

Responses from P87 Draft Report Consultation

Consultation issued 26 September 2002

Representations were received from the following parties:

| No | Company | File Number | No. Parties Represented |
|-----------|-----------------------|--------------------|--------------------------------|
| 1. | National Grid | P87_DR_001 | 1 |
| 2. | Aquila Networks | P87_DR_002 | 1 |
| 3. | Innogy | P87_DR_003 | 1 |
| 4. | SEEBOARD Energy | P87_DR_004 | 1 |
| 5. | British Energy | P87_DR_005 | 3 |
| 6. | Scottish Power | P87_DR_006 | 5 |
| 7. | LE Group | P87_DR_007 | 4 |
| 8. | Powergen | P87_DR_008 | 1 |
| 9. | Scottish and Southern | P87_DR_009 | 4 |
| 10. | British Gas Trading | P87_DR_010 | 1 |
| 11. | Pxlimited | P87_DR_011 | 1 |

P87_DR_001 – National Grid

National Grid proposed P87 and continues to support the implementation of the original.

We offer the following comments on the detailed legal drafting:

1. The definition of "Intertrip-affected Period" in 5.6.1(a)(i) of each mod purports to exclude from the contract notification and compensation arrangements the situation where an intertrip operates "as a result of an act or omission of the Lead Party". This is different to the current drafting of 5.1.5, which turns on the meaning of "operation of an intertrip in the circumstances described in BC2.5.2.3". BC2.5.2.3 says that operation of an intertrip will not be treated as a BOA if operation is "due to a fault at the BM Unit".

There is a clear risk in having different definitions in the Grid Code and the BSC that a particular set of circumstances will fulfil one set of criteria, but not the other. We suggest aligning the BSC wording with the existing Grid Code definition.

2. 5.6.1(a)(ii) defines the end of the Intertrip-affected Period on the basis of the fact that the user will have submitted FPNs for the whole period, however where has this been established?

3. The operation of an intertrip will clearly reduce the metered volume of the affected generator until the loss is restored by the post event contract notification. If this loss of energy takes a user over its permitted credit threshold (albeit temporarily), then it is liable to have its trading facility curtailed. Can we strengthen the assurance in 5.6.7 that Elexon "may" if it considers appropriate deem there to be a material doubt for the purposes of Section M3.4?

Regards,

Richard Lavender

P87_DR_002 –

Please find that Aquila Networks Plc response to P87 Consultation on draft Modification Report is 'No Comment'.

regards
Rachael Gardener

Deregulation Control Group &
Distribution Support Office
AQUILA NETWORKS

P87_DR_003 –

Innogy does not support the recommendation of the Modification Group and Panel that Alternative Modification P87 should be made. However, we support the principal that parties affected by an NGC inter trip scheme should be adequately compensated for the risks and believe that the most appropriate means would be through a commercial arrangement between NGC and the connected party.

Under Alternative Modification P87, we are concerned that the burden of proof for compensation rests on the Lead Party for the relevant BMU with determination on the level of compensation by the Panel. This is inappropriate for an arrangement that should be governed by a commercial agreement.

Furthermore, compared with the current approach of deemed bid/offers, the proposed compensation mechanism under Alternative Modification P87, as well as being cumbersome to operate and difficult to administer, could not possibly audit the costs that a participant incurred in the event of the operation of an intertrip scheme. We remain of the view that deemed bid/offers remains an appropriate means of compensating parties in the absence of an appropriate commercial agreement. If NGC believes that these arrangements could lead to abuse of a dominant position, then the full paraphernalia of competition law is available to address any such occurrence.

We note that in submitting the original Modification, NGC are anticipating that parties will be encouraged to seek appropriate commercial arrangements through a Balancing Services Agreement for an intertrip. It is unclear how Alternative Modification P87 will achieve this. Indeed it would appear that this proposal would discourage the emergence of appropriate commercial arrangements.

P87_DR_004 – SEEBOARD Energy

With respect draft modification report for P87 (Removal of Market Risk Associated with Operation of a Generator Inter-Trip Scheme) dated 26th September 2002. We agree with recommendation in section 1.1 of this report to proceed with alternative modification and its relevant implementation date.

Dave Morton
SEEBOARD Energy Limited

P87_DR_005 – British Energy

To: Modification Secretary

From: Rachel Ace

Date: 3rd October 2002

British Energy supports the recommendation of the Modification Report that Alternative Modification P87 should be made, to introduce contract notifications to counter the imbalance caused by forced deviation of a generator BM Unit from FPN due to certain types of intertrip operation, for the duration of the deviation, and to allow a claim mechanism for certain additional costs to be claimed. We believe it better meets BSC Objectives (b),(c) and (d) relative to the current BSC for the following reasons:

- * It removes a market risk to all participants of anomalous imbalance prices (objective c)
- * It removes an opportunity for windfall gains by particular BM Units (objectives b,c)
- * It avoids placing unmanageable imbalance risk on individual BM Units affected by intertrip operation during and after the Balancing Mechanism Window Period (objectives b,c)
- * It improves incentives on the party best placed to manage the imbalance caused by intertrip operation during and after the Balancing Mechanism Window Period, the Transmission Company (objective b)
- * The costs of implementation are small, given the low frequency of occurrence (objective d)

The originally proposed modification also meets BSC Objectives (b) and (c) better than the current BSC, but is less effective in this than the alternative modification. It does not obviously better meet BSC Objective (d) because the process for determining compensation is cumbersome and intensive of expert manual input.

We note that a more accurate and transparent method of better achieving BSC Objectives (b) and (c) would be to require deemed bid-offer acceptances to be issued by the Transmission Company, with prices set by bilateral agreement or by a pre-agreed administered method, for the duration of the deviation from FPN. This would allow transparency, more accurate cost recovery, explicit inclusion in imbalance price calculations (even if "tagged out"), and implicit correction for transmission losses. However, we acknowledge that implementation would probably be more expensive than the proposed alternative method, due to NGC and Elexon internal costs, and the alternative proposed therefore represents a pragmatic way forward which also better meets BSC Objective (d).

Some detailed comments on the draft modification report:

Section 4 of the report suggests that currently the cost of acceptance of extreme priced Bids is funded from Balancing Service Use of System (BSUoS) charges levied on "the rest of the industry". This is not correct, since only parties with BM Units with physical metered volumes pay BSUoS charges.

The final sentence of section 4.2 suggests that the alternative modification is viewed as an enduring solution for compensation due to the operation of an intertrip scheme. The group recognized that alternative solutions could arise from the current review of transmission access arrangements taking place outwith the BSC, but these would need to be considered as a new BSC modification proposal at such time as any new access arrangements are recommended.

No reasoning is given for the legal advice mentioned in section 7 which suggests that it is inappropriate for the Transmission Company to be able to make a counter-claim. We assume that as counter-party to a claim, the Transmission Company will have opportunity to challenge claims made by other parties.

Further detail comment on proposed legal drafting:

Q5.6.3(b) should read "... Lead Party may (with the assent...."

Q9.1.7 - There is no reason why BSCCo needs to know in advance parties contractual arrangements with NGC concerning intertrips. However, it is reasonable that any claim under this section should be supported by views from the party and NGC of the effect of contractual arrangements with NGC.

Regards

Rachel Ace

On behalf of

British Energy Generation
British Energy Power and Energy Trading
Eggborough Power Ltd

P87_DR_006 – Scottish Power

P87 Draft Modification Report Comments

With reference to the above, we wish to reiterate the view, which we have previously provided in support of the potential solution as proposed in the Alternative Modification of P87: Removal of market risk associated with operation of a Generator Inter-Trip Scheme. We therefore would support the Panel's recommendation in this Report.

We have considered the legal drafting and found the following minor changes:

1. In both the drafting for P87 Original and Alternative - new Para Q5.6.3 (b) - delete the extra "and" between "Lead Party" and "may (with the assent of..."
2. In the drafting for P87 Alternative - new Para Q9.1.2 - the words "10 Business Days" appears twice.
3. In the drafting for P87 Alternative - new Para Q9.1.7 - there's an extra square bracket at the end which should be deleted.

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.; ScottishPower Generation Ltd.; ScottishPower Energy Retail Ltd.; SP Transmission Ltd.*

P87_DR_007 – LE Group

LE Group Response

Representing London Electricity Plc, Jade Power Generation Ltd, Sutton Bridge Power, West Burton Ltd.

We agree that the proposed alternative modification better achieves the applicable BSC Objectives (b), (c) and (d) as described in the Modification Report.

We also agree with the modification group's assessment that the original modification, whilst offering better achievement of the objectives (b) and (c), may have a detrimental effect on the efficiency of the Balancing and Settlement arrangements (Objective (d)) due to its failure to deal with the effects of the intertrip for the entire duration of the affected period. This could lead to a greater potential for compensation claims which would place an additional burden on the Panel and Elexon.

However, we remain concerned that the development of this solution has been restricted by the artificial governance boundaries that exist between BSC, CUSC, Transmission Charging and Transmission Licence. This ongoing problem will inevitably result in solutions being developed to fit within governance structures rather than to provide the best overall solution.

The current work to develop Transmission Access arrangements under the CUSC will bring an additional requirement to compensate parties for loss of access rights in the event of intertrips and any solution to this will need to either complement or replace the recommended P87 Alternative (if implemented). However, the TASG will have to consider this issue before the Authority reaches its decision on P87 and without any ability to interact with the BSC Modifications process. This again risks an incomplete or inefficient overall solution being developed.

Best regards

Rupert Judson

On behalf of Liz Anderson, General Manager, Energy Strategy and Regulation.

P87_DR_008 – Powergen

I am writing in response to the consultation on the above draft modification report. This response is made on behalf of Powergen UK plc, Powergen Retail Limited, Cottam Development Centre Limited and Diamond Power Generation Limited.

Powergen supports the recommendation of the Panel that the alternative modification proposal should be implemented. This we believe provides the best balance of protecting generators from the effects of imbalance caused by an intertrip, whilst ensuring that generators do not receive large windfall payments due to large negative bid prices.

We do not anticipate that the mechanism defined under P87 will be required often and should therefore be implemented with the minimum of administrative burden. We believe that this is better achieved by the alternative modification, especially as it seeks to remove the imbalance for the whole duration of the fault, not just for the period of the balancing mechanism window. This will reduce the probability of a claim for compensation being required which is likely to be the most costly element of the process in terms of administration.

We do not believe that it is necessary to have a sunset clause for P87. The rationale given for one is that present discussions regarding transmission access are likely to make P87 redundant. It is not clear to us that this is necessarily the case and as such P87 should be seen as an enduring solution. If new transmission access arrangements are implemented which do negate the requirement for P87, we believe that this can be addressed by a modification to the BSC. It is likely that other modifications to the BSC would be required in these circumstances and the removal of the text for P87 could be incorporated into this work.

Yours sincerely,

Paul Jones
Trading Arrangements

P87_DR_009 – Scottish and Southern

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

Further to your note of 26th September 2002, and the associated Modification Report for P87, we agree with the proposed BSC Panel recommendation to the Authority that the original Modification Proposal P87 should not be made. In addition, we agree with the proposed BSC Panel recommendation that the Alternative Modification Proposal should be made.

Furthermore, we agree with the proposed BSC Panel recommendation on the timing for the Implementation Date, as outlined in Section 1.1 of the Modification Report.

Regards

Garth Graham
Scottish & Southern Energy plc

P87_DR_010 – British Gas Trading

Modification Proposal 87: Removal of market risk associated with the operation of a generator intertrip scheme

British Gas Trading (BGT) support the principle of this modification proposal and agree that there should be some mechanism within the BSC to remove the imbalance exposure of a Party in the event of the operation of a generator intertrip scheme. However, we do not support either the proposal or the proposed alternative.

During previous discussions it has been indicated by the Authority that the *vires* of the BSC only extends for the period within the Balancing Mechanism Window. Any solution for removing market risk associated with the operation of a generator intertrip scheme should only deal with the time period within the Window. Outside of this period, any arrangements should fall under CUSC or through agreements between NGC and the parties concerned. Indeed, the modification report indicates that the industry has agreed in previous consultations that it is appropriate for an extra cashflow to fall outside of the Code. These proposals recommend compensation payments are determined for the duration of the fault, including periods outside of the Window. Whilst we appreciate that these proposals may offer a practical solution we do not believe the recommended approach is consistent with current governance arrangements.

The proposals require an 'extra cashflow' to be available which will be recouped from BSUoS via the Daily System Operator BM Cashflow. We do not agree that this is an appropriate mechanism for compensation payments to be made. BSUoS falls outside the BSC and we do not believe it is correct to blur the distinction between BSC cashflows and BSUoS.

We do not support the sunset clause within the original proposal. Any solution for the treatment of compensation for intertrips should be an enduring solution. If a compensation mechanism is developed under CUSC there will still be the issue of how to treat imbalance exposure under the BSC. P87 will remove not only the compensation mechanism but also the mechanism to remove imbalance exposure and a further modification will be required to reinstate this. We fail to see how this promotes efficiency in administration of the code or provides certainty for market participants.

We also have little confidence that 31 March 2003, the date for termination of the P87 arrangements in the sunset clause, will see the introduction of a complete solution under CUSC. This is further reinforced when considering the findings in the Transmission Access Standing Group's report that the level of compensation would need to be agreed between parties and work in this area is currently being undertaken under the auspices of the BSC. It has been suggested that a modification proposal can be raised to retain this clause if the appropriate arrangements have not been agreed in CUSC. We are concerned that, considering the normal timescales under the BSC and CUSC, at this stage it will not prove possible to do this by prior to the removal of these arrangements on 31 March 2003.

Yours faithfully

Danielle Lane
Contracts Manager

P87_DR_001 – Pxlimited

Whilst we would agree with the principles set out in the consultation document, we are concerned that there appears to be a discrepancy between the text/figures in the consultation document and those in the proposed BSC wording. As a result, the BSC wording does not appear to give effect to the intended principles. The consultation document appears to include the time taken by a generator to ramp up to PN after correction of the event causing the inter-trip within the definition of Intertrip-affected Period (this is important because this, in turn, defines the time period for which ECVN's can be submitted and additional claims can be made; i.e. claims cannot be made in respect of SPs outside this period under the proposed BSC wording.)

In the legal drafting it is not clear that the period between NGC notifying the party that the cause of the Intertrip operation has been rectified and the time when the party returns to operating at PN levels anticipated prior to the fault is included in the Intertrip-affected Period. This should be clarified in section 5.6.1(a)(ii). The current drafting could leave a generator exposed for the period of ramping up to PN after rectification of the system fault.

It should also be noted that the time taken for a generator to ramp up should not necessarily be assumed to take the profile derived from the BM Units Dynamics as specified to NGC for the Balancing Mechanism. Example: A BM Unit may consist of several individual generating units, each generating unit may have minimum notice to deviate from zero (NTZ) or notice to synchronise (NTS) times that need to be taken into account when returning from an intertrip which are different from normal BM activity where individual generating units within a BM unit would be expected to be operating at reduced load rather than de-synchronised. Hence a new set of dynamics parameters may be required to cover intertrip scenarios.

Regards

Christine