



September 2002

**DRAFT MODIFICATION REPORT  
MODIFICATION PROPOSAL P87 -  
Removal of market risk associated  
with the operation of a generator  
intertrip scheme**

Prepared by ELEXON on behalf of the Balancing  
and Settlement Code Panel

<b>Document Reference</b>	P087RR
<b>Version no.</b>	0.3
<b>Issue</b>	Draft
<b>Date of Issue</b>	26 September 2002
<b>Reason for Issue</b>	For Consultation
<b>Author</b>	ELEXON Limited

## I DOCUMENT CONTROL

### a Authorities

Version	Date	Author	Signature	Change Reference
0.1	17/09/02	Helen Bray		Initial draft
0.2	20/09/02	Change Delivery		For P80MG review
0.3	26/09/02	Change Delivery		For BSC Party Consultation
0.4		Change Delivery		Final review
0.5		Change Delivery		For Panel Decision
1.0		Change Delivery		For Authority Decision

Version	Date	Reviewer	Signature	Responsibility
0.1	17/09/02	Change Delivery		Peer Review
0.2	20/09/02	P80MG		Modification Group Review
0.3	25/09/02	BSC Parties		Updated with consultation responses
0.4		Change Delivery		Updated with final review comments
0.5		BSC Panel		Updated with Panel comments
1.0		The Authority		For Decision

### 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 References

Reference	Document	Owner	Issue Date	Version
Reference 1	P87 Initial Written Assessment	ELEXON	07/06/02	1.0
Reference 2	P87 Assessment Report	ELEXON	11/09/02	2.0

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## 1 SUMMARY AND RECOMMENDATIONS

### 1.1 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 Panel recommends that the:

**Alternative Modification P87 should be made, with an Implementation Date of 30 Working Days after Authority decision; and the**

**Proposed Modification P87 should not be made. However, if the Authority determines that the Proposed Modification should be made, the Implementation Date should be 30 Working Days after Authority decision.**

It should be noted that if it is decided to update the BSC Systems documentation, then this would need to be part of a planned release and at a minimum will require two-months notice, this is independent of the Implementation Date of 30 Working Days after the Authority decision.

### 1.2 Background

Modification Proposal P87 'Removal of market risk associated with the operation of a generator intertrip scheme' (P87) seeks to amend the current arrangements for operational intertripping which issue a deemed Acceptance at freely submitted Bid Prices. P87 would compensate an affected BM Unit through issuing ex-post contract notifications to remove their imbalance in the Balancing Mechanism Window Period (BMWP). It is also proposed that if the commercial consequences of the intertrip operating are not covered by a balancing services agreement (outside of the Code) the affected BM Unit can take a claim to the Panel to recover costs.

P87 was raised in an attempt to create incentives on both the Transmission Company and BSC Parties to contract for operational intertripping schemes, and thereby remove the market risk associated with the issuing of deemed Acceptances at Bid Prices as extreme as £-99,999/MWh.

Currently, there are three types of intertrips (i) intertrips under derogation, (ii) intertrips with compensation via a balancing services agreement with the Transmission Company, and (iii) intertrips that are not under derogation and do not have any agreements for compensation outside of the Code<sup>1</sup>.

### 1.3 Rationale for Recommendations

The Panel endorsed the majority view of the P80 Modification Group ("the Group") as set out in the Assessment Report (reference 2). The majority view of the Group concurred that the removal of the current market risk provided by both the Proposed and Alternative Modification better facilitates Applicable BSC Objective (c).

In addition, the Alternative Modification better facilitated the following Applicable BSC Objectives, when compared to the Proposed Modification:

- Applicable BSC Objective (d) as the probability of a claim for an extra cashflow being raised is reduced; and

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<sup>1</sup> Any references to "the Code" refer to the BSC and not the Grid Code.

- Applicable BSC Objective (b) as the Transmission Company is better placed to manage disconnections that may occur due to the operation of an intertrip scheme, for example, by having a better view of when the event might end.

## 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 ('the Code'). The Code 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 Code.

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.

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## 3 HISTORY OF PROPOSED MODIFICATION

P87 was raised on 31 May 2002 by National Grid and seeks to change the compensation for operational intertripping schemes. The Initial Written Assessment (IWA), (reference 1), was presented to the Panel meeting of 13 June 2002. The Panel agreed to submit P87 to a 2-month Assessment Procedure, which was later extended by 1-month to allow for a 3-month Assessment Procedure.

In parallel Modification Proposal P80 'Deemed Bid-Offer Acceptance for Transmission System faults' (P80) was submitted on 01 May 2002, and went through a two-month Definition Procedure, with the Definition Report submitted to the July BSC Panel meeting. P80 seeks to align the compensation for system faults with the current compensation arrangement for intertrips and system constraints. However, P87 seeks to change the compensation arrangements for intertrips away from deemed Acceptances at submitted Bid Prices to issuing ex-post contract notifications in the Balancing Mechanism Window Period (BMWP) only. Both P80 and P87 have been assessed in parallel as the Group noted that it was important to reach consistent rationale with respect to better facilitating the achievement of the Applicable BSC Objectives.

The Group met six times during the Assessment Procedure to consider P87. During the Assessment Procedure an industry consultation and two impact assessments were issued. The results of these were reported in the Assessment Report (reference 2), which recommended that the Proposed Modification should not be made and that the Alternative Modification better facilitated the Applicable BSC Objectives, and should be made.

The Assessment Report for P87 was submitted for consideration at the BSC Panel meeting of 12 September 2002. The Panel agreed with the recommendations of the Group and decided to submit P87 to the Report Phase. The Panel recommended that the Alternative Modification be approved with an implementation date of 30 Working Days after the Authority Decision. BSCCo would decide whether BSC Systems documentation would need to be updated, dependent on the likely duration of the arrangements due to the proposed introduction of transmission access arrangements under the Connection Use of System Code (CUSC). It should be noted that there are no software changes required for the Proposed or Alternative Modification. If it is decided to update the BSC Systems documentation this would be part of a planned release and at a minimum will require two-months notice, independent of the Implementation Date of 30 Working Days after the Authority Decision.

The draft Modification Report for P87 was issued for consultation on 25 September 2002.

## 4 DESCRIPTION OF P87

Modification Proposal seeks to amend the compensation for the operation of an intertrip away from issuing a deemed Acceptance. As generators are free to submit large negative Bid Prices this could result in the affected Party receiving a "windfall gain" should the intertrip operate on a plant where the Transmission Company is obliged to issue an Acceptance. In addition, some Parties use large negative prices to indicate an unwillingness to accept commercial Bids and Offers<sup>2</sup>. The cost of such extreme priced Bids would currently be funded out of Balancing Service Use of System (BSUoS) charges levied on the rest of the industry and there is potential to set an extreme, negative level of System Sell Price.

P87 seeks to ensure that compensation for intertrips does not have a negative impact on other participants in the industry, while limiting balance exposure for the directly affected BM Unit.

### 4.1 Proposed Modification

The Proposed Modification seeks to issue ex-post contract notifications for all Settlement Periods for which the Gate Closure had occurred at the time of the intertrip (i.e the BMWP). As shown from figure 1 the relevant Settlement Periods are referred to by the new Code term "Initial Intertrip-affected Settlement Period". This ensures that the affected BM Unit is not exposed to imbalance in the BMWP.

Furthermore, if the commercial consequences of the intertrip operating go beyond the BMWP, and the BM Unit is not compensated through a balancing services agreement then the affected BM Unit can take a claim to the Panel for extra compensation to cover costs over the whole "Intertrip-affected Period" (see figure 1). An affected BM Unit will be able to claim extra compensation under the following categories:

- i. avoidable costs as described in Section G2 of the Code (including any costs associated with trading out of its position),
- ii. lost revenue from any potential actions for balancing services and BM activity; and
- iii. any charges incurred, for example non-delivery charges.

The extra compensation will be recovered as part of Daily System Operator BM Cashflow (CSOBM) so the cost can eventually be recouped through BSUoS.

The Proposed Modification has a sunset clause with a trigger of the 31 March 2003 reverting to the current obligation to issue a deemed Acceptance at submitted Bid Prices. The trigger for the sunset clause is related to the introduction of Transmission Access arrangements targeted for the 01 April 2003.

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<sup>2</sup> during particular times of the day, or related to operational factors of the plant.

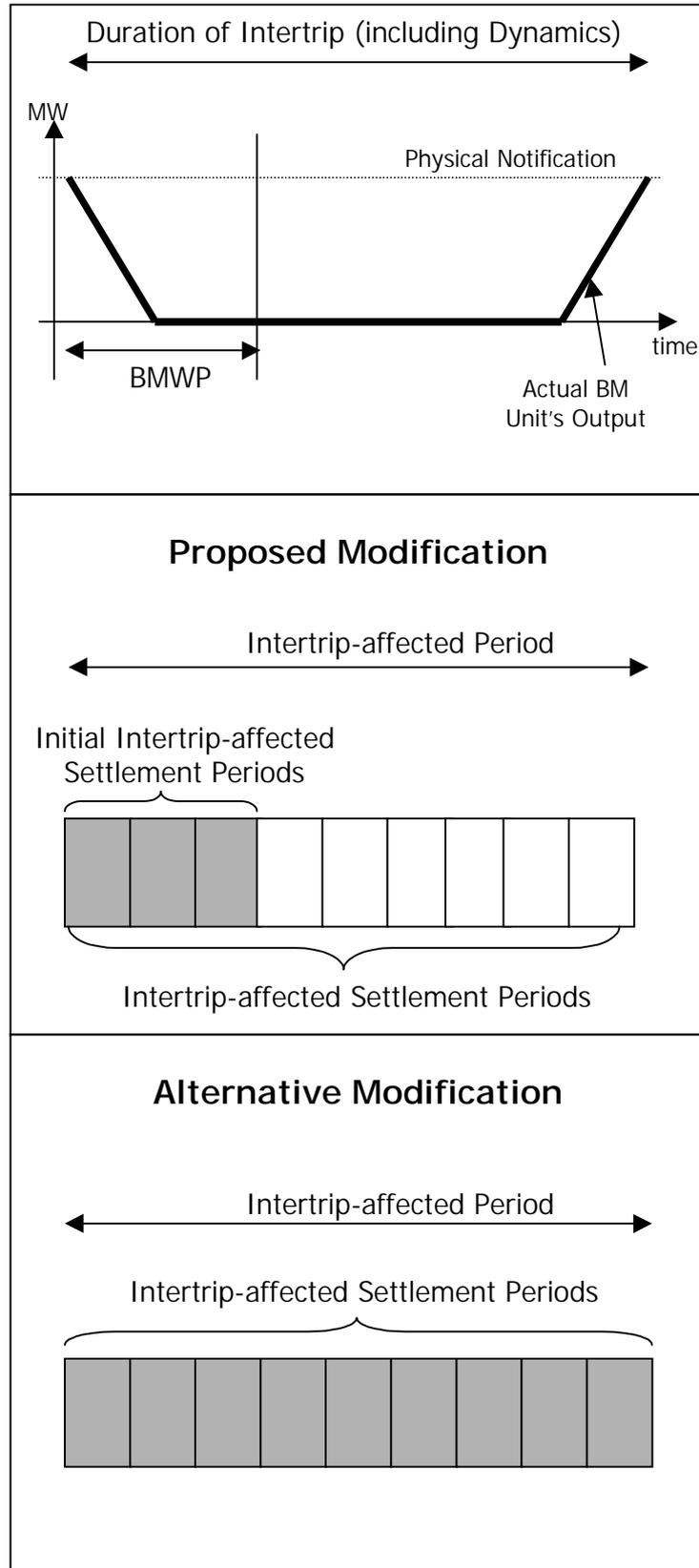


Figure 1. Relationship between "Intertrip-affected Period" and "Initial Intertrip-affected Settlement Period" for the Proposed and Alternative Modifications.

## 4.2 Alternative Modification

The Alternative Modification builds on the original Modification Proposal, but will remove imbalance for all the "Intertrip-affected Settlement Periods", which covers the entire period of deviation from Final Physical Notification (FPN) caused by the intertrip ("Intertrip-affected Period"), taking into consideration plant dynamics at the time of the disconnection. The level against which to issue ex-post contract notifications to remove an affected BM Unit's imbalance is the FPN submitted following the system constraints management process.

In common with the Proposed Modification, if the affected BM Unit does not have compensation through a balancing services agreement the Alternative Modification contains the possibility of an extra cashflow. The removal of imbalance for some generators may not be sufficient compensation, and an affected generator can raise a claim against:

- i. avoidable costs as described in section G2 of the Code;
- ii. lost revenue from any potential actions for balancing services and BM activity; and
- iii. other charges incurred, for example non-delivery charges.

The extra compensation will be recovered as part of Daily System Operator Balancing Mechanism charge (CSOBM) so the cost can be recouped through BSUoS.

The Alternative Modification has no sunset clause and unlike the Proposed Modification is viewed as an enduring solution for the compensation due to the operation of a intertrip scheme.

## 5 RATIONALE FOR PANEL RECOMMENDATIONS

The unanimous view of the Panel was that the Alternative Modification would better facilitate Applicable BSC Objectives (c) as compared to the current Code baseline, and Applicable BSC Objectives (b) and (d) are better facilitated as compared to the Proposed Modification for the reasons stated in the following paragraphs.

The majority view of the Group was that both the Proposed and Alternative Modification would promote effective competition in the generation and supply of electricity (Applicable BSC Objective (c)), by removing the current market risk that exists for the compensation due to the operation of an intertrip scheme, as compared against the current Code baseline.

A majority of the Group were also of the view that the Alternative Proposal, by removing imbalance liability throughout the duration of the event ("Intertrip-affected Period"), would be less reliant on utilising the Panel claims process and would therefore be more economical and expeditious than the Proposed Modification, thereby better achieving Applicable BSC Objective (d).

Furthermore, the Panel also accepted the majority view of the Group that a further distinction between the Proposed Modification and the Alternative Modification was that the Proposed Modification encouraged the generator to manage its position by trading out after the initial BMWP. On the other hand, the Alternative encouraged the Transmission Company to manage the position after the initial BMWP. Since the Transmission Company is better placed to manage such situations, for example having a better view of when the event might end, it was suggested that Applicable BSC Objective (b) might also be better achieved by the Alternative Modification, as compared to the Proposed Modification. Hence, the alternative was preferred to the Proposed Modification, by the majority of the Group.

## 6 LEGAL TEXT TO GIVE EFFECT TO THE PROPOSED MODIFICATION

The legal drafting is based on version 6.0 of Section Q and version 9.0 of Section X-1 in the Code. It is important to note that the Proposed Modification has the inclusion of a sunset clause and after the 31 March 2002 the compensation will revert back to the current method of issuing a deemed Acceptance at submitted Bid Prices as detailed in Section Q version 6.0 of the Code.

### 6.1 Proposed Modification

Red lined version of amended Code text for the Proposed Modification is attached in annex 2.

### 6.2 Alternative Modification

Red lined version of amended Code text for the Alternative Modification is attached in annex 3.

## 7 ASSESSMENT

The Assessment Procedure for P87 identified that there are 6 possible solution for P87 and these are described in the table below. More detailed information on the consultation and the Group's conclusions can be found in reference 2.

Potential Solution	BMWP Ex-Post	Future Ex-Ante	Extra Cashflow	Comments
PS1	No Correction	No Correction	No	
PS2	No Correction	No Correction	Yes	
PS3	BOA <sup>3</sup> Correction	No Correction	No	Current
PS4	QABC <sup>4</sup> Correction	No Correction	Yes	Proposed
PS5	BOA Correction	BOA Correction	No	
PS6	QABC Correction	QABC Correction	Yes	Alternative

There was a diverse range of views raised from the industry consultation, but overall the Group agreed that:

- system faults, intertrips and system constraints are all mechanisms by which a BM Unit is prevented from delivering or off-taking from the Transmission System;
- any compensation arrangements for intertrips and system faults should be consistent, but this does not necessary mean that the mechanisms have to be identical;
- the industry is in favour of an extra cashflow outside of the Code, however, the Group felt that this would be difficult to mandate and would result in complex governance issues. The Group agreed that any extra cashflow should reside within the Code. The Group agreed that this could provide the simplest solution;

<sup>3</sup> Bid-Offer Acceptance (BOA)

<sup>4</sup> Account Bilateral Contract Volume (QABC)

- it seemed reasonable to be able to raise a claim for a negative extra cashflow, however, the Group was legally advised that it was inappropriate for the Transmission Company to be able to make such a counter-claim;
- the level to compensate against after the initial BMWP could be indicated Physical Notification (iPN) data frozen at the time of the fault. However, concern was expressed as to whether this solution was equitable to flexible generators and Parties who, for example, had planned outages for the day ahead. Therefore, the Group determined that FPN as submitted by the affected BM Unit, identical to the system constraints process, would be a more equitable level to compensate against; and
- the Proposed Modification would have a sunset clause as drafted in the Modification Proposal and that the Alternative Modification does not require a sunset clause as the Group believed that reverting back to the current arrangement did not better facilitate the Applicable BSC Objectives.

Overall, the majority view of the Group was that:

- PS4 (contract notifications to remove imbalance in the BMWP only plus extra cashflow) represented the Proposed Modification and better facilitates Applicable BSC Objective (c) for the period until the sunset clause would operate; and
- PS6 (contract notifications to remove imbalance throughout the entire deviation from FPN plus extra cashflow) better facilitates Applicable BSC Objectives (c) compared to the current BSC baseline and Applicable BSC Objectives (b) and (d) when compared to the Proposed Modification;

## **8 SUMMARY OF REPRESENTATIONS**

[Insert summary of responses to consultation on Draft Modification Report.]

[A summary and copies of the original representations received and considered by the Modification Group under the initial consultation on this proposal can be found in the Assessment Report on this proposal. This Modification Report should be read in conjunction with that Assessment Report. ]

## **ANNEX 1 – REPRESENTATIONS**

[Insert copies of representations on Draft Modification Report]