
Meeting name BSC Panel

Date of meeting 18 October 2001

Paper Title INTERIM REPORT: P34 TRANSFER OF IMBALANCES CAUSED BY BALANCING SERVICES TO NGC AND P36 THE GENERATION OF BID-OFFER ACCEPTANCES RELATING TO ENERGY DELIVERED AS A RESULT OF PROVIDING APPLICABLE BALANCING SERVICES

Purpose of Paper For Decision

Synopsis This paper presents the Panel with an update in respect of Modification Proposals P34 and P36. It presents the Panel with the timetable for the completion of the Assessment Phase and invites the Panel to agree that the Assessment Report be presented to the Panel meeting on 13 December 2001.

1. BACKGROUND

1.1 National Grid Company (NGC) and Innogy raised modification Proposals P34 and P36 on the 14 August 2001 and 10 September 2001 respectively.

1.2 Both proposals seek to remove the consequence of Imbalance Prices from Parties who provide "Applicable" Balancing Services to NGC. The proposals, however, differ in three distinct ways:

- The governance arrangements for defining the "Applicable" Balancing Services;
- The governance arrangements for calculating how the volume of energy attributed to providing Balancing Services are calculated; and
- The mechanism for removing a parties exposure to the Imbalance Prices when providing Balancing Services.

1.3 At their meeting in September, the Panel determined that both Modification Proposals should be progressed to the same timetable with the completion of the Assessment Phase in time for a report to the Panel at their meeting on 15 November 2001. The Panel further determined that the Modification Group should seek no more than one Alternative Modification Proposal to P34 and P36.

1.4 The Panel requested that an interim report on progress through the Assessment Procedure be provided to the Panel at their October meeting.

2. MODIFICATION GROUP MEETING - SUMMARY

2.1 A meeting of the Pricing Issues Modification Group, (the Group), augmented with members of the Pre-CUSC working Group on frequency response payments, was held on 28 September 2001.

2.2 The meeting discussed Modifications Proposals P34 and P36 and the results of the consultation on Modification Proposal P34. Notes of the meeting are contained within Annex A.

2.3 In summary the Group expressed concern that they could not determine whether or not P34 better facilitated the applicable BSC objectives as the definition of the governance arrangements for the "Applicable" Balancing Services and the definition of the methodology for calculating the Deemed Balancing Services Volume were yet to be developed. The proposer agreed to provide statements on these (See Section 3).

2.4 The majority of the Group members supported the results of the consultation that the definition and calculation methodology is created under the governance of the BSC. Furthermore the Modifications Group (consensus view) agreed the principle that:

"Including, within the BSC, the definition of Applicable Balancing Services and associated Balancing Services Volume Calculation provides the opportunity to ensure that any subsequent changes would better facilitate the achievement of the applicable BSC Objectives and specifically provide transparency of these changes to market participants".

2.5 The Group discussed the responses to the consultation on P34 consultation and noted that all respondents supported the principle that a Balancing Services provider should not be exposed to the consequences of Imbalance Charges in respect of the provision of those services.

3. P34 ISSUES

3.1 The Modification Group noted the lack of clarity on the proposed governance arrangement and methodology statement. Therefore the Group requested the proposer supplied further information in order that the Modification Group could assess whether the Proposal better meets the Applicable BSC Objectives. Specifically:

- Confirmation of the proposed governance arrangements for Modification Proposal P34;
- Confirmation of the methodology to be used for the calculation of the volume of Energy attributable to the provision of Balancing Services; and
- An indication of how NGC intend to contract with service providers in the absence of such a BSC Modification.

3.2 This information was subsequently received by ELEXON and distributed to the Modification Group on Monday 8 October 2001.

4. P36 ISSUES

4.1 The Modification Group discussed a number of issues that need to be resolved prior to completion of the Assessment Phase. In summary these relate to:

- **Exclusion of Deemed Bid Offer Acceptances from the calculation of Imbalance Prices.** The Modification Group believed it would be necessary to develop a mechanism to ensure that provision of Balancing Services did not influence the Imbalance Price Calculation. It was envisaged that any such Bid Offer Acceptances be removed using some form of "tagging" mechanism. (This was discussed at the Panel meeting on 20 September 2001).

- **Interaction with the existing Baseline of the Balancing and Settlement Code.**
The technique for notifying Bid Offer Acceptances that are deemed to be for the provision of Balancing Services by the System Operator needs to be developed. A suggestion from the Modifications Group was that this may be achieved by the issuing of a continuous set of minute by minute acceptances. Careful consideration will need to be given to how this interacts with the existing baseline. In particular recognising the implementation of P18 Option A (“Removing/Mitigating the Effect of System Balancing Actions in the Imbalance Price”) which relies on the duration of an acceptance to determine whether a Balancing Mechanism Unit is providing System Balancing Actions. If the plant has a continuous stream of minute by minute acceptances then this BMU will never be removed from the Imbalance Price Calculations under the P18A definition. The group felt that there may be a further interaction with P10 (“Eliminating Imbalance Price Spikes Caused by Truncating Effects”) which may go some way to resolving the issue of Deemed Bid Offer Acceptances entering the Imbalance Price Calculation.

4.2 ELEXON took an action to investigate these two issues for the next Modification Group Meeting.

4.3 The Modification Group took an action from the meeting to consider how the implementation of each of the proposals might be achieved and which alternative options should be progressed to an Alternative Modification.

5. WAY FORWARD

5.1 A Modification Group meeting has been scheduled for Tuesday, 16 October 2001 where the group will:

- Consider the information provided by the proposed of P34; and
- Review impacts on trading arrangements of the proposed solutions.

5.2 Due to the complex nature of the issues associated with P34/P36 it is proposed to extend the Assessment Procedure by one month. An Assessment Reporting will be presented to the Panel at their meeting on 13 December 2001. The new timetable is attached in Annex B.

6. RECOMMENDATION

6.1 The Panel is invited to NOTE:

6.1.1 The issues raised during the discussion of the Modifications Group

6.1.2 The progress of the Modification Proposals P34 and P36; and

6.1.3 The content of the proposed NGC Methodology Statement and other related documents provided within the annexes to this paper.

6.2 The Panel is invited to AGREE:

6.2.1 A revised timetable in respect of the Assessment Phase of Modification Proposals P34 and P36

Chris Rowell
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List of Enclosures:

Annex A: Notes of Meeting of Modification Group 28 September 2001.

Annex B: Timetable for Assessment Phase for progression of Modification Proposals P34 and P36.