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**INITIAL WRITTEN ASSESSMENT OF
MODIFICATION PROPOSAL P87**

**Removal of market risk associated with the operation of a
Generator Inter-Trip Scheme**

Prepared By ELEXON Limited

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DOCUMENT CONTROL

a Authorities

Version	Date	Author	Signature	Change Reference
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Version	Date	Reviewer	Signature	Responsibility
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b Distribution

Name	Organisation
BSC Panel	Various

c Intellectual Property Rights and Copyright

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1 EXECUTIVE SUMMARY

Modification Proposal P87 (P87) was raised by National Grid on 31 May 2002. This modification proposes that post-event contract notifications are issued in the event of an intertrip operation.

ELEXON recommend that this Modification be progressed through an Assessment Procedure of two months, reporting back to the Panel on 15 August 2002.

ELEXON recommend that the P80 Modification Group (P80MG) will assess P87 Modification Proposal.

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

3 DETAILS OF THE MODIFICATION PROPOSAL

Modification Proposal P87 was raised by National Grid on 31 May 2002. The proposal aims to remove problems associated with the current method of calculating compensation due to the operation of intertrips, namely the possibility of "windfall gains" and the setting of extreme negative values for System Sell Price.

For P87, where the Grid Code directs that compensation for the intertrip operation is payable, then:

- Contract Notifications will be added retrospectively to remove the imbalance exposure associated with the trip from all those Settlement Periods for which the Gate Closure has passed at the time of the trip. This ensures according to the Proposal that the affected Party has no additional imbalance volume and there will be no impact on imbalance prices.
- If the commercial consequences of the inter-trip operations are not covered by a Balancing Services Contract and the affected Party believes that it has been disadvantaged, it can as the Proposal suggests take a claim to the Trading Disputes Committee (TDC) to recover costs.

The key features of the Modification are;

- it intends to be a manual process and aims to avoid any software changes to the BSC Systems; and
- it has a sunset clause and aims to be replaced when Transmission Access is implemented.

It is important to note that no intertrip has occurred since Go Live and therefore this is a consider to be a remote event.

The justification for Modification Proposal P87 is that by removing the potential cause of large "windfall gains" due to compensation through deemed Acceptances for intertrips, and thereby removing any possible impact on the imbalances prices, this proposal will "promote effective competition in the generation and supply of electricity".

4 IMPACT ON BSC SYSTEMS AND PROCESSES

BSC System / Process	Potential Impact of Proposed Modification
Settlement	There may be manual amendments to QCE_{iaj} to ensure that a Party is not exposed to imbalance prices. Furthermore, QME_{ij} may need to be amended to ensure there is no knock-on effect to the calculation of non-delivery volume or information imbalance.
Dispute Resolution	Disadvantaged Parties due to the operation of an intertrip could be able to take a claim to the Trading Disputes Committee (TDC) to recover the associated cost.
Contract Notification	There may be amendments to allow a post-event contract notification to be issued due to the operation of an intertrip.
Credit Checking	There may be an impact on the Energy Indebtedness calculations if a Party is affected by the operation of an intertrip.

5 IMPACT ON OTHER SYSTEMS AND PROCESSES USED BY PARTIES

System / Process	Potential Impact of Proposed Modification
System Operator	The System Operator's systems and processes may be impacted from the proposed obligation to issue a post-event contract notification, and also affect Balancing Services Adjustment Data (BSAD).
Central systems – Energy contract notification systems	There may be amendments to allow a post-event contract notification to be issued due to the operation of an intertrip.

6 IMPACT ON DOCUMENTATION

6.1 Impact on Balancing and Settlement Code

BSC Section	Potential Impact of Proposed Modification
Q: Balancing Mechanism Activities	Amendments to introduce the concept of a post-event contract notification due to the operation of an intertrip as opposed a single Acceptance Volume Pair.
P: Energy Contract Volumes and Metered Volume Reallocations	Amendments to allow the Transmission Company to issue post-event contract notifications due to the operation of intertrips.
T: Settlement and Trading Charges	Changes to the calculation of $OCE_{ a }$ (Credited Energy Volume) to allow for post-event intertrip energy volumes. Changes to the calculation of QME_{ij} (Period Expected Metered Volume) to allow for the correct determination for non-delivery volumes and information imbalance.
W: Trading Queries and Trading Disputes	Introduction of the concept to reflect the possibility of the Party disputing the costs associated with an intertrip operation.
X: Definitions and Interpretations	Inclusion of any new terms due to the proposed solution for P87 that require definition.

6.2 Impact on Code Subsidiary Documents

Code Subsidiary Document	Potential Impact of Proposed Modification
BSC Service Descriptions	The proposed process is a manual process, and will need to be documented here.

6.3 Impact on Core Industry Documents

Core Industry Document	Potential Impact of Proposed Modification
Grid Code	There may be amendments to this document as there would no longer be a deemed Bid-Offer Acceptance for an intertrip operation instead a post-event contract notification would be issued.

7 IMPACT ON OTHER CONFIGURABLE ITEMS

No impact identified at this time.

8 IMPACT ON ELEXON

Area of Business	Potential Impact of Proposed Modification
ELEXON Procedures	Depending on how the post-event contract notifications are issued, there may be a change to the Disputes process.

9 IMPACT ON FINANCIAL ARRANGEMENTS AND BUDGET

No impact identified at this time.

10 IMPACT ON BSC AGENT CONTRACTUAL ARRANGEMENTS

No impact identified at this time.

11 PROCESS AND TIMETABLE FOR PROGRESSING THE PROPOSAL.

ELEXON recommend that this Modification is progressed through a two-month Assessment Procedure. This Assessment Procedure will include an industry consultation, a detailed level impact assessment of the proposed manual process, and allow time for a number of Modification Group meetings. An Assessment Report will be presented to the Panel on the 15 August 2002.

ELEXON recommend that the P80 Modification Group will assess this Modification, as this proposal covers a similar area to P80.

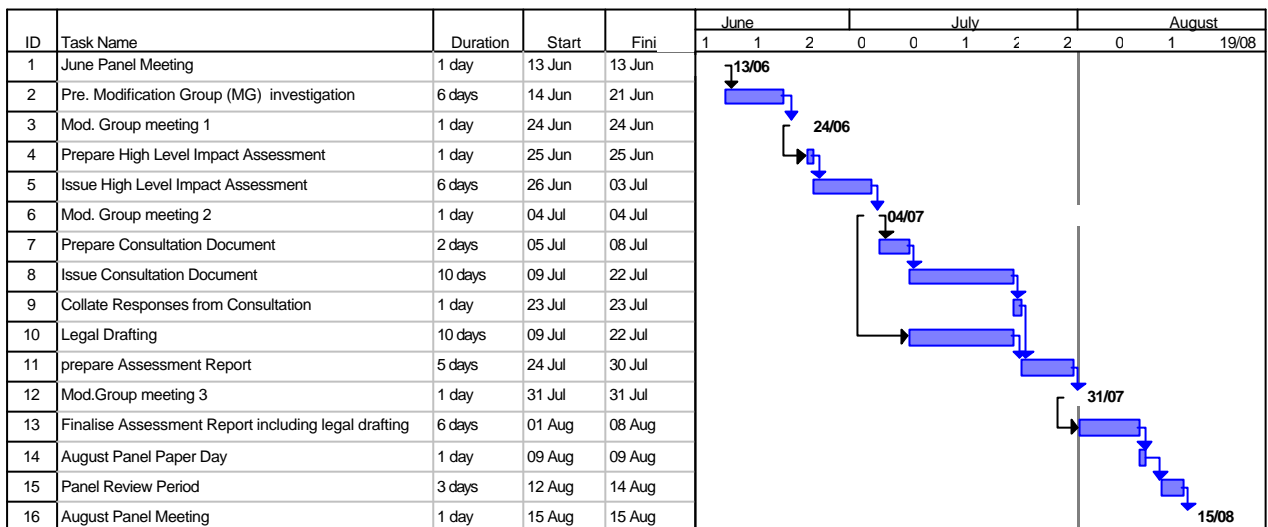


Figure 1. P87 timetable

It is estimated that the progression of this Modification Proposal through the Modification Process will incur third party costs of £13,000 funded from the demand led budget in addition to core team staff costs. This estimate is based on current information that P87 will be progressed through the Assessment Procedure, but this may be subject to change.

12 ISSUES

Modification Proposal P87 raises a number of issues, which are listed below:

- at the moment the Transmission Access arrangements are being revised which may make the BSC provisions relating to intertrips redundant. Recognising this possibility P87 proposes the inclusion of a sunset clause for the introduction of Transmission Access, which is currently planned for April 2003;
- a manual process is proposed to enable the Transmission Company to issue post-event contract notifications and amend the Settlement Calculations for QCE_{iaj} (Credited Energy Volume) and QME_{ij} (Period Expected Metered Volume), which may be similar to the existing work-around 18 (WO18);

- manual processes are normally documented into a BSC Procedure (BSCP). However, as there is a sunset clause limiting the lifetime for P87 and a low probability of it being it may be more appropriate to utilise a different vehicle;
- the cost and volume of any post-event contract notification may need to be incorporated into BSAD. Currently, if a Generator is unable to export on to the Transmission System due to the operation of an intertrip then there could be a number of Offers accepted to cover this unplanned outage. Currently, these Offers could be automatically trade tagged as the Transmission Company is obliged to issue a Bid to the affected Generator. If the Transmission Company issued a post-event contract notification instead of Bids this could reduced the effectiveness of automatic trade tagging (ATT) in the calculation of imbalance prices;
- P87 proposes that the Transmission Company will issue post-event contract notifications. The impact of these, if any, will need to be considered in terms of their potential impact on Credit Cover;
- Modification Proposal P87 does address a related issue Modification Proposal P80, but the expected mechanisms are different. P80 cites using the existing intertrip methodology, and P87 proposes a new intertrip methodology. It is important to note that P87 will be assessed in isolation but if progressed and agreed in advance of P80 would have an impact on the baseline against which P80 is being considered; and
- a dispute may well centre on the cause of the intertrip and possibly the duration. It is arguable that debates of this nature are outside vires of the Trading Disputes Committee. The remit of the Trading Disputes Committee is to consider Settlement errors.

ANNEX 1 - MODIFICATION PROPOSAL P87

Modification Proposal	MP No: 87 <i>(mandatory by BSCCo)</i>
Title of Modification Proposal <i>(mandatory by proposer):</i> Removal of market risk associated with operation of a Generator Inter-Trip Scheme	
Submission Date <i>(mandatory by proposer):</i> 31 May 2002	
<p>Description of Proposed Modification <i>(mandatory by proposer):</i></p> <p>When a generation inter-trip scheme operates the compensation payable is determined by a two-stage process. Initially it is necessary to determine whether any payment should be made and, if so, the amount of the compensation must be decided. The first issue depends on the reasons for selecting the inter-trip and the cause of the fault; these issues are dealt with under the Grid Code. In those cases where the Grid Code directs that compensation is payable, then the amount is determined under the BSC. This BSC modification proposal is intended to remove problems associated with the current method of calculating the compensation, namely the possibility of "windfall gains" and the setting of extreme negative values of System Sell Price.</p> <p>Where the Grid Code directs that compensation for the inter-trip operation is payable, then:</p> <ol style="list-style-type: none"> 1. No deemed bid acceptance would be issued. Instead, contract notifications would be added retrospectively to remove the imbalance exposure associated with the trip from all those settlement periods for which the gate had closed at the time of the trip. This ensures that the affected party has no additional imbalance volume and prevents any impact on imbalance prices. 2. If the commercial consequences of the inter-trip operation are not covered by a Balancing Services Contract and the affected party believes that it has been disadvantaged, it can take a claim to the Trading Disputes Committee (TDC) to recover the costs. <p>The operation of generation inter-trips is a very rare event and so it is proposed that a manual intervention would be more appropriate than a full system solution. Elexon has used the manual intervention described in the past to correct Central Services problems with contract notification.</p> <p>Sunset Clause</p> <p>It is recognised that the revised arrangements for Transmission Access may make the BSC provisions relating to intertrips redundant. Therefore it is proposed that this modification shall include a sunset clause for the introduction of Transmission Access (currently planned for April 2003). The most likely governances for the compensation of intertrips are the BSC and the CUSC. Should the BSC be the chosen governance then another BSC modification will be required in any case. The sunset clause is therefore intended to cover the option of introducing intertrip related clauses to the CUSC and has the following effect: In the event of any conflict between the BSC and the CUSC in relation to payment of compensation for intertrips, then the provisions of the CUSC shall take precedence.</p>	
<p>Description of Issue or Defect that Modification Proposal Seeks to Address <i>(mandatory by proposer):</i></p> <p>When power stations connect to the transmission system an inter-trip scheme is often used as a way of maximising the utilisation of the transmission system. Whilst this reduces the impact of the transmission system on the electricity market and so contributes to the operation of an efficient, economic and co-ordinated transmission system, it requires a method of compensating participants when a scheme operates. Currently, where applicable under the Grid Code, this is achieved via a deemed bid acceptance. Should a participant wish to signal that they are unwilling to reduce output by entering a large negative bid, this creates the possibility of their receiving a "windfall gain" should the inter-trip operate. Such windfall gains would then be funded out of</p>	

Modification Proposal	MP No: 87 <i>(mandatory by BSCCo)</i>
<p>BSUoS charges levied on the rest of the industry and there is the potential to set an extreme, negative level of System Sell Price. This modification deals with the problem in two stages:</p> <ol style="list-style-type: none"> 1. The post event contract notifications remove the possibility of windfall profits/imbalance exposure from the affected party without affecting System Sell Price (SSP). (It would be inappropriate for a system balancing action such as an inter-trip operation to have an effect on SSP.) 2. If there is no Balancing Services Contract in place and the party is able to substantiate that the above clause has disadvantaged them, then the TDC will determine the costs to be paid by National Grid as for any Bid/Offer acceptance. This clause will act as a default and can be used as a starting point for the negotiation of a Balancing Services Contract should the parties prefer to remove the uncertainty of the TDC decision. 	
<p>Impact on Code <i>(optional by proposer):</i></p> <p>Change to the definition of $QCE_{i aj}$ in section T4.5.1 to allow for inter-tripped energy volumes.</p> <p>Change to the definition of QME_{ij} in section T4.3.3 to allow the correct calculation of non-delivery volumes and information imbalance.</p> <p>Corresponding changes to the glossary.</p> <p>Changes to section W to reflect the possibility of a party disputing the costs associated with an inter-trip operation.</p>	
<p>Impact on Core Industry Documents <i>(optional by proposer):</i></p> <p>Corresponding Grid Code change required recognising that there would no longer be a deemed bid acceptance for an inter-trip operation.</p>	
<p>Impact on BSC Systems and Other Relevant Systems and Processes Used by Parties <i>(optional by proposer):</i></p> <p>Given the very rare operation of inter-trip schemes, it is proposed that the modification would be implemented via work-around rather than modifying the systems</p>	
<p>Impact on other Configurable Items <i>(optional by proposer):</i></p> <p>None identified</p>	
<p>Justification for Proposed Modification with Reference to Applicable BSC Objectives <i>(mandatory by proposer):</i></p> <p>By removing a potential cause of windfall profits/costs and spikes in System Sell Price, this proposal will "promote effective competition in the generation and supply of electricity".</p>	
<p>Details of Proposer:</p> <p style="padding-left: 40px;">Name: Isabelle Haigh</p> <p style="padding-left: 40px;">Organisation: National Grid</p> <p style="padding-left: 40px;">Telephone Number: 024 7642 3818</p> <p style="padding-left: 40px;">Email Address: isabelle.haigh@uk.ngrid.com</p>	

Modification Proposal	MP No: 87 <i>(mandatory by BSCCo)</i>
Details of Proposer's Representative: Name: As above Organisation: Telephone Number: Email Address:	
Details of Representative's Alternate: Name: Richard Lavender Organisation: National Grid Telephone Number: 024 7642 3967 Email Address: richard.lavender@uk.ngrid.com	
Attachments: NO If Yes, Title and No. of Pages of Each Attachment:	