
<b>Reason for Issue</b>	Panel Approval
<b>Author</b>	ELEXON

## I DOCUMENT CONTROL

### a Authorities

Version	Date	Author	Signature	Change Reference
0.1	06/12/01	Trading Development		For Review

Version	Date	Reviewer	Signature	Responsibility
0.2	12/12/01	Volume Allocation Modification Group		Complies with Modification Group's requirements
1.0	11/01/02	Panel		Approval

### b Distribution

Name	Organisation
BSC Panel	
BSC Parties	
BSC Agents	
The Authority	
National Electricity Consumers Council	
Core Industry Document Owners	
BSC Website	

### c Intellectual Property Rights and Copyright

This document contains materials the copyright and other intellectual property rights in which are vested in ELEXON Limited or which appear with the consent of the copyright owner. These materials are made available for you to review and to copy for the purposes of the establishment, operation or participation in electricity trading arrangements in Great Britain under the BSC. All other commercial use is prohibited. Unless you are a person having an interest in electricity trading in Great Britain under the BSC you are not permitted to view, download, modify, copy, distribute, transmit, store, reproduce or otherwise use, publish, licence, transfer, sell or create derivative works (in whatever format) from this document or any information obtained from this document otherwise than for personal academic or other non-commercial purposes. All copyright and other proprietary notices contained in the original material must be retained on any copy that you make. All other rights of the copyright owner not expressly dealt with above are reserved.

## II CONTENTS TABLE

<b>I</b>	<b>Document Control.....</b>	<b>2</b>
a	Authorities.....	2
b	Distribution.....	2
c	Intellectual Property Rights and Copyright.....	2
<b>II</b>	<b>Contents Table .....</b>	<b>3</b>
<b>1</b>	<b>Summary and Recommendations .....</b>	<b>5</b>
1.1	Recommendations .....	5
1.2	Background .....	5
1.3	Rationale for Recommendations.....	5
<b>2</b>	<b>Introduction.....</b>	<b>6</b>
<b>3</b>	<b>Modification Group Details .....</b>	<b>6</b>
<b>4</b>	<b>Description and Assessment Against the Applicable BSC Objectives.....</b>	<b>7</b>
4.1	The Proposed Modification .....	7
4.2	Assessment against the Applicable BSC Objectives.....	7
4.3	Alternative Modification.....	9
<b>5</b>	<b>Impact on BSC and BSCCo Documentation.....</b>	<b>9</b>
5.1	BSC .....	9
5.2	Code Subsidiary Documents .....	9
5.3	BSCCo Memorandum and Articles of Association.....	9
<b>6</b>	<b>Impact on BSC Systems .....</b>	<b>9</b>
6.1	Registration.....	10
6.2	Contract Notification .....	10
6.3	Credit Checking Systems .....	10
6.4	Balancing Mechanism Activities.....	10
6.5	Collection and Aggregation of Metered Data .....	10
6.6	Supplier Volume Allocation .....	10
6.7	Settlement .....	10
6.8	Clearing, Invoicing and Payment.....	10
6.9	Reporting .....	10
<b>7</b>	<b>Impact on Core Industry Documents and Supporting Arrangements.....</b>	<b>10</b>
7.1	Grid Code.....	10
7.2	Master Connection and Use of System Agreement (MCUSA) No impact has been identified. .....	10
7.3	Supplemental Agreements No impact has been identified.....	10
7.4	Ancillary Services Agreements (ASAs) .....	11
7.5	Master Registration Agreement (MRA).....	11
7.6	Data Transfer Services Agreement (DTSA) .....	11
7.7	British Grid Systems Agreement (BGSA) .....	11
7.8	Use of Interconnector Agreement.....	11
7.9	Pooling and Settlement Agreement (PSA).....	11
7.10	Settlement Agreement for Scotland (SAS).....	11
7.11	Distribution Codes.....	11
7.12	Distribution Use of System Agreements (DUoSAs) .....	11
7.13	Distribution Connection Agreements .....	11
<b>8</b>	<b>Impact on ELEXON.....</b>	<b>11</b>

<b>9</b>	<b>Impact on Parties and Party Agents .....</b>	<b>11</b>
9.1	Parties .....	11
9.2	Party Agents.....	12
<b>10</b>	<b>Legal Issues .....</b>	<b>12</b>
<b>11</b>	<b>Summary of Representations.....</b>	<b>12</b>
<b>12</b>	<b>Summary of Transmission Company Analysis.....</b>	<b>12</b>
<b>13</b>	<b>Project Brief .....</b>	<b>12</b>
<b>Annex 1 – Proposed Text to Modify the BSC.....</b>		<b>13</b>
<b>Annex 2 – Proposed Text to modify BSCCo Memorandum and Articles of Association .....</b>		<b>14</b>
<b>Annex 3 – BSC Agent Impact Assessments.....</b>		<b>14</b>
<b>Annex 4 – Core Industry Document Impact Assessments.....</b>		<b>14</b>
<b>Annex 5 – Transmission Company Analysis .....</b>		<b>14</b>
<b>Annex 6 – Terms of Reference and Report/Analysis of External Consultants/Advisers .....</b>		<b>15</b>
<b>Annex 7 – Responses to Consultation and Impact assessment .....</b>		<b>15</b>

## 1 SUMMARY AND RECOMMENDATIONS

### 1.1 Recommendations

On the basis of the analysis, consultation and assessment undertaken in respect of this Modification Proposal during the Assessment Phase, and the resultant findings of this report, the Modification Group recommends that the BSC Panel should:

**Proceed to the Report Phase and recommend to the Authority that the Modification Proposal be approved and that the Proposed Modification be implemented on 27 March 2002 and be effective for Settlement Days from 05 April 2001 to 24 September 2001.**

### 1.2 Background

Modification Proposal P03: "Correction of Price Spikes Generated by De-Minimus NGC Purchases" was raised by Electricity Direct. Modification Proposal P03 proposed changes to the BSC that would cap the maximum contribution that the option fees were permitted to make to System Buy Price at 25%. Ofgem issued a determination that no modification to the BSC was required, on the basis that the issue would be addressed by amending NGC's BSAD Methodology.

The Authority directed NGC to amend the BSAD Methodology to include price adjusters for SSP and SBP, the Buy Price Price Adjuster (BPA) and the Sell Price Price Adjuster (SPA). In addition, a mechanism was included to recalculate the Buy Price Cost Adjustment (BCA) and Sell Price Cost Adjustment (SCA) to include the effect of the additional data items. This was implemented via Workaround W024.

On 20 April 2001, NGC raised Modification Proposal P08 to provide an enduring solution that proposed to include the Price Adjusters, BPA and SPA within the BSC and the BSC Systems. Modification Proposal P08 was intended to have an Implementation Date of 5 April 2001. However, in the absence of specific consultation on the retrospective element, the affected Settlement Days in the recommended (and subsequently authorised) Modification Proposal were constrained to being prospective from the implementation date of Settlement Day 25 September 2001.

This means that Workaround W024 continues to apply for Settlement Days 5 April 2001 to 24 September 2001. Workaround W024 has high risks, is prone to error and has additional operational costs. Modification Proposal P45 proposes replacing the Workaround by the BSC changes implemented for Modification Proposal P08 for these Settlement Days.

### 1.3 Rationale for Recommendations

Implementation of the Modification Proposal would remove the need for Workaround W024 and would reduce operational costs, increase the accuracy of imbalance price calculations, reduce the risks of imbalance price errors and, in particular, correct any errors in imbalance price calculations introduced under Workaround W024. Implementation of the Modification Proposal would improve the transparency of calculating SSP and SBP for Settlement Days 5 April 2001 to 24 September 2001, moves the process into the BSC Systems for these Settlement Days and ensures that these Settlement Days are settled on system prices that include the BPA and SPA as envisaged by the Authority in their determination for Modification Proposal P03. The Modification Group and all the recipients of the Modification documents have been made aware of the retrospective nature of the Modification Proposal.

The Modification Group agreed that in the light of the considerations above, the Modification Proposal would better achieve the Applicable BSC Objectives defined in Condition C3 of the Transmission Licence, particularly Condition C3(3)(d), as it would be useful in "promoting efficiency in the implementation and administration of the balancing and settlement arrangements."

## 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.

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 GROUP DETAILS

This Assessment Report has been prepared by the Pricing Issues Modification Group. The Membership of the Modification Group was as follows:

Justin Andrews	ELEXON (Chairman)
Richard Clarke	ELEXON (Secretary)
Danielle Lane	British Gas Trading
Nick Elms	Enron
Martin Mate	British Energy
Nick Silloto	Transmission Company
Wayne Mullins	St Clements
Richard Ford	St Clements
Chris Price	Powergen
Rekha Patel	Dynegy
Raoul Thulin	Innogy
Maurice Smith	Campbell Carr
Tony Doherty	Ofgem

In Attendance:

Richard Grimsey	ELEXON (P45 Lead Analyst)
-----------------	---------------------------

---

<sup>1</sup> See BSC F2.6

<sup>2</sup> As defined in the Transmission Licence

<sup>3</sup> See BSC F2.6.4 and Annex F-1

## **4 DESCRIPTION AND ASSESSMENT AGAINST THE APPLICABLE BSC OBJECTIVES**

### **4.1 The Proposed Modification**

Modification Proposal P45 was submitted by the Panel on 18 October 2001. The Modification Proposal seeks to implement the Price Adjusters for System Sell Price (SSP) and System Buy Price (SBP) into the BSC Systems and to replace Workaround W024 for Settlement Days 5 April 2001 to 24 September 2001.

The setting of SSP and SBP was originally described in the Balancing and Settlement Code (BSC) and calculated using the audited central systems. Modification Proposal P03 proposed the removal of price spikes caused by the treatment of option fees associated with Reserve contracts that NGC enters into. The Authority decided that Modification Proposal P03 should not be implemented. Instead the Authority directed NGC to amend the BSAD Methodology Statement to include a price adjuster for SSP and SBP and to include a methodology to recalculate Buy Price Cost Adjustment (BCA) and Sell Price Cost Adjustment (SCA) to include the effect of the additional data items. This was implemented quickly as an interim solution via Workaround W024 that is described in the BSAD Methodology Statement of 10 April 2001. In ruling on Modification Proposal P03, the Authority recommended that a full solution within the BSC should be developed as a matter of urgency.

On 20 April 2001, NGC proposed Modification Proposal P08 to provide an enduring solution that calculated imbalance prices within BSC Systems and would replace Workaround W024. The Assessment Report prepared by the Modification Group for Modification Proposal P08 recommended an Implementation Date of 5 April 2001. However, the Implementation Date was revised during the Report Phase (following consultation) to 25 September 2001 so as to avoid objection about the retrospective application of the Modification Proposal. The Authority subsequently agreed that Modification Proposal P08 should be implemented in the BSC with effect from Settlement Day 25 September 2001. This means that Workaround W024 continues to apply for Settlement Days 5 April 2001 to 24 September 2001.

The Panel raised Modification Proposal P45 on the recommendation of the BSCCo, as it considered that it would better facilitate Condition C3, paragraph 3 (d) of the Transmission Licence as it would "promote efficiency in the implementation and administration of the balancing and settlement arrangements" through removing a temporary workaround which has high risks, is prone to error and has additional operational costs. Modification Proposal P45 seeks to replace Workaround W024 by the BSC changes implemented for Modification Proposal P08 for Settlement Days 5 April to 24 September 2001. This will ensure that Settlement Days 5 April 2001 and 24 September 2001 are settled on system prices that include the Price Adjusters using the audited central systems.

### **4.2 Assessment against the Applicable BSC Objectives**

The Pricing Issues Modification Group considered Modification Proposal P45 at meetings on 6 November 2001 and 6 December 2001. In particular the Modification Group considered whether the Modification Proposal would better facilitate the Applicable BSC Objectives. The Applicable BSC Objectives are set out in paragraph 3 of Condition C3 of the Transmission Licence and are as follows:

- (a) The efficient discharge by the Transmission Company of the obligations imposed under the Transmission Licence;
- (b) The efficient, economic and co-ordinated operation by the Transmission Company of the Transmission System;
- (c) Promoting effective competition in the generation and supply of electricity, and (so far as consistent therewith) promoting such competition in the sale and purchase of electricity;
- (d) Promoting efficiency in the implementation and administration of the balancing and settlement arrangements.

The Modification Group felt that implementation of the Modification Proposal would remove the need for Workaround W024 to operate for Settlement Days 5 April 2001 to 24 September 2001. This would reduce operational costs, increase the accuracy of imbalance price calculations, reduce the risks of imbalance price errors and, in particular, correct any errors in imbalance price calculations carried out under Workaround W024<sup>4</sup>. In the Modification Group's view, these improvements would better facilitate the Applicable BSC Objectives in that it met the objective of "Promoting efficiency in the implementation and administration of the Balancing and Settlement arrangements".

The Modification Group agreed that the Modification Proposal would also require modification of NGC's Balancing Services Adjustment Data (BSAD) Methodology Statement. The consultation process required for changes to the BSAD Methodology Statement would have to be authorised by the Authority and would need to be carried out separately from, but in parallel with, the consultation process for the Modification Proposal.

If the Modification Proposal were to be implemented, it would mean that the changes implemented for Modification Proposal P08 would be implemented retrospectively for any Settlement Runs for Settlement Days 5 April 2001 to 24 September 2001 that are after the Implementation Date. The Authority has provided its indicative views in the Decision Letter for Modification Proposal P19 on the issue of retrospective changes to the BSC. In relation to Modification Proposal P19 Ofgem took the view that BSC Parties would generally prefer the assurance of rules that are not changed retrospectively. However, Ofgem also recognised that there are particular circumstances that could give rise to the need for a retrospective Modification including: -

- A situation where the fault or error occasioning the loss was directly attributable to central arrangements;
- Combinations of circumstances that could not have been reasonably foreseen; or
- Where the possibility of a retrospective action had been flagged to the participants in advance, allowing the detail and process of the change to be finalised with retrospective effect.

In any event the loss sustained would have to be material.

The Modification Group felt that Modification Proposal P45 itself, together with the Assessment Procedure, makes the retrospective nature of the Modification Proposal clear to all participants. The Modification Group felt that the Modification Proposal addresses an

---

<sup>4</sup> The Assessment Report for Modification Proposal P08 provides details of the operational costs and inaccuracies involved in using Workaround W024. A copy of the Assessment Report can be found on the BSC website at [www.elexon.co.uk](http://www.elexon.co.uk).

issue that had been signalled under Modification Proposal P08, and was always intended to have been implemented. The retrospective element of the Modification Proposal was explicitly considered during the consultation process carried out by the Modification Group and was accepted in the majority of consultation responses. The Modification Group also took the view that the operational loss sustained by continuing the use of Workaround W024 at a monthly cost of about £10k together with the resulting risk of inaccuracy and error in imbalance prices did constitute a material loss.

It was not clear what the implications would be if the Modification Proposal were to be rejected. As Modification Proposal P03 was not approved by the Authority, there is no reference to Workaround W024 within the BSC and its existence is entirely linked to the revised BSAD Methodology (dated 10 April 01 and applicable from Settlement Day 05 April 01). However, the BSAD Methodology does not recognise that data may change after the original Interim Initial Settlement Run and cause unexpected changes in the resulting imbalance prices. The section concerned with data re-submission does not extend to include correcting the effects of such changes, and does not recognise that it may be used to calculate the imbalance prices for the final RF Settlement Run.

Should this modification be rejected a new version (retrospective) of the revised BSAD Methodology may be required to include any additional procedures related to the RF Settlement Runs, and the accepted level of error. This change to the BSAD Methodology would also need to recognise the additional steps already incorporated into Workaround W024 to handle changes in the underlying data, such as those referenced in ELEXON circulars EL00085 and EL00163.

### **4.3 Alternative Modification**

No Alternative Modification was identified by the Modification Group.

## **5 IMPACT ON BSC AND BSCCO DOCUMENTATION**

### **5.1 BSC**

BSC Section Q will need a new clause inserted that requires that for Settlement Runs carried out after (but not before) P45 is implemented in respect of Settlement Days between 5 April and 24 September 2001 the trading rules as modified by the legal drafting for Modification Proposal P8 would be applied. The change will need to be implemented on 27 March 2002. This will allow for the 6 week delay after the Authority decision to implement the Modification Proposal before NGC can provide the relevant data.

### **5.2 Code Subsidiary Documents**

No changes have been identified.

### **5.3 BSCCo Memorandum and Articles of Association**

No changes have been identified.

## **6 IMPACT ON BSC SYSTEMS**

## **6.1 Registration**

No impact identified.

## **6.2 Contract Notification**

No impact identified.

## **6.3 Credit Checking Systems**

No impact identified.

## **6.4 Balancing Mechanism Activities**

No impact identified.

## **6.5 Collection and Aggregation of Metered Data**

No impact identified.

## **6.6 Supplier Volume Allocation**

No impact identified.

## **6.7 Settlement**

No impact identified.

## **6.8 Clearing, Invoicing and Payment**

No impact identified.

## **6.9 Reporting**

No impact identified.

## **7 IMPACT ON CORE INDUSTRY DOCUMENTS AND SUPPORTING ARRANGEMENTS**

### **7.1 Grid Code**

No impact identified.

### **7.2 Master Connection and Use of System Agreement (MCUSA) No impact has been identified.**

No impact identified.

### **7.3 Supplemental Agreements No impact has been identified.**

No impact identified.

#### **7.4 Ancillary Services Agreements (ASAs)**

No impact identified.

#### **7.5 Master Registration Agreement (MRA)**

No impact identified.

#### **7.6 Data Transfer Services Agreement (DTSA)**

No impact identified.

#### **7.7 British Grid Systems Agreement (BGSA)**

No impact identified.

#### **7.8 Use of Interconnector Agreement**

No impact identified.

#### **7.9 Pooling and Settlement Agreement (PSA)**

No impact identified.

#### **7.10 Settlement Agreement for Scotland (SAS)**

No impact identified.

#### **7.11 Distribution Codes**

No impact identified.

#### **7.12 Distribution Use of System Agreements (DUoSAs)**

No impact identified.

#### **7.13 Distribution Connection Agreements**

No impact identified.

### **8 IMPACT ON ELEXON**

The Group considered the likely increase or decrease in BSC Costs in consequence of the Modification and concluded that the Modification Proposal would not be likely to lead to a significant increase in BSC Costs.

### **9 IMPACT ON PARTIES AND PARTY AGENTS**

#### **9.1 Parties**

No impact identified.

## **9.2 Party Agents**

No impact identified.

## **10 LEGAL ISSUES**

There are no legal issues associated with this Modification Proposal.

## **11 SUMMARY OF REPRESENTATIONS**

This section summarises the responses to the consultation and impact assessment. Copies of the detailed responses are included in Annex 7.

Five responses representing thirty Parties were received to the consultation. Of these responses, four representing twenty-four Parties supported implementation of the Modification Proposal, including the retrospective element. This support was on the basis that the Modification Proposal would promote efficiency in the implementation and administration of the BSC.

One response, representing six Parties, was opposed to the specific methodology by which option fees are fed through to the system prices as implemented by Modification Proposal P008 and proposed in Modification Proposal P045. The responses stated that the method adopted is to smear the option fee across those periods when it is paid rather than to focus the fees onto those periods when the option has value (most obviously when it is called). This fails to give the correct economic signals as to the value of the energy bought by the System Operator.

## **12 SUMMARY OF TRANSMISSION COMPANY ANALYSIS**

The implementation of the Modification Proposal would require no systems developments but may require a consequential change to the Balancing Services Adjustment Data Methodology Statement. Consultation, and implementation of this change would need to be undertaken before P45 is implemented. There would be a requirement for National Grid to provide some additional data to Elexon. The timescales for implementation would be 6 weeks after the receipt of the decision from the Authority.

## **13 PROJECT BRIEF**

No Project Brief has been prepared as no software changes to BSC Systems will be required.

## ANNEX 1 – PROPOSED TEXT TO MODIFY THE BSC

### Conformed Version

#### Section Q 'Balancing Mechanism Activities'

The following new paragraph 6.3.5 will be inserted in Section Q:

*"6.3.5 For the purposes of any Settlement Run to be carried out on or after the date with effect from which this paragraph 6.3.5 takes effect in respect of each Settlement Day between the period 5 April 2001 to 24 September 2001 (both dates inclusive):*

- (a) the provisions of the Code as modified with effect from 25 September 2001 to include Buy Price Price Adjustment and Sell Price Price Adjustment in the Balancing Services Adjustment Data and to take such Price Adjustments into account in the determination of Energy Imbalance Prices under Section T4.4 shall apply;*
- (b) the Transmission Company shall submit or resubmit the Balancing Services Adjustment Data to the SAA [and to BSCCo] for each Settlement Period of such Settlement Days as soon as reasonably practicable in order to give effect to paragraph 6.3.5(a); and*
- [(c) BSCCo shall ensure that such data is stored and is displayed on the BSC Website until such time as the Panel confirms that Balancing Services Adjustment Data is capable of being stored and made available on the BMRS in accordance with the provisions of Section V.]*

*6.3.6 For the avoidance of doubt, paragraph 6.3.5 is without prejudice to Settlement Runs carried or to be carried out at any time in respect of Settlement Days commencing with the Settlement Day of 25 September 2001, which have been and shall continue to be carried out in accordance with the provisions of the Code as modified with effect from 25 September 2001."*

### Clean Version

#### Section Q 'Balancing Mechanism Activities'

The following new paragraph 6.3.5 will be inserted in Section Q:

*"6.3.5 For the purposes of any Settlement Run to be carried out on or after the date with effect from which this paragraph 6.3.5 takes effect in respect of each Settlement Day between the period 5 April 2001 to 24 September 2001 (both dates inclusive):*

- (a) the provisions of the Code as modified with effect from 25 September 2001 to include Buy Price Price Adjustment and Sell Price Price Adjustment in the Balancing Services Adjustment Data and to take such Price Adjustments into account in the determination of Energy Imbalance Prices under Section T4.4 shall apply;*
- (b) the Transmission Company shall submit or resubmit the Balancing Services Adjustment Data to the SAA [and to BSCCo] for each Settlement Period of such Settlement Days as soon as reasonably practicable in order to give effect to paragraph 6.3.5(a); and*
- [(c) BSCCo shall ensure that such data is stored and is displayed on the BSC Website until such time as the Panel confirms that Balancing Services Adjustment Data is capable of being stored and made available on the BMRS in accordance with the provisions of Section V.]*

6.3.6 *For the avoidance of doubt, paragraph 6.3.5 is without prejudice to Settlement Runs carried or to be carried out at any time in respect of Settlement Days commencing with the Settlement Day of 25 September 2001, which have been and shall continue to be carried out in accordance with the provisions of the Code as modified with effect from 25 September 2001."*

## **ANNEX 2 – PROPOSED TEXT TO MODIFY BSCCO MEMORANDUM AND ARTICLES OF ASSOCIATION**

No change required.

## **ANNEX 3 – BSC AGENT IMPACT ASSESSMENTS**

The NETA Central Service Agent has provided a Detailed Level Impact Assessment as follows:-

Our Detailed Level Impact Assessment for P45 is £2440 (2 days at Consultant grade). This price covers any one of the three alternative options for P45 listed below:

- a) single file covering 5 April - 24 September provided in electronic format sent using electronic link
- b) single file covering 5 April - 24 September provided in electronic format sent as email attachment
- c) single file covering 5 April - 20 March provided in electronic format as part of release 2 phase b catch-up sent using electronic link

## **ANNEX 4 – CORE INDUSTRY DOCUMENT IMPACT ASSESSMENTS**

No impact assessments were received from Core Industry Document holders.

## **ANNEX 5 – TRANSMISSION COMPANY ANALYSIS**

**Name:** Phil Lawton

**Organisation:** National Grid

Please find as follows the National Grid response to the request for a Detailed Level Impact Request (DLIA) on Modification Proposal P45.

### **Implementation Issues/Timescales**

The implementation of the proposal would require no systems developments.

A consequential change may be required to the Balancing Services Adjustment Data Methodology Statement (established as per Special Condition AA4 of the National Grid Transmission Licence) if Modification P45 is implemented. Consultation on, and implementation of this change would need to be undertaken before P45 is implemented.

There would be a requirement for National Grid to provide some additional data to Elexon and we would request that a planned and co-ordinated approach is taken for the introduction of this process.

Subject to this process being introduced, and the issues outlined above being addressed the timescales for implementation would be 6 weeks after the receipt of the decision from the Authority.

## ANNEX 6 – TERMS OF REFERENCE AND REPORT/ANALYSIS OF EXTERNAL CONSULTANTS/ADVISERS

No report or analysis was requested or received from external consultants or advisers.

## ANNEX 7 – RESPONSES TO CONSULTATION AND IMPACT ASSESSMENT

### Responses from P45 Assessment Consultation

Consultation issued 20 November 2001

Representations were received from the following parties:

No	Company	Does P45 better facilitate BSC Objectives	Should P45 be implemented	File Number	No. Parties Represented
1.	TXU	✓	✓	P45_ASS_001	14
▪	SEEBOARD	✓	✓	P45_ASS_002	1
2.	Innogy plc	x	x	P45_ASS_003	6
▪	British Gas Trading	✓	✓	P45_ASS_004	4
▪	ScottishPower UK Plc	✓	✓	P45_ASS_005	5

### P45\_ASS\_001 – TXU

TXU Europe Energy Trading Ltd (on behalf of 14 TXU Europe companies) would like to make the following comments on the P45 modification report. Firstly, apologies for not using the proforma supplied with report, but as it was only supplied in .pdf format we were unable to do so.

TXU support implementation of this proposal, we agree that it would promote efficiency in the implementation and administration of the Balancing and Settlement arrangements.

Regards

Nicola Lea

### P45\_ASS\_002 – SEEBOARD

SEEBOARD supports the changes outlined in this consultation report. Because this modification seeks to replace a workaround, it is not really retrospective just a different and cheaper way of getting to exactly the same position.

Sue Fraser

for DAVE MORTON

0190 328 3465

**P45\_ASS\_003 – Innogy plc**

Please find attached Innogy's response to the Draft Modification Report in respect of P45, representing

Innogy plc, npower Limited, Innogy Cogen Trading Limited, npower Direct Limited, npower Northern Limited, npower Yorkshire Limited.

Regards,

Shona Watt

Networks and Ancillary Services

Trading and Asset Management

Innogy

01793 892633

Introduction of a Price Adjuster in the calculation of the SBP and SSP for Settlement Days 05/04/01 to 24/09/01

1. This Modification Proposal proposes to implement Price Adjusters to reflect reserve option fees for System Sell Price (SSP) and System Buy Price (SBP) for Settlement Days from 5 April 2001 to 24 September 2001 inclusive. This will, in effect, retrospectively implement Modification Proposal P08 for these Settlement Dates.
2. Innogy acknowledges that ordinarily it would be preferable for a workaround to be codified into the BSC for the full period to which it applies and that this is likely to better facilitate the BSC objective of efficiency in the implementation and administration of the balancing and settlement arrangements.
3. However, Innogy maintains that the original modification P03, which this modification P45 and modification P08 are designed to codify into the BSC, undermines the achievement of the other BSC objectives of the efficient, economic and co-ordinated operation by the Transmission Company of the Transmission System and promoting effective competition in the generation and supply of electricity
3. As stated in our response to the P08 modification proposal, Innogy does not support the P03 methodology for incorporating option fees for standing reserve into the imbalance price calculation as we believe it fails to place an appropriate economic signal in BM prices. Price Adjusters should impact on BM prices in a similar manner irrespective of whether NGC buys an option to purchase energy at a predetermined delivery price plus an option fee, or takes direct action in the BM. Currently this is not the case and NGC can distort the BM prices by favouring one route over the other.
4. To create equivalence between the two approaches the price adjusters need to focus the option fees into those settlement periods when the option has value to NGC. Most obviously this will be when the option is called, although NGC may find some value in the option as an alternative to holding additional spinning reserve. If the option fee is not focussed in this fashion then the price signals in the BM prices will be attenuated to such an extent that they will be ineffective in encouraging additional energy on to the system when the system is most under stress. This in turn will lead to inefficiency in the system's operation and, in the extreme, the risk of market failure.
5. Focussing the option fees into those periods when the option is utilised has the obvious practical difficulty that the call on the option will not be known with certainty at the start of the period when the option is available. However, a pragmatic solution would be to forecast the number of times the option is likely to be called, and reflect this expected use in the quantity of energy used to

calculate the price adjuster. Presumably NGC will have a clear view of the anticipated call on the option when making its evaluation of whether to purchase the option and thus arriving at an estimate should not present any great difficulty. NGC could be provided with an incentive to make a correct forecast at the outset, although further consideration needs to be given to how NGC's costs are recovered through the BSUoS charge.

6. In conclusion, Innogy does not support this Modification Proposal in principle as it designed to codify further the current methodology which incorporates standing reserve option fees into imbalance prices in a way which fails to place an appropriate economic signal in BM prices. Without this signal BM prices will prevent the economic operation of the system, and distort competition in the generation of electricity.

#### **P45\_ASS\_004 – British Gas Trading**

##### **Modification Proposal 45: Introduction of Price Adjusters for Settlement Days 5 April 2001 to 24 September 2001**

Thank you for the opportunity of responding to this modification. This response is on behalf of British Gas Trading, Accord Energy, Centrica King's Lynn and Centrica Peterborough

We support the implementation of this modification and believe it will further the applicable BSC Objectives, particularly by furthering the efficient, economic and co-ordinated operation by the Transmission Company of the Transmission System.

Although this modification is a retrospective adjustment to prices this should not prevent its implementation. The need for this modification is widely recognised and Parties have been made fully aware of it through the consultation process and during the discussions surrounding the implementation of P8. Also the modification will not cause any substantial changes to the price seen by participants as it seeks to automate a manual workaround process. The implementation of price adjusters in place of Workaround 24 will further the Applicable BSC Objectives by reducing the risk of human error and operating costs.

Yours faithfully

Danielle Lane

Transportation Analyst

#### **P45\_ASS\_005 - ScottishPower UK Plc**

##### **Modification Proposal P45 (Introduction of Price Adjusters for Settlement Days 5 April 2001 to 24 September 2001) Consultation**

In response to the questions raised in the Consultation Document, dated November 2001, we would like to provide the following answers:

*Q.1 To what extent do you believe the Modification Proposal better facilitates the Applicable BSC Objectives?*

We believe that this modification will help to promote efficiency in the trading arrangements. The Mod Group identified a number of issues with Workaround 024, which, if allowed to take effect at Final Settlement, would create inaccuracies in the imbalance price data available from 5th April 2001 to 24th September 2001. There is also the issue of continuing with the Workaround, as opposed to an enduring solution, when the cost of doing so, along with the cost of auditing possibly inaccurate data, is likely to be unnecessarily high.

*Q.2 Do you believe that the BSC should be changed to require Price Adjusters to be applied retrospectively for Settlement Days 5 April 2001 to 24 September 2001?*

We have considered the issue of retrospective application of this proposal and tend to agree with the Mod Group that the risk of material loss resulting from the use of the Workaround at Final Settlement justifies its retrospective application. We see nothing in Ofgem's criteria for retrospective application of a proposal that would prevent such application in this case.

With regard to the **High Level Impact Assessment** we were invited to conduct as part of this consultation process, our initial findings suggest that the implementation of the proposal will have no impact on our systems.

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,

**James Nixon**

Calanais Ltd.

For and on behalf of: -

**ScottishPower UK Plc.**

**SP Energy Trading Ltd.**

**SP Generation Ltd.**

**Scottish Power Energy Retail Ltd.**

**Emerald Power Generation Ltd.**

## **Response to Impact Assessment by ELEXON**

### **Performance Management**

This has no impact on Performance Mgt Dept or on products maintained by Design Authority. However it would be opportune for the Modification to alter the BSC in such a way that it describes the rules for BSAD both pre and post 5 April. This could be done by defining the SPA/BCA variables as zero for the prior dates. This gets round the problem of having to refer to different versions of the code for pre/post Settlement Day implementations.

### **Trading Development**

As has been previously stated it is not clear what the implications of this modification being rejected are. As Modification Proposal P3 was officially rejected, there is no reference to W024 within the BSC and its existence is entirely linked to the revised BSAD Methodology (date 10 Apr 01 / Settlement Day 05 Apr 01). This document however does not recognise that data may change after the original 11 Settlement Run and cause unexpected changes in the resulting imbalance prices. The section concerned with data re-submission does not extend to include correcting the effects of such changes, and does not recognise that it may be used to calculate the imbalance prices for the final RF Settlement Run.

Elexon believe that should this modification be rejected that a new version (retrospective) of the revised BSAD Methodology will be required to include any additional procedures related to the RF Settlement Runs, and the accepted level of error. This change should also recognise the additional steps already incorporated into W024 to handle changes in the underlying data, such as those referenced in ELEXON circulars EL00085 and EL00163.

It is not possible to state at this stage what the costs of such a change would be.