

## Responses from P18 Urgent Modification Report Consultation

Representations were received from the following parties:

<b>No</b>	<b>Company</b>	<b>File Number</b>
1.	London Electricity	P18_UMR2_001
2.	Vattenfall	P18_UMR2_002
3.	Northern Gas & Electric	P18_UMR2_003
4.	Bizzenergy	P18_UMR2_004
5.	NGC	P18_UMR2_005
6.	TXU Europe Energy Trading UK Trading	P18_UMR2_006
7.	EME	P18_UMR2_007
8.	Dynegy	P18_UMR2_008
9.	SEEBOARD	P18_UMR2_009
10.	British Energy Generation	P18_UMR2_010
11.	British Gas Trading	P18_UMR2_011
12.	Scottish & Southern	P18_UMR2_012
13.	ScottishPower	P18_UMR2_013
14.	Innogy Group	P18_UMR2_014
15.	Enron Europe	P18_UMR2_015
16.	Powergen	P18_UMR2_016

## **P18\_UMR\_001 – London Electricity**

From: Mott Paul[SMTP:Paul\_Mott@londonelec.co.uk]  
Sent: 05 July 2001 17:12  
To: 'Modifications@elexon.co.uk'  
Subject: Response Mod 18

1) Do you believe that Modification Proposal P18A should be implemented?

Yes

2) Do you agree with the following views/recommendations of the Modification Group set down in Section 7.11 of this document:

a) An interim workaround solution for Modification P18A is feasible; Yes  
PROVIDING THAT THE PRICES CAN BE MODIFIED WITHIN 30 MINUTES OF EXISTING BMRA TIMESCALES, i.e. A DELAY OF UP TO 30 MINS IN BMRA PRICES IS POSSIBLE;  
OTHERWISE (if the workaround proposals imply cashout prices are to be altered at a later stage, e.g. 5 days later) THE CHANGE SHOULD NOT BE MADE UNTIL CASHOUT PRICES CAN BE CALCULATED WITH THE CHANGE WITHIN 1/2 HOUR OF EXISTING BMRA CASHOUT PRICE CALCULATION TIMESCALES.

b) Taking a pragmatic approach, and given the urgency of the Modification Proposal, an interim solution based on P18A "CID-definition" 1A should be implemented;  
Yes PROVIDING THAT THE PRICES CAN BE MODIFIED WITHIN 30 MINUTES OF EXISTING BMRA TIMESCALES, i.e. A DELAY OF UP TO 30 MINS IN BMRA PRICES IS POSSIBLE;  
OTHERWISE (if the workaround proposals imply cashout prices are to be altered at a later stage, e.g. 5 days later) THE CHANGE SHOULD NOT BE MADE UNTIL CASHOUT PRICES CAN BE CALCULATED WITH THE CHANGE WITHIN 1/2 HOUR OF EXISTING BMRA CASHOUT PRICE CALCULATION TIMESCALES.

c) Either "workaround-architecture" option 1a or option 2 should be used to support an initial implementation of "CID-definition" 1a. The choice of "workaround-architecture" to use should be based upon the results of the impact assessments from ELEXON and Logica;  
Yes PROVIDING THAT THE PRICES CAN BE MODIFIED WITHIN 30 MINUTES OF EXISTING BMRA TIMESCALES, i.e. A DELAY OF UP TO 30 MINS IN BMRA PRICES IS POSSIBLE;  
OTHERWISE (if the workaround proposals imply cashout prices are to be altered at a later stage, e.g. 5 days later) THE CHANGE SHOULD NOT BE MADE UNTIL CASHOUT PRICES CAN BE CALCULATED WITH THE CHANGE WITHIN 1/2 HOUR OF EXISTING BMRA CASHOUT PRICE CALCULATION TIMESCALES.

d) "CID-definition" 1a would be an acceptable enduring solution, and the adoption of more sophisticated options in the longer term should be considered primarily from the practical perspective of systems implementation;  
Yes

e) Enduring-architecture option 3 should only be considered if it is

identified that it would take not more than 6 months longer than, nor cost £500k more than, option 2.

Yes

At what level should the initial value of CID be set? 20 Minutes. This compromise strikes a balance between having sufficient effect, without causing too many (gameable) default prices to be set. It should be parameterised as if the data to date is not representative, although we should certainly not contemplate altering it without due consideration, it should not be "set in stone".

## **P18\_UMR2\_002 - Vattenfall**

From: bo.wahrgren@vattenfall.com[SMTP:bo.wahrgren@vattenfall.com]  
Sent: 06 July 2001 10:31  
To: Modifications@elexon.co.uk  
Subject: Response to the P18 Modification Consultation 2

Here is Vattenfalls response to the questions raised in the consultation document:

- 1 Yes
- 2a Yes
- 2b Yes
- 2c Yes
- 2d Yes
- 2e Yes
- 2f Yes
- 2g No
- 2h Yes
- 3 Yes
- 4 Enduring architecture option 3 should not be pursued because the option 3 solution should not be progressed.
- 5 The minimum level should be 20 minutes but a longer period is preferred.

Best regards,

Bo Wahrgren

**P18\_UMR2\_003 – Northern Gas & Electric**

**Views Invited**

Respondents to this Consultation Document are invited to comment on any of the issues raised in this consultation document, however responses are requested in particular to the following questions:

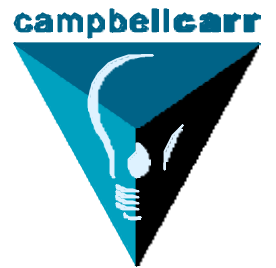
	Yes	No
<b>1) Do you believe that Modification Proposal P18A is capable of achieving its stated aims?</b>		No: P18a does not successfully differentiate system balancing and energy balancing actions
<b>2) Do you agree with the following views/recommendations of the Modification Group set down in Section 7.11 of this document:</b>	<b>Yes</b>	<b>No</b>
a) An interim workaround solution for Modification P18A is feasible;		May be possible but detailed cost benefit analysis is required
b) Taking a pragmatic approach, and given the urgency of the Modification Proposal, an interim solution based on P18A "CID-definition" 1A should be implemented;		May be the only alternative available within the timescales
c) Either "workaround-architecture" option 1a or option 2 should be used to support an initial implementation of "CID-definition" 1a. The choice of "workaround-architecture" to use should be based upon the results of the impact assessments from ELEXON and Logica;		May be possible but detailed cost benefit analysis is required
d) "CID-definition" 1a would be an acceptable enduring solution, and the adoption of more sophisticated options in the longer term should be considered primarily from the practical perspective of systems implementation;		No: More effective mechanism for separation of system and energy

		balancing is required.
e) Enduring-architecture option 3 should only be considered if it is identified that it would take not more than 6 months longer than, nor cost £500k more than option 2.		Can't comment without detailed cost benefit analysis of options
f) If, based on the above, "enduring-architecture" option 2 is progressed, then "CID-definition" 1A should be adopted as the enduring solution <sup>1</sup> ;		Can't comment without detailed cost benefit analysis of options
g) If, based on the above, "enduring-architecture" option 3 is progressed, then "CID-definition" 3 should be adopted as the enduring solution.		Can't comment without detailed cost benefit analysis of options
h) If "CID-definition" 3 is adopted as the enduring solution, with "CID-definition" 1A as the interim solution, no reconciliation based on the "CID-definition" 3 rules should be undertaken for those Settlement Days on which "CID-definition" 1A applied.		Can't comment without detailed cost benefit analysis of options
<b>3) Do you agree that the above approach should be taken, except that CID-definition 0 should replace CID-definition 1a for the workaround and enduring solutions?</b>		Can't comment without detailed cost benefit analysis of options

1.1 \_\_\_\_\_

<sup>1</sup> This decision may be reviewed if it appears that CID-options 2 can be implemented without significant additional cost or timescales implications (compared to 1a) under enduring architecture 2.

<p><b>4) If you do not agree with the Modification Group's recommendation on any or all of the above options, what alternative implementation package (if any) which better meets the relevant BSC Objectives would you like to see adopted?</b></p>	<p>We believe that a more effective definition is required of system and energy balancing actions is required rather than an arbitrary mechanism designed to remove price spikes. We would note that the analysis of the impact is limited by the availability of only three months data from NETA go live. Further work is required to assess the impact over a longer time scale. In addition, the effect of increasing the number of default price setting periods on the balancing mechanism must be considered since, in effect, the mechanism will result in system prices that are benign (and potentially capable of manipulation under the present rules)</p>
<p><b>5) At what level should the initial value of CID be set?</b></p>	<p>If implemented CID should be the shortest practicable time - we would suggest less than 5 minutes (or less)</p>



## P18\_UMR2\_004 – Bizzenergy

### Suggested responses to Consultation on Modification 18a

#### ***Introduction***

Modification 18a is an Urgent proposal. Despite this there is a seeming reluctance to get it implemented on the timescales that “Urgency” implies. The current Consultation is, hopefully the last but it is based on a document some 55 pages long.

The purpose of this note is to assist in providing the Panel with a full response from all members of the community affected by price spike risk. The note therefore:

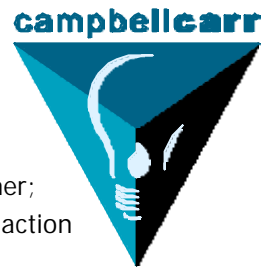
- Sets out the criteria I believe we should be emphasising to the Panel;
- Briefly describes the key terms used;
- Suggests answers to questions raised.

#### ***Judgement criteria***

I believe it is worth reiterating why this Modification is important and what priorities the Panel should be:

- Main priorities
  - A pragmatic solution that removes price spikes caused by inclusion of system balancing actions in price setting:
    - Liquid markets have no hope of developing while
    - If the resulting SBP or SSP is not significantly affected by whether a particular action is dubbed as system or energy then it is not worth worrying about its erroneous inclusion as “system”. Therefore we are justified in erring on the cautious side. This suggests that an intense debate about which “CID” to use is not a priority.
  - A quick solution
    - We have already waited too long. Prices with significant commercial impact continue to occur.
- Other important points
  - Visibility of the resultant price
    - Mod P15 always scored better than P18A on this because it was more possible for participants to calculate the price themselves.
    - Until the enduring solution is available, ELEXON must offer estimated prices as soon as possible – current workarounds result in the price being unavailable for a week. Liquid spot markets cannot develop under such conditions.
  - Consistency
    - The workaround must deliver a price close to the eventual settlement price, which must be able to provide an audit trail.
  - The problem endures





- ELEXON has made great play of the average buy-sell spread reducing. This is almost certainly due to the move into summer; we can expect a return to large spreads and frequent system-action price spikes when we move into winter.

### **Key terms**

### **CID Workaround options**

This is to assist in wading through the document. I offer my opinion as to what is important. “Continuous Instruction Duration”. This is needed because NGC can instruct the same genset several times in a half-hour – especially if it is to provide response.

- **1a**

The definition 1a is that a string of acceptances that overlap are added together regardless of whether the acceptance is for a deviation from FPN. This has the potential to allow more short-duration acceptances to feed through into pricing than would a more sophisticated definition but the result is not likely to be significant. It is also gameable by NGC if they so chose – I don’t think such gaming will advantage them significantly.

1a is probably sufficient and should therefore be supported on pragmatic grounds for ease of implementation.

- **0**

This also looks to be a runner and would tend potentially to exclude more acceptances from price calculation. It looks at the duration of the first acceptance in a string of overlapping acceptances and, if that is less than CID then the whole string is excluded.

The biggest advantage if 0 is that it tags nearer the start of the period rather than having to wait CID minutes after the end before prices are calculated.

Therefore prices are available sooner (although I am not sure this has necessarily been thought through properly).

- **Other options**

*Not worth exploring.*

- **1a**

This uses settlement data and fiddles BSAD. It doesn’t deliver until SF run.

*It is very much the fallback option.*

- **1b**

Uses TIBCO output and delivers by II Run (a week later).

This is the essential option I would have used if ELEXON could only use spreadsheets (or monkeys and typewriters), as it is external to Logica systems. It is better than 1a because it delivers sooner but TIBCO data is risky.



- **2**

*This is a preferred option with access to the “deemed acceptance flag”. It is how I initially thought they could do it! In time for II Run. However ELEXON does not think it can deliver for 3 months even as a workaround.*

- **3**

### **Enduring solutions**

This is the full Logica solution in the core of the systems. Non-starter as a workaround!

I suggest we recommend 1a but move to 2 in 3 months in order to get slightly prompter price reporting.

These are essentially enduring implementations of options given as workarounds.

- **2**

This implements tagging routines. *It is almost certainly the easiest/cheapest option.*

- **3**

This is the full Logica solution in the core of the systems. It is only likely if we are going for a sophisticated definition of CID. Even then it is probably not needed. *Not worth pursuing.*



***Suggests answers to questions raised***

	Yes	No
1) Do you believe that Modification Proposal P18A should be implemented?		
2) Do you agree with the following views/recommendations of the Modification Group set down in Section 7.11 of this document:	Yes	No
a) An interim workaround solution for Modification P18A is feasible;		
b) Taking a pragmatic approach, and given the urgency of the Modification Proposal, an interim solution based on P18A "CID-definition" 1A should be implemented;		
c) Either "workaround-architecture" option 1a or option 2 should be used to support an initial implementation of "CID-definition" 1a. The choice of "workaround-architecture" to use should be based upon the results of the impact assessments from ELEXON and Logica;		
d) "CID-definition" 1a would be an acceptable enduring solution, and the adoption of more sophisticated options in the longer term should be considered primarily from the practical perspective of systems implementation;		
e) Enduring-architecture option 3 should only be considered if it is identified that it would take not more than 6 months longer than, nor cost £500k more than option 2.	X	
f) If, based on the above, "enduring-architecture" option 2 is progressed, then "CID-definition" 1A should be adopted as the enduring solution 2 ;		
g) If, based on the above, "enduring-architecture" option 3 is progressed, then "CID-definition" 3 should be adopted as the enduring solution.		
h) If "CID-definition" 3 is adopted as the enduring solution, with "CID-definition" 1A as the interim solution, no reconciliation based on the "CID-definition" 3 rules should be undertaken for those Settlement Days on which "CID-definition" 1A applied.		
3) Do you agree that the above approach should be taken, except that CID-definition 0 should replace CID-definition 1a for the workaround and enduring solutions?		



4) If you do not agree with the Modification Group's recommendation on any or all of the above options, what alternative implementation package (if any) which better meets the relevant BSC Objectives would you like to see adopted?	Enduring architecture option 3 should <b>not</b> be pursued because the option 3 solution should not be progressed. Modification 18a is a pragmatic solution to a problem that requires further debate. It is not intellectually perfect and all the complicated and sophisticated variations on it do not add significantly to the purity but will simply make the result more opaque at considerable unnecessary expense.
5) At what level should the initial value of CID be set?	The minimum level should be 20 minutes but a longer period is preferred

**Views Invited**

Respondents to this Consultation Document are invited to comment on any of the issues raised in this consultation document, however responses are requested in particular to the following questions:

	Yes	No
<b>1) Do you believe that Modification Proposal P18A is capable of achieving its stated aims?</b>	Yes	
<b>2) Do you agree with the following views/recommendations of the Modification Group set down in Section 7.11 of this document:</b>	Yes	No
a) An interim workaround solution for Modification P18A is feasible;	Not proven	
b) Taking a pragmatic approach, and given the urgency of the Modification Proposal, an interim solution based on P18A “CID-definition” 1A should be implemented;	Yes	
c) Either “workaround-architecture” option 1a or option 2 should be used to support an initial implementation of “CID-definition” 1a. The choice of “workaround-architecture” to use should be based upon the results of the impact assessments from ELEXON and Logica;	Yes	
d) “CID-definition” 1a would be an acceptable enduring solution, and the adoption of more sophisticated options in the longer term should be considered primarily from the practical perspective of systems implementation;	Yes	
e) Enduring-architecture option 3 should only be considered if it is identified that it would take not more than 6 months longer than, nor cost £500k more than option 2.	Yes	
f) If, based on the above, “enduring-architecture” option 2 is progressed, then “CID-definition” 1A should be adopted as the enduring solution <sup>2</sup> ;	Yes	
g) If, based on the above, “enduring-architecture” option 3 is progressed, then “CID-definition” 3 should be adopted as the enduring solution.	Yes	
h) If “CID-definition” 3 is adopted as the enduring solution, with “CID-definition” 1A as the interim solution, no reconciliation based on the “CID-definition” 3 rules should be undertaken for those Settlement Days on which “CID-definition” 1A applied.	Yes	

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<sup>2</sup> This decision may be reviewed if it appears that CID-options 2 can be implemented without significant additional cost or timescales implications (compared to 1a) under enduring architecture 2.

<b>3) Do you agree that the above approach should be taken, except that CID-definition 0 should replace CID-definition 1a for the workaround and enduring solutions?</b>		No
<b>4) If you do not agree with the Modification Group's recommendation on any or all of the above options, what alternative implementation package (if any) which better meets the relevant BSC Objectives would you like to see adopted?</b>		
<b>5) At what level should the initial value of CID be set?</b>	15 minutes	

## **P18\_UMR2\_006 – TXU Europe Energy Trading UK Trading**

### **TXU Europe Energy Trading**

#### **UK Trading**

Wherstead Park  
PO Box 40, Wherstead  
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Tel: +44 (0)1473 554630  
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Gareth Forrester  
Modifications Manager  
Elexon Ltd  
3rd Floor  
1 Triton Square  
London, NW1 3DX

09 July 2001

Dear Gareth

#### **Urgent Modification P18: Removing/Mitigating the Effect of System Balancing Actions in the Imbalance Price Calculations**

Thank you for the opportunity to make further comments on the above urgent modification proposal. TXU Europe Energy Trading Ltd would like to make the following comments on behalf of all TXU Europe companies.

TXU Europe does not support modification proposal P18A. This modification proposal like the original and P15 seeks to reduce the occurrence of price spikes in the Balancing Mechanism. Price spikes can be caused by energy imbalance actions as well as system balancing actions, and TXU believes that the aim of the proposals should be to improve the constraint tagging process so that such costs are not included in the energy imbalance price, and we are not convinced that this proposal achieves that.

The basis of this modification proposal is that BOAs of a short duration (i.e. those with a short CID) are those taken for the purpose of solving constraints. TXU does not believe that this is necessarily true. It is entirely feasible for energy balancing BOAs to have a CID less than the proposed 20 minutes, and for system balancing BOAs to have a CID greater than 20 minutes.

The consultation document suggests that if the recommended option were implemented, there would be a 30-minute delay in the release of imbalance prices. TXU believe that in a market which is likely to move closer to real time, such a delay is not desirable. Energy imbalance prices provide incentives on participants to balance their positions. Should gate closure times be reduced, it is vital that such information is released as soon after the settlement period as possible in order to provide continuing and accurate incentives on participants.

Furthermore, TXU believes that implementation of this proposal may have an impact on NGCs incentive and BSUoS which may need to be addressed.

TXU believes that the industry should be seeking a way to implement a more accurate constraint tagging process that will capture all, and only, system balancing actions. We do not believe that it is desirable to implement a flawed solution merely because it is less flawed than the current position. The proposal will involve changes to central systems and possibly to participants systems all of which will involve time, resource and money that may be better invested in seeking an accurate enduring solution.

As we do not support this modification proposal, we have not included answers to the specific questions on which views are invited.

We hope you have found our comments useful and should you have any questions regarding this response please contact me on the above number.

Yours sincerely

Nicola Lea  
Market Development Analyst



**P18\_UMR2\_007 – EME**



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& Services Limited  
Bala House  
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Deeside  
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Tel: +44 (0)870 238 5500  
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10 July 2001  
Dear ELEXON

## **Comments on Modification P18**

### **Summary**

I am pleased to provide comments on Modification P18 as described in consultation document P18\_UMC2\_final. These comments are provided by Edison Mission Energy (EME) on behalf of the three companies Edison First Power Ltd., First Hydro Company and Lakeland Power Ltd. We maintain the view given in our initial response to this modification proposal dated 8 June 2001. We oppose its implementation on the basis that it is counter to the market fundamentals on which NETA was designed, and may well distort incentives on BSC parties and have a detrimental effect on liquidity in the short term markets.

EME would support a more general review of imbalance pricing, rules and incentives to balance, along with a review of other proposals for change. We believe that this should be completed before there are any changes to market rules.

On the specific proposals, EME does not support the use of either of the proposed interim workarounds. Of the enduring solutions, we would not support either CID definitions 1, 2 or 3. Only CID definition 0 provides for prompt price reporting. We also consider it inappropriate to set the value of CID any more than 5 minutes.

### ***General comments***

#### **Setting the value of CID**

I note from the analysis that increasing the value of CID causes more prices to be defaulted around periods 39-45. Due to lack of data, no analysis is possible to determine what the impact of this might be over the winter months when short duration acceptances will be required more often than at present. Dampening prices over peak periods will send the wrong signals about incentives to balance and will not reflect supply and demand fundamentals.

The value of CID should not be set long enough for energy balancing actions to be captured. This would be the case with CID set at 15 minutes. On this basis CID should be set at no

longer than 5 minutes. It will also reduce the incidence of prices being dampened over peak periods.

The definition chosen for this modification should not provide NGC with any undue influence over whether or not an acceptance was included in the price calculations. CID definition 1 would prevent this from happening but would result in a delay in price reporting. If anything is implemented, therefore, it should be CID definition 0 but with CID set to no longer than 5 minutes to reduce the opportunities for NGC to influence prices.

### **Effect on PX**

Delays in the accuracy of price reporting will remove timely feedback of pricing signals and reduce the already poor liquidity of the within day PX. We do not support any options that would result in a delay in price reporting including the proposed interim workarounds.

### **Effect on NGC's incentive scheme**

The effect of such modifications on NGC's incentive scheme must be examined. Since the modification has been proposed by NGC, it is appropriate that there should be an independent review of the potential impact on NGC of its implementation. EME suggests that NGC is required to publish on a monthly basis its performance in relation to its incentive scheme to allow participants to examine the motivation behind such modifications.

### **Effect on modification P12 - reducing gate closure**

Any option which causes a delay in publishing prices will reduce the benefits of and could prejudice the decision on shortening gate closure. The justification for shortening gate closure was to allow participants to balance their positions closer to real time. A delay of potentially a half hour in publishing prices will reduce confidence in the short term market signals and could negate the benefits of reducing gate closure.

Also, a one hour gate closure would lead to acceptances of a shorter duration. If this is coupled with a CID towards the upper end of the range, few trades will be included in imbalance price calculations. This highlights the need for a holistic rather than the current piecemeal approach to modification proposals.

I hope that you find these comments useful, please do not hesitate to contact me if you wish to discuss them further.

Yours faithfully

Phil Edgington

## P18\_UMR2\_008 – Dynegy

From: Rekha Patel[SMTP:rekha.patel@dynegy.co.uk]  
Sent: 10 July 2001 10:39  
To: modifications@elexon.co.uk  
Subject: "Response to the P18 Modification Consultation 2"

Attached is Dynegy's response to the modification proposal P18 consultation 2.

Dynegy are under the impression that question 2(f) has been typed incorrectly and should state:

If, based on the above, "enduring-architecture" option 2 is NOT progressed, then "CID-definition" 1A should be adopted as the enduring solution". Dynegy response to this particular question is based upon our correction.

Please do not hesitate to contact me on 020 8334 7267 if you have any additional questions or queries.

Rekha Patel

### Views Invited

Respondents to this Consultation Document are invited to comment on any of the issues raised in this consultation document, however responses are requested in particular to the following questions:

	Yes	NO
<b>1) Do you believe that Modification Proposal P18A is capable of achieving its stated aims?</b>	Yes	
<b>2) Do you agree with the following views/recommendations of the Modification Group set down in Section 7.11 of this document:</b>	Yes	NO
a) An interim workaround solution for Modification P18A is feasible;	Yes	
b) Taking a pragmatic approach, and given the urgency of the Modification Proposal, an interim solution based on P18A "CID-definition" 1A should be implemented;	Yes	
c) Either "workaround-architecture" option 1a or option 2 should be used to support an initial implementation of "CID-definition" 1a. The choice of "workaround-architecture" to use should be based upon the results of the impact assessments from ELEXON and Logica;	Yes	
d) "CID-definition" 1a would be an acceptable enduring solution, and the adoption of more sophisticated options in the longer term should be considered primarily from the practical perspective of systems implementation;		No, want right solution in

		long
e) Enduring-architecture option 3 should only be considered if it is identified that it would take not more than 6 months longer than, nor cost £500k more than option 2.	<b>Yes</b>	
f) If, based on the above, "enduring-architecture" option 2 is <b>NOT</b> progressed, then "CID-definition" 1A should be adopted as the enduring solution <sup>3</sup> ;	<b>Yes</b>	
g) If, based on the above, "enduring-architecture" option 3 is progressed, then "CID-definition" 3 should be adopted as the enduring solution.		<b>Nonn NO, clouds prices.</b>
h) If "CID-definition" 3 is adopted as the enduring solution, with "CID-definition" 1A as the interim solution, no reconciliation based on the "CID-definition" 3 rules should be undertaken for those Settlement Days on which "CID-definition" 1A applied.	<b>Yes</b>	
<b>3) Do you agree that the above approach should be taken, except that CID-definition 0 should replace CID-definition 1a for the workaround and enduring solutions?</b>	<b>Yes</b>	
<b>4) If you do not agree with the Modification Group's recommendation on any or all of the above options, what alternative implementation package (if any) which better meets the relevant BSC Objectives would you like to see adopted?</b>	<p>Dynegy is aware that the interim solution for modification</p> <p>P18A is a quick and dirty solution. We therefore recommends the need for a long term solution to be found.</p>	
<b>5) At what level should the initial value of CID be set?</b>	A duration of 15 minutes or plus.	

1.1 \_\_\_\_\_

<sup>3</sup> This decision may be reviewed if it appears that CID-options 2 can be implemented without significant additional cost or timescales implications (compared to 1a) under enduring architecture 2.

## P18\_UMR2\_009 – SEEBOARD

### Views Invited

Respondents to this Consultation Document are invited to comment on any of the issues raised in this consultation document, however responses are requested in particular to the following questions:

	Yes	No
<b>1) Do you believe that Modification Proposal P18A is capable of achieving its stated aims?</b>	Yes	
<b>2) Do you agree with the following views/recommendations of the Modification Group set down in Section 7.11 of this document:</b>		
a) An interim workaround solution for Modification P18A is feasible;	Yes	
b) Taking a pragmatic approach, and given the urgency of the Modification Proposal, an interim solution based on P18A "CID-definition" 1A should be implemented;	Yes	
c) Either "workaround-architecture" option 1a or option 2 should be used to support an initial implementation of "CID-definition" 1a. The choice of "workaround-architecture" to use should be based upon the results of the impact assessments from ELEXON and Logica;	Yes	
d) "CID-definition" 1a would be an acceptable enduring solution, and the adoption of more sophisticated options in the longer term should be considered primarily from the practical perspective of systems implementation;	Yes	
e) Enduring-architecture option 3 should only be considered if it is identified that it would take not more than 6 months longer than, nor cost £500k more than option 2.	Yes	
f) If, based on the above, "enduring-architecture" option 2 is progressed, then "CID-definition" 1A should be adopted as the enduring solution <sup>4</sup> ;	Yes	
g) If, based on the above, "enduring-architecture" option 3 is progressed, then "CID-definition" 3 should be adopted as the enduring solution.	Yes	
h) If "CID-definition" 3 is adopted as the enduring solution, with "CID-definition" 1A as the interim solution, no reconciliation based on the "CID-definition" 3 rules should be undertaken for those Settlement Days on which "CID-definition" 1A applied.	Yes	
<b>3) Do you agree that the above approach should be taken, except that CID-definition 0 should replace CID-definition 1a for the workaround and enduring solutions?</b>	Yes	

1.1 \_\_\_\_\_

<sup>4</sup> This decision may be reviewed if it appears that CID-options 2 can be implemented without significant additional cost or timescales implications (compared to 1a) under enduring architecture 2.

<p><b>4) If you do not agree with the Modification Group's recommendation on any or all of the above options, what alternative implementation package (if any) which better meets the relevant BSC Objectives would you like to see adopted?</b></p>	
<p><b>5) At what level should the initial value of CID be set?</b></p>	<p>15 minutes, but see comments below.</p>

We support these recommendations but would make the following general comments:

From presented analysis it is our view that 15 minutes is an appropriate CID value. Although a value somewhere between 15 and 20 minutes might be more appropriate. However, we note that this judgement is based upon analysis of one summer month. It seems likely that under other system conditions, e.g. winter, results would have been different. Analysis on the extent to which alternative system conditions would impact prices is we believe a serious omission from this document. Therefore, we have concerns on how robust a solution we will put in place with this modification.

## P18\_UMR2\_010 – British Energy Generation

### Views Invited

Respondents to this Consultation Document are invited to comment on any of the issues raised in this consultation document, however responses are requested in particular to the following questions:

	Yes	No
1) Do you believe that Modification Proposal P18A is capable of achieving its stated aims?	✓ (18A is capable of “mitigating the effect of System Balancing Actions in the Imbalance Price Calculation”, albeit in a somewhat arbitrary manner with no underlying principle)	
2) Do you agree with the following views/recommendations of the Modification Group set down in Section 7.11 of this document:	Yes	No
a) An interim workaround solution for Modification P18A is feasible;	✓	
b) Taking a pragmatic approach, and given the urgency of the Modification Proposal, an interim solution based on P18A “CID-definition” 1A should be implemented;		✓
c) Either “workaround-architecture” option 1a or option 2 should be used to support an initial implementation of “CID-definition” 1a. The choice of “workaround-architecture” to use should be based upon the results of the impact assessments from ELEXON and Logica;	✓ (An enduring solution for 18A-CID1a is not justified)	
d) “CID-definition” 1a would be an acceptable enduring solution, and the adoption of more sophisticated options in the longer term should be considered primarily from the practical perspective of systems implementation;		✓
e) Enduring-architecture option 3 should only be considered if it is identified that it would take not more than 6 months longer than, nor cost £500k more than option 2.	An “enduring” solution on the basis of the current work is not justified.	
f) If, based on the above, “enduring-architecture” option 2 is progressed, then “CID-definition” 1A should be adopted as the enduring solution <sup>5</sup> ;		✓ (CID-1A should not be considered an enduring solution)

1.1 \_\_\_\_\_

<sup>5</sup> This decision may be reviewed if it appears that CID-options 2 can be implemented without significant additional cost or timescales implications (compared to 1a) under enduring architecture 2.

<p>g) If, based on the above, "enduring-architecture" option 3 is progressed, then "CID-definition" 3 should be adopted as the enduring solution.</p>		<p>✓ (CID-3 is more correct in principle than 1A, but other possible pricing methodologies need to be explored).</p>
<p>h) If "CID-definition" 3 is adopted as the enduring solution, with "CID-definition" 1A as the interim solution, no reconciliation based on the "CID-definition" 3 rules should be undertaken for those Settlement Days on which "CID-definition" 1A applied.</p>		
<p><b>3) Do you agree that the above approach should be taken, except that CID-definition 0 should replace CID-definition 1a for the workaround and enduring solutions?</b></p>		<p>✓ A proper enduring system should produce "correct" prices as near to real time as possible. We do not support CID-0 as an enduring solution, and it seems unlikely that it would be able to provide fast "correct" price reporting anyway, in the interim.</p>
<p><b>4) If you do not agree with the Modification Group's recommendation on any or all of the above options, what alternative implementation package (if any) which better meets the relevant BSC Objectives would you like to see adopted?</b></p>	<p>The analysis has concentrated on detailed variations of the specific proposal and the effect of varying parameters to achieve reductions in price levels and volatility, without real consideration of the ultimate objective. We believe that more attention should be paid to the underlying principles to provide a robust and enduring pricing mechanism. A series of unavoidably arbitrary "quick fixes" does not inspire confidence in the market and diverts effort from a fuller review of pricing.</p>	
<p><b>5) At what level should the initial value of CID be set?</b></p>	<p>Given our reservations about the modification as a whole, and the results of the analysis presented, we believe 10 minutes would represent a cautious interim value, until such time as the principles and objectives can be more fully established.</p>	

Electronic responses should be sent to: [Modifications@elexon.co.uk](mailto:Modifications@elexon.co.uk) by 17:00 on 10<sup>th</sup> July 2001 and responses sent by post should be addressed to Modifications Department, ELEXON, 10<sup>th</sup> Floor, 338 Euston Road, London NW1 3BP, again to arrive by 17:00 on 10<sup>th</sup> July 2001. If you have any queries about the issues raised in this consultation paper then please contact Gwilym Rowlands on 0207 380 4373 (e-mail [gwilym.rowlands@elexon.co.uk](mailto:gwilym.rowlands@elexon.co.uk)). Responses should be marked "Response to the P18 Modification Consultation 2".



**P18\_UMR2\_011 – British Gas Trading**

ELEXON Ltd  
1 Triton Square  
London  
NW1 3DX

**Please reply to:  
50 Windsor Road  
Slough  
Berkshire  
SL1 2HA**

Tel. (01753) 758  
Fax (01753) 758  
Our Ref.  
Your Ref.  
13 July 2001

Dear Sir

**Urgent Modification 18: Removing/Mitigating the Effect of System Balancing Actions in the Imbalance Price Calculations**

Thank you for the opportunity to comment on Urgent Modification 18. British Gas Trading (BGT) strongly support the implementation of this modification and agree that it will further the Applicable BSC Objectives.

We believe the Continuous Instruction Duration (CID) should be 20 minutes or greater. This is a pragmatic solution given that the distinction between 'system balancing' and 'energy balancing' is mainly arbitrary and that a fuller review of imbalance price setting has already been accepted. Also, there are reasons to err on the cautious side, for example NGC's incentive encourages just-in-time balancing with no unwinding of BOAs. Hence NGC have a commercial incentive to use short duration BOA ('system balancing') as a substitute for longer duration BOA ('energy balancing'). Furthermore, the current incentive has no regard to price levels.

The 'workaround' that provides the quickest implementation should be chosen which is 'workaround architecture' 1a. The alternative workaround (2) cannot deliver until at least 3 months which is unacceptable considering the urgent nature of this modification proposal. During this 'workaround' period, we believe it is important that Elexon do all they can to provide revised imbalance prices (even if estimates) as quickly as possible to market participants as this will improve the efficiency, liquidity and 'orderliness' of those markets.

With regard to the implementation date of the modification, we believe that the effective date should be from the date of Ofgem decision, not some point in the future.

Yours faithfully

Danielle Lane  
Transportation Analyst

**Response to the P18 Modification Consultation 2**

Response on behalf of Southern Electric, Scottish and Southern Energy, Keadby Generation Limited and SSE Energy Supply Limited.

**Introduction**

SSE are concerned that this proposal is being pursued with limited market experience, limited data, limited analysis, in isolation from other modification proposals and with insufficient time for Parties to give any significant consideration to the report and the analysis that it contains. We believe this is inappropriate given the potential impact that this modification proposal could have on the market. Whilst we appreciate the desire to progress this as an urgent modification we are concerned that the quality of the decision is being sacrificed in pursuit of the timetable. The modification report dives in to detail, seeking answers on specific questions without addressing some of the wider issues and without providing the information required to make informed decisions. At best, we believe that implementation of the proposals should only be viewed as an interim solution pending a fuller review of the market more generally. It is in this light that we have submitted our response to the specific questions raised in the report.

1. We agree Modification Proposal P18A is capable of achieving its stated aims. It will have the effect of stripping out some of the actions which could reasonably be considered as system rather than energy balancing actions.
- 2a. We agree an interim workaround solution for P18A is feasible.
- 2b. We agree an interim solution based on CID definition 1a would be acceptable.
- 2c. We agree that either architecture 1a or 2 should be used to support initial implementation of CID definition 1a. We are disappointed that information is not available or included in the report regarding the cost and implementation timescales of both options. The choice of which options should be implemented should be based on the impact assessments from Elexon and Logica.
- 2d. CID definition 1a would be an acceptable enduring solution. However our preference would be for definition 3 or 1b. Once again, the decision is very dependent on system implications e.g. cost and timescale of implementation. Participants are being asked to indicate their preferences without access to such information.
- 2e. As stated above, although CID definition 1a is acceptable as an enduring solution, our preference would be for definition 3 or 1b but we agree that all such decisions are dependant on the implementation costs and timescales associated with these solutions. As such information is not currently available we are unable to be any more specific.

- 2f. If enduring architecture option 2 were to be progressed we would prefer CID definition 1b. If this were not feasible, option 1a would be acceptable.
- 2g. We agree, if enduring architecture option 3 was found to be feasible, then definition 3 should be adopted. Once again there is currently no analysis available and no indication of what the Working Group or Panel might consider to be appropriate circumstances or criteria under which to progress option 3 rather than 2.
- 2h. We agree that no reconciliation should be undertaken as a result of transferring from an interim workaround to an enduring solution.
3. We do not agree.
4. We note the analysis, presented in Graph 2 on page 23 of the report. There is very little information presented in the report on this option, particularly the definition of “fast plant”, but we note the effect of removing all fast plant and suggest this could be considered as an alternative and possibly simpler solution.
5. We suggest CID should initially be set to 20 minutes.

#### **Other Issues**

We note the impact of alternative options on BMRS data and believe that further consideration should be given to ensure such data can be reported as accurately and timely as possible to ensure market transparency and usefulness of data is maintained.

Beverley Grubb  
Market Development  
Scottish and Southern Energy

## **P18\_UMR2\_013 - ScottishPower**

From: Harrison, Mike[SMTP:Mike.Harrison@ScottishPower.plc.uk]  
Sent: 10 July 2001 17:08  
To: 'Modifications@elexon.co.uk'  
Subject: P18A - ScottishPower Response

The Modifications Secretary,  
Elexon

Dear Sir,

ScottishPower Response to Consultation on Modification Proposal P18A

As we stated in response to the initial consultation on P15/18, ScottishPower does not believe that modification of a single element of a complex system is the best way to improve the overall performance of the system, especially when the modification is subjected to the compressed timescales of the urgent modification process. That said, we believe that P18A is capable of achieving its stated aims.

We do not feel competent to respond to the detailed issues raised in question 2.

Our interpretation of CID-definition 0, as described in section 7.4.4, is that the duration test is applied looking forward, as if testing the intent of the despatcher who issued the BOA. Any BOA of shorter duration than CID will be considered to be for system balancing purposes and will cause the group to be discarded for price calculation purposes. This, together with the immediacy of the indicative price calculation which would be available using this option, leads us to favour CID-definition 0.

ScottishPower believes that the initial value of CID should be set to 15 minutes.

Regards

Mike Harrison  
Scottish Power UK plc, also on behalf of Manweb plc, Manweb Services Limited and Emerald Power Generation Limited.

## **P18\_UMR\_014 – Innogy Group**

From: ben.willis@yeg.co.uk[SMTP:ben.willis@yeg.co.uk]  
Sent: 10 July 2001 18:05  
To: David.McNair@elexon.co.uk; modifications@elexon.co.uk  
Cc: ALAN.SMITH@innogy.com; david.tolley@innogy.com; terry.ballard@npower.com; Barbara.Vest@yeg.co.uk  
Subject: Innogy Response to P18 Consultation questionnaire

This constitutes the response of the Innogy Group to the consultation on P15 / P18:

- 1) Yes
  
- 2a) Yes
- b) Yes
- c) The choice of architecture should be chosen on the basis of the solution chosen, and is secondary to the consultation on the solution. Elexon / Logica should chose the least-cost solution given the chosen way forward.
- d) Yes
- e) Yes, but only if this is deemed to be the most cost-effective solution
- f) Yes, but only if this is deemed to be the most cost-effective solution
- g) No
- h) See answer to (g) above
  
- 3) No
  
- 4) The chosen solution should not be limited by systems architecture. The chosen solution should be implemented in the most cost-efficient way possible. It seems wrong to suggest a solution, and then choose an more expensive implementation method. We understood that option 1a is the preferred solution, it seems strange to contemplate implementing another solution at a higher cost. We advocate the progression of option 1a, in the most cost effective manner.
  
- 5) 10 minutes

Ben Willis  
Representation Co-ordinator  
Yorkshire Electricity  
Tel: 0113 289 5937  
Mob: 07720 506882

**MODIFICATION PROPOSALS P18: REMOVING/MITIGATING THE  
EFFECT OF SYSTEM BALANCING ACTIONS IN THE IMBALANCE  
PRICE CALCULATIONS**

**Response by Enron Europe  
10 July 2001**

**Introduction**

Enron Europe Limited welcomes the opportunity to respond to the second consultation on proposed modification P18. In responding, Enron Europe represents the views of four BSC Parties: Enron Direct, Enron Capital and Trade Resources, Enron Gas and Petrochemicals Trading, and Enron Teesside Operations.

Technically there is little between the different options. They all, to a slightly greater or lesser extent, meet the objectives of P18A by excluding system balancing actions from imbalance price setting. The urgency of the modification suggests, therefore, that a pragmatic choice of architecture and CID definition should be made for both the interim and enduring solutions.

Cost, timing and technical correctness are the drivers of the decision for the enduring solution. The importance of timing is reduced through the use of an interim solution. And, since all solutions meet the objectives of P18A, technical correctness is not a key driver. Therefore choice of the enduring solution should principally be made on implementation cost.

The modification's urgency dictates the final solution should apply as soon as possible, ie, from when the Authority was to make its decision to implement this proposal. An interim solution is only required to ensure cashflows reflect the final solution and prices determined under the interim work-around must be reconciled to prices determined by the enduring solution. Consistency of the final and interim solutions is a relatively minor issue since the choice of modification option will not greatly impact final prices.

The important thing is that the market knows what rules are in place at any time. They can then respond to the prices that would be calculated according to those enduring rules, even during the interim period.

In summary, Enron is not wedded to a particular solution and the choice of interim and enduring solution should be heavily weighted pragmatism.

In the next section we respond to Elexon's questionnaire. However, it is difficult for us to make a proper assessment of the possible alternatives without a more detailed analysis of the options, and their impact on prices, implementation time and costs.

**Enron's Response to the Questionnaire**

**Q1: Do you believe that Modification Proposal P18A is capable of achieving its stated aims?**

Yes. To better achieve the Applicable BSC Objectives, P18A must identify and exclude system balancing actions from the calculation of Energy Imbalance Prices without compromising transparency and efficiency. While no rule can perfectly distinguish between system and energy balancing actions, P18A offers a solution that excludes most system balancing actions while excluding relatively few energy balancing actions.

Q2: Do you agree with the following views/recommendations of the Modification Group set down in Section 7.11 of this document:

a) An interim workaround solution for Modification P18A is feasible.

Yes. An interim solution to P18 is both feasible and necessary. An interim solution provides a rapid response to this urgent pricing problem several months before an enduring solution.

b) Taking a pragmatic approach, and given the urgency of the Modification Proposal, an interim solution based on P18A "CID-definition" 1A should be implemented.

Yes, but option 0a is a possible alternative. If interim solutions for CID definitions 2 or 3 are not possible, this leaves a choice between CID definitions 0 and 1. Without an assessment of the required implementation process for the enduring and interim solutions for CID definition 0 we prefer the technically more correct solution 1. Of CID definitions 1a, 1b and 1c we prefer 1a because the interim workaround for 1b is not adequately robust and 1c appears significantly more difficult to implement than 1a, without providing substantial technical improvement.

c) Either "workaround-architecture" option 1a or option 2 should be used to support an initial implementation of "CID-definition" 1a. The choice of "workaround-architecture" to use should be based upon the results of the impact assessments from ELEXON and Logica.

Yes. Consultation Document 2 provides insufficient information to decide between the two work-arounds, but suggests that both could be used for initial implementation of "CID-definition" 1a. An impact assessment should be used to choose between the two on the basis of ease of implementation and ability to achieve the desired outcome (ie, interim CID definition 1a).

d) "CID-definition" 1a would be an acceptable enduring solution, and the adoption of more sophisticated options in the longer term should be considered primarily from the practical perspective of systems implementation

Yes. CID definition 1a has advantages as an enduring solution because it allows more rapid resolution of this urgent modification. These practical advantages outweigh its technical inferiority compared with CID definitions 2 and 3. An alternative enduring solution that is technically superior to 1a should only be chosen if it can be implemented for little additional cost or time, ie, if CID definitions 2 or 3 could be implemented for little additional cost then they should be implemented.

e) Enduring-architecture option 3 should only be considered if it is identified that it would take not more than 6 months longer than, nor cost £500k more than option 2.

Yes. If enduring-architecture option 3 can be implemented at relatively little additional cost compared with enduring-architecture option 2 it should be chosen. Given two outcomes with similar costs, we prefer the more technically correct solution.

f) If, based on the above, “enduring-architecture” option 2 is progressed, then “CID-definition” 1A should be adopted as the enduring solution.

Yes. Again, if one of the CID definitions 2 could be implemented for little additional cost then they should be considered.

g) If, based on the above, “enduring-architecture” option 3 is progressed, then “CID-definition” 3 should be adopted as the enduring solution.

Yes. Having chosen enduring architecture option 3, CID definition 3 should be chosen if it is not significantly more difficult (in terms of time and expense) to implement than CID definition 1A. Setting aside the relative ease of implementation, the benefits of CID definition 3’s technical superiority outweigh the dis-benefits of having different pricing rules for the interim and enduring solutions.

h) If “CID-definition” 3 is adopted as the enduring solution, with “CID-definition” 1A as the interim solution, no reconciliation based on the “CID-definition” 3 rules should be undertaken for those Settlement Days on which “CID-definition” 1A applied.

No, we disagree. The modification’s urgency dictates the final solution should apply as soon as possible, ie, from when the Authority was to make its decision to implement this proposal. An interim solution is only required to ensure cashflows reflect the final solution and prices determined under the interim work-around must be reconciled to prices determined by the enduring solution. Consistency of the final and interim solutions is a relatively minor issue since the choice of modification option will not greatly impact final prices.

The important thing is that the market knows what rules are in place at any time. They can then respond to the prices that would be calculated according to those enduring rules, even during the interim period.

Q3: Do you agree that the above approach should be taken, except that CID-definition 0 should replace CID-definition 1a for the workaround and enduring solutions?

No. The consultation document provides insufficient information about CID definition 0 to make this decision. Unless an assessment of CID definition 0 can be made and consulted on without delaying the modification process, this option should be rejected.

If you do not agree with the Modification Group’s recommendation on any or all of the above options, what alternative implementation package (if any) which better meets the relevant BSC Objectives would you like to see adopted?

We *disagree* that interim prices should *not* be reconciled with enduring prices. Instead, the enduring solution should apply from when the Authority was to decide in favour of this proposal.



***At what level should the initial value of CID be set?***

30 minutes. Participants currently avoid system buy prices at almost any cost because of the large impact system balancing actions have on those prices. Until imbalance prices reflect the underlying fundamentals of the energy market, participants' actions will continue to be based upon minimising imbalance price risk instead of achieving outcomes that are mutually beneficial for themselves and the system.

CID should be set to 30 minutes to ensure that no system balancing actions are included in imbalance prices. This would also exclude some energy balancing actions from imbalance price calculations. However, given the detrimental impact of system balancing actions on prices to date it is preferable to err on the side of excluding too many balancing actions rather than too few.

By reducing the uncontrollable imbalance price risk participants will be more willing to take some exposure to both SSP and SBP. This will reduce the net system imbalance and increase within day liquidity. Increasing liquidity allows smaller generators and suppliers to manage their risks in the traded markets.

10 July 2001

Gwilym Rowlands  
P18 Modification Group

Dear Gwilym

Thank you for giving the opportunity to comment on the various implementation options for modification proposal 18A. Given the relatively short consultation period and the length of the consultation report we have been unable to give this matter the attention it deserves. In particular we were not able to fully assess the likely on going impact of the various CID definition options/ durations on cash-out prices although some analysis was provided for a number of "interesting days" in table 3 on page 30 of the report.

In response to the specific questions asked in the consultation document our views are as follows. Notes have been added to explain our position.

1) Do you believe that Modification Proposal P18A is capable of achieving its stated aims?	Yes	
2) Do you agree with the following views/recommendations of the Modification Group set down in Section 7.11 of this document:		
a) An interim workaround solution for Modification P18A is feasible;	Yes (i)	
b) Taking a pragmatic approach, and given the urgency of the Modification Proposal, an interim solution based on P18A "CID-definition" 1A should be implemented;	Yes (ii)	
c) Either "workaround-architecture" option 1a or option 2 should be used to support an initial implementation of "CID-definition" 1a. The choice of "workaround-architecture" to use should be based upon the results of the impact assessments from ELEXON and Logica;	Yes	
d) "CID-definition" 1a would be an acceptable enduring solution, and the adoption of more sophisticated options in the longer term should be considered primarily from the practical perspective of systems implementation;		No (ii)
e) Enduring-architecture option 3 should only be considered if it is identified that it would take not more than 6 months longer than, nor cost £500k more than option 2.		No (iii)
f) If, based on the above, "enduring-architecture" option 2 is progressed, then "CID-definition" 1A should be adopted as the enduring solution <sup>6</sup> ;		No (iv)

g) If, based on the above, "enduring-architecture" option 3 is progressed, then "CID-definition" 3 should be adopted as the enduring solution.	Yes (iv)	
h) If "CID-definition" 3 is adopted as the enduring solution, with "CID-definition" 1A as the interim solution, no reconciliation based on the "CID-definition" 3 rules should be undertaken for those Settlement Days on which "CID-definition" 1A applied.	Yes	
<b>3) Do you agree that the above approach should be taken, except that CID-definition 0 should replace CID-definition 1a for the workaround and enduring solutions?</b>	No view	
<b>4) If you do not agree with the Modification Group's recommendation on any or all of the above options, what alternative implementation package (if any) which better meets the relevant BSC Objectives would you like to see adopted?</b>	We prefer delaying implementation of 18A until the more robust systematised "CID-definition" 3 option can be introduced	
<b>5) At what level should the initial value of CID be set?</b>	10 minutes (v)	

Notes related to the table above:

- i. Inaccurate delayed or misleading pricing information could result from a manual workaround process. BSAD data will become meaningless and SBP data will change considerably from BRMA. In our view material errors are almost inevitable. We therefore believe it would be better to delay implementation 18A until the industry is in a position to implement a the fully fledged systematised "CID-definition" 3 option.

We have specific concerns with the interim workaround proposed for "CID-definition 1A. it would appear that a BMU in a given settlement period will have all bid and offer quantities tagged out if there is a continuous instruction less than CID – this is because a quick workaround would require use of SAA 1014 which includes only aggregated bid and offer volumes. For example a BMU gets an offer accepted for 1 minute followed by a shut down for 4 minutes with another offer being accepted for the rest of the settlement period thereafter. The proposed workaround would appear to tag out both accepted offers although the later would exceed CID (if CID was up to say 25 minutes).

We would certainly not support "CID-definition" 2 option. In our view NGC should as far as reasonably practical be incentivised to get their instructions 'right first time'. The "CID-definition" 2 option effectively allows later acceptances to shorten the duration of earlier acceptances to within CID, thus turning an "energy balancing" action into a "system balancing" action, and at the same time improving NGC's position with respect to their balancing incentive.

A simpler, cheaper and perhaps more robust solution that might satisfy the aims of modification proposal 18A might be to implement a workaround that excludes all fast plant above 100MW/min. This analysis is touched on in footnote 4 on page 20 of the report. \This option is perhaps worthy of further consideration.

- ii. Conditional on agreement to implement a systematised "CID-definition 3" option in 6 to 12 months, we could live with a temporary "CID-definition 1A" workaround in the interim. This option must not however become the enduring solution by default.
- iii. The robustness and integrity of both the methodologies and systems used to calculate cash-out prices are of fundamental importance to the new trading arrangements. Hence we support option 3 architecture. We are not sure it is possible to at this stage prescribe an maximum incremental cost threshold over and above option 2 architecture (other than it perhaps being a useful bargaining tool to in controlling Logica's costs).
- iv. Our preference is for a fully systematised "CID definition" 3 option to be implemented as the enduring solution (see also related comments above).
- v. Setting CID at 10 minutes would seem to draw a reasonable line between so called energy balancing actions ("normal" plant acceptances) and system balancing actions ("fast plant" acceptances) . Table 3 on page 20 of the report would seem to tag out two thirds of the pumps at 10 minutes whilst tagging only 2% of coal/gas plant, although it is difficult to determine. what exactly is meant by "fast plant" in this analysis.

We trust you find these comments useful. If you have any queries about regarding the above comments please contact me on 024 7642 5441.

Yours sincerely,

Peter Bolitho  
Trading Arrangements Manager  
Powergen UK plc