

July 2001

**BSC PANEL REPORT TO THE AUTHORITY
URGENT MODIFICATION PROPOSAL P18**

**Removing/Mitigating the Effect of System Balancing Actions in the Imbalance Price
Calculations**

Prepared by ELEXON on behalf of the BSC Panel

Document Reference

Version no.	1.0
Issue	1
Date of Issue	13 th July 2001
Reason for Issue	Final
Author	ELEXON

I DOCUMENT CONTROL

a Authorities

Version	Date	Author	Signature	Change Reference
1.0	13/07/01	ELEXON Trading Strategy		Final Report

Version	Date	Reviewer	Signature	Responsibility
1.0	13/07/01	Brian Saunders		Authorisation of Document

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

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1 SUMMARY AND RECOMMENDATIONS

1.1 Summary

This document constitutes the BSC Panel Report to the Authority in relation to Urgent Modification Proposal P18, and is submitted in accordance with BSC Section F. Modification Proposal P18 was treated as urgent and progressed in accordance with the timetable included in Section 5.1.3 of this document which was approved by the Authority.

A significant amount of information in relation to this Modification Proposal is included in a variety of consultation documents that have been produced by the Modification Group. In order to avoid the need to duplicate large sections of these documents, not all of the information contained therein is included in this report. However, for convenience, copies of the responses to the July 2001 consultation document, and the Modification Proposal itself have been included, as well as the BSC changes recommended for P18.

For additional background information and analysis, the attention of the Authority is drawn particularly to the following documents:

- 1) Modification Group Report to the BSC Panel – Modification Proposals P15 and P18; 13th June 2001;
- 2) Urgent Modification Consultation Document 2 – Modification Proposal P18; 5th July 2001;
- 3) Modification Group Report to the BSC Panel – Modification Proposal P18, 11th July 2001.

These have been previously copied to the Authority and are also available on the ELEXON website (www.elexon.co.uk).

1.2 Recommendations

The BSC Panel unanimously recommends to the Authority that:

- i) Modification P18A CID-Definition 1a should be implemented, i.e. the BSC changes set down in Annex 2 to this document should be made;
- ii) The effective date of the Modification P18A CID-definition 1a should be the Settlement Day falling 5 weeks after the later of (1) the 1st of August 2001 and (2) the date on which the Authority's decision to approve the Modification is made.
- iii) No BSC changes should be made in relation to Modification P18A in order to reflect other CID-Definitions;
- iv) No Modification to the BSC should be made in respect of Modification P18B.
- v) The effective date of Modification P18A CID-definition 1a should be earlier if BSCCo confirms, after consultation with the service provider, that it is practicable for the implementation of workaround architecture 1a (see below) to take place prior to the date in ii) above. Such confirmation would need be given at least 10 working days prior to the date of any proposed earlier implementation;

The BSC Panel also recommends to the Authority that:

- vi) The value of the Continuous Acceptance Duration Limit¹ should initially be set to 15 minutes (as in the proposed BSC changes set down in Annex 2 to this document);

The Panel proposes that the implementation of P18A be achieved initially by implementing Workaround Architecture 1a, and then subsequently Enduring Architecture 2. This means that the BSC changes will not initially be reflected in the Interim Information Settlement Run, nor, depending upon the interaction between the timing of the implementation and certain existing workaround arrangements, the Initial Settlement Run. It should also be noted that the correct energy imbalance prices will not be displayed on the BMRS until the full enduring solution is implemented. Instead, it is intended that these will be published on the ELEXON website as soon as is practicable after the calculation of the prices (approximately d+7 under the initial implementation).

It is proposed that a timetable setting down which settlement runs will contain the correct energy imbalance prices would be published as part of the implementation.

1.3 Meeting the BSC Objectives

The Panel believes that if the Authority accepts the above recommendations, this would allow the applicable BSC Objectives to be better met. In particular, the introduction of Modification P18A would better facilitate the efficient, economic and co-ordinated operation by the Transmission Company of the Transmission System, and would promote effective competition in the generation and supply of electricity.

It is recognised that the form and costs of the proposed implementation will not necessarily maximise the promotion of efficiency in the implementation and administration of the balancing and settlement arrangements, however, on balance, the Panel believes that this disadvantage is outweighed by the benefits that a rapid implementation of the Modification would bring.

These issues are discussed in more detail in Section 6 of this document.

1.4 Structure of this Report

The remainder of this report is structured as follows:

- Section 2 Provides a brief introduction to this Modification Report
- Section 3 Provides some background to the purpose and scope of the report.
- Section 4 Provides a summary description of the proposed Modification.
- Section 5 Sets down the detail of the procedure followed in processing Modification P18.
- Section 6 Sets down the discussions of the Panel that led to the recommendations in Section 1.2, and includes a statement of why the Panel believes adopting these recommendations will better meet the BSC Objectives.
- Section 7 Summarises the responses to the July 2001 consultation document.
- Section 8 Summarises the results of the Impact Assessments
- Annex 1 Includes a copy of the responses to the July 2001 consultation
- Annex 2 Sets down the legal drafting changes that would be needed to support CID-definition 1a

1.1.1.1

¹ Also referred to as the Continuous Instruction Duration Limit, or CID Limit.

Annex 3 Includes a copy of the original Modification Document.

2 INTRODUCTION

This Report has been prepared by ELEXON Ltd, on behalf of the BSC Panel for Modification Proposal 18, in accordance with the terms of the Balancing and Settlement Code ('BSC'). The BSC is the legal document containing the rules of the balancing mechanism and imbalance settlement process and related governance provisions. ELEXON is the company that performs the role and functions of the BSCCo, as defined in the BSC.

This Modification Report is addressed and furnished to the Authority and none of the facts, opinions or statements contained herein may be relied upon by any other person.

An electronic copy of this document can be found on the BSC website, at www.elexon.co.uk

3 PURPOSE AND SCOPE OF THE REPORT

BSC Section F sets out the procedures for progressing proposals to amend the BSC (known as 'Modification Proposals'). These include procedures for proposing, consulting on, developing, evaluating and reporting to the Authority on potential modifications.

The BSC Panel is charged with supervising and implementing the modification procedures. ELEXON provides the secretariat and other advice, support and resource required by the Panel for this purpose. In addition, if a modification to the Code is approved or directed by the Authority, ELEXON is responsible for overseeing the implementation of that amendment (including any consequential changes to systems, procedures and documentation).

The modification procedures culminate in a modification report to the Authority, which normally contains the Panel's recommendation on whether or not a proposed modification should be approved and a proposed date for its implementation, together with a detailed assessment of the proposal in question. The report forms the basis upon which the Authority will decide whether to approve, direct or reject a modification proposal.

The Transmission Company or ELEXON may recommend that a Modification Proposal be treated as urgent, subject to approval by the Authority. The procedure for progressing an Urgent Modification Proposal is set out in Sections F2.9 and B4.6 of the Code. These urgent procedures allow the normal modification procedures to be circumvented as necessary to fit with the urgency of the matter. In such cases, the Authority will confirm the timetable and procedure that should apply. The timetable and procedure directed by the Authority must be adhered to, along with any other special instructions. A statement containing the reasons why the Panel (or Panel Chairman) consider the Proposal should be treated as urgent must be included in the Urgent Modification Report, together with a description of the extent to which the procedure followed deviated from the normal modification procedure.

Depending on the urgency of the matter, it may not be possible to establish a Modification Group or undertake detailed assessment of the modification proposal. The level of detail and analysis presented in this Urgent Modification Report therefore represents the full extent of relevant information regarding the modification proposal that could be collated within the time available.

This report is the report to the Authority from the BSC Panel in relation to Modification Proposal P18.

4 DESCRIPTION OF PROPOSED MODIFICATION

On 23 May 2001, NGC submitted Modification Proposal P18 – “Removing/Mitigating the Effect of System Balancing Actions in the Imbalance Price Calculations”. This Modification included two options for making amendments to the imbalance price calculations.

Option 18A proposed an enhanced definition of system balancing actions. Bid/Offer acceptances of ‘Continuous Instruction Duration’ less than the CID limit of [15] minutes would be tagged as System rather than Energy balancing actions.

Option 18B proposed that the BRL parameter is set as a minimum volume of balancing actions from which the imbalance prices can be set. When there is a smaller volume of actions, the imbalance price is set as a weighted average of the price derived from the current rules, and the default price that would apply if no balancing actions had been taken. The weighting would be in proportion to the volume of balancing actions, and BRL minus this volume, respectively.

Further analysis of the Modification identified that there are number of definitional alternatives all of which may be considered to be consistent with P18A. A description of the detailed alternatives and an analysis of them is included in the Urgent Modification Consultation Document 2 – Modification Proposal P18; 5th July 2001. A copy of this document and the Modification Proposal is available on the ELEXON Website (www.ELEXON.co.uk). It has been replicated in Annex 3 of this document.

5 DETAIL OF PROCEDURE AND TIMETABLE FOLLOWED

5.1.1 Urgent Treatment and initial Modification Meeting

In accordance with the Modifications Process, P18 was treated as urgent and, because P18 was of a similar nature to P15, both were considered together by the Pricing Issues Modification Group.

The Modification Group met on 1st June 2001 to discuss the two Modifications, and a consultation document was produced by ELEXON further to the discussions at the Modification Group meeting.

5.1.2 Initial Consultation and Report to Panel

The results of this consultation were presented to the Panel on 14th June 2001 for their consideration. In particular on the basis of the analysis, consultation and assessment undertaken, the Modification Group recommended that the Panel Agree the following procedure in respect of the Modifications Proposals:

- Assess an enduring solution for P18A;
- Assess a workaround to give effect to P18A for implementation until such time as an enduring solution is implemented;
- Draft BSC amendments to reflect P18A;
- Undertake a consultation on the above;
- Report to be presented to the Panel on the results of the consultation, proposing final recommendations for Panel consideration;
- Timescales for these as per Annex 1 (of that report);

The Panel was also invited to:

- Note that further assessment of P15 and P18B should be deferred;
- Note that if the Panel consider that P15 should also be pursued further, then the above process could be adopted, but would entail significantly longer timescales.
- Agree that authority should be delegated to the Panel Chairman to agree expenditure additional to that allowed for, if required by the Modification Group.

Both the initial consultation document and the report to the Panel are available on the ELEXON website (www.elexon.co.uk).² More detail of the Modification proposal, the consultation questions and responses, and the background to the recommendations made to the Panel are included within these documents.

5.1.3 Panel Consideration and Revised Timetable

The Panel considered the report from the Modification Group as well as the representations made by the sponsors of each proposal. The Panel considered that the most judicious way to address the issues

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² The documents are:

- 1) Urgent Modification Consultation Document, Modification Proposals P15 and P18, 05th June 2001; and
- 2) Modification Group Report to the BSC Panel, Modification Proposals P15 and P18, 13th June 2001

raised by each proposal would be to progress only one proposal, P18A, at this stage whilst deferring the others, P15 and P18B.

The Panel further discussed the implementation options for any resulting changes to the BSC. It was felt that in the event of any proposal being accepted by the Authority it would be necessary to implement any resulting change from the date of any decision of the Authority. Recognising the significance of any change and the practicality of implementing such a change to BSC Central Systems, the Panel instructed that work be progressed on an interim solution that could be used until the enduring changes to the BSC Central Systems were available.

Furthermore recognising the Urgent Modification Status granted to the Modification Proposals the Panel agreed that it should seek the Authority's provisional thinking on the Panel's recommendation and also its agreement to the revised timetable.

The revised timetable approved by the Panel was as follows:

Mod Proposal				Thur 14th June	Fri 15th June	Sat 16th	Sun 17th
P15 & P18				Panel Meeting	Report to Authority	-	-
	Mon 18th June	Tue 19th June	Wed 20th June	Thu 21st June	Fri 22nd June	Sat 23rd June	Sun 24th June
P15 & P18	ELEXON Analysis	ELEXON Analysis	ELEXON Analysis	ELEXON Analysis	ELEXON Analysis	-	-
	Mon 25th June	Tue 26th June	Wed 27th June	Thu 28th June	Fri 29th June	Sat 30th June	Sun 1st July
P15 & P18	ELEXON Analysis	ELEXON Analysis	ELEXON Analysis	Modification Group Meeting	ELEXON Analysis & Legal Drafting	-	-
Mod Proposal	Mon 2nd July	Tue 3rd July	Wed 4th July	Thu 5th July	Fri 6th July	Sat 7th July	Sun 8th July
P15 & P18	ELEXON Analysis & Legal Drafting	ELEXON Analysis & Legal Drafting	Consultation Document	Consultation Document	Consult	-	-
Mod Proposal	Mon 9th July	Tue 10th July	Wed 11th July	Thu 12th July	Fri 13th July		
P15 & P18	Consult	Consult	Consultation Responses & Panel Report	Panel Meeting called to discuss P15/P18	Urgent Modification Report to Authority		

5.1.4 Response from Authority

Having considered the Panel's recommendation, the Modification Group's Report and the representations made by respondents, the Authority agreed with the Panel's recommendation to progress Urgent Modification Proposal P18A in accordance with the timetable and procedure attached to its timetable of 15 June 2001 (i.e. as shown above), and to defer further work on P15 and P18B.

5.1.5 Further work by Modification Group and ELEXON

Further to the decisions of the Panel, work on Modification Proposal P18A was progressed by ELEXON and the Modification Group. A significant amount of background analysis was undertaken by ELEXON in the following areas:

- A detailed analysis of the Modification Proposal P18A, and development of definitional alternatives;
- An analysis of the effectiveness of P18A in removing price spikes, in particular developing an understanding of the effectiveness of P18A as the value of the tuning parameter "CID" is varied;
- An investigation into the issues associated with the implementation of a workaround, initial implementation of P18A, the feasibility of this implementation, the implementation options that exist, and the interaction with the definitional alternatives;
- A consideration of some of the issues associated with the implementation of the enduring solution;
- Development of the drafting changes that would need to be made to the BSC in order to support P18A, including different drafting, depending upon the definitional alternative chosen;
- An analysis of the decision-making process that may be appropriate in order to select a suitable way forward, given the numerous, complex and interacting issues associated with the Modification.

The Modification Group met on 28th June 2001 to consider the analysis produced by ELEXON and to discuss the content of this second consultation on Modification Proposal P18A.

Further to the Modification Group meeting on 28th June 2001, ELEXON prepared a second consultation document³. This document made a number of recommendations that were in some cases contingent upon the outcome of impact assessments that were to be undertaken by ELEXON and the Central Service Provider. This consultation document was issued on Thursday 5th July 2001, and responses requested by 17:00 on 10th July 2001.

5.1.6 Results of Consultation

The consultation document asked a number of questions aimed primarily at identifying whether or not respondents agreed with the recommendation of the Modification Group.

The questions asked were as follows:

	Yes	No
1) Do you believe that Modification Proposal P18A is capable of achieving its stated aims?		
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		

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³ Urgent Modification Consultation Document 2, Modification Proposal P18: Removing/Mitigating the Effect of System Balancing Actions in the Imbalance Price Calculations. July 20001.

"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.		
f) If, based on the above, "enduring-architecture" option 2 is progressed, then "CID-definition" 1A should be adopted as the enduring solution ⁴ ;		
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?		
5) At what level should the initial value of CID be set?		

A total of 16 responses to the consultation were received. A summary of the responses received is included in Section 7 of this document, and a complete version of all of the responses is included in Annex 1.

5.1.7 Impact Assessments

A number of impact assessments were commissioned which were intended to determine the impact that the implementation of a variety of workaround and enduring solutions would be. Impact assessments were undertaken by the Central Service Provider and ELEXON. A summary of the results of the impact assessments is included in section 8.

5.1.8 Consideration by the Panel

A report from the Modification Group was sent to the Panel on 12th July 2001, and a presentation was given of the work undertaken to date, which included the results of the consultation exercise and the

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⁴ 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.

high-level impact assessments. A copy of the slides presented to the Panel at this meeting is included in Annex 4 of this document, and are available on the ELEXON website.

The discussions of the Panel that led to the recommendations in Section 1.2 of this document are set down in Section 6 below.

6 PANEL DISCUSSIONS

6.1 Introduction

The Modification Group Report to the BSC Panel – Modification Proposal P18, 11th July 2001 was considered at the Panel meeting of 12th July 2001. This consideration was accompanied by a presentation from ELEXON summarising the work of the Modification Group, some of the analysis that had been carried out by ELEXON, the results of the consultation exercise conducted by the Modification Group and the results of the high-level impact assessments. A representative of the Authority was present at the Panel meeting.

6.2 Panel Discussions and Meeting the BSC Objectives

In deciding upon the recommendations made to the Authority in relation to Modification P18 set down in section 1.2 of this document, the Panel was mindful of the requirement of Modifications to better meet the applicable BSC Objectives. This section sets down the Panel discussions in relation to Modification P18A and includes a description of why the Panel believed that their recommended way forward would better meet the applicable BSC Objectives.

In its discussions, the Panel considered in detail the responses to the Modification Group consultation, and believed that overall, their recommendations in section 1.2 are consistent with the balance of opinion and arguments raised in the responses.

6.2.1 Applicable Objectives

For reference, the Applicable BSC Objectives are set out in paragraph 3 of Condition 7A of the Licence, as follows:

- (a) The efficient discharge by the Transmission Company of the obligations imposed under the Transmission Licence;
- (b) The efficient, economic and co-ordinated operation by the Transmission Company of the Transmission System;
- (c) Promoting effective competition in the generation and supply of electricity, and (so far as consistent therewith) promoting such competition in the sale and purchase of electricity;
- (d) Promoting efficiency in the implementation and administration of the balancing and settlement arrangements.

6.2.2 Implementing P18A

In discussions in relation to Modification P18, the BSC Panel recognised that there was no definitive, unambiguous split between system balancing actions and energy balancing actions. For example, it was not clear where the division between frequency response (system) and reserve (energy) lay. The Panel was, however, of the general view that very short duration acceptances should be classified as system balancing actions, and hence their impact should be disregarded in determining energy imbalance prices.

The consequence of the current classification of short-term actions as energy balancing was, in some cases, severe and could lead to very high System Buy Prices. The possibility for such inappropriately

high prices to arise had, in the Panel's opinion, led to inappropriate incentives on market participants to trade "long", i.e. to deliberately spill in order to avoid the possibility of exposure to System Buy Price.

Whilst recognising that in the timescales available it had only been possible to undertake a limited amount of analysis in relation to P18, the Panel believed that it was clear from the analysis that had been carried out that Modification P18A CID-definition 1a did have the effect of removing short-term system balancing actions. Furthermore, the Panel noted that P18a could be "tuned" to a certain degree to alter the balance of short and long duration acceptances that were included in the price calculations.

Given the above, the Panel believed that the implementation of P18A would better meet both objectives (b) and (c). There were a number of reasons for this.

First, it would better facilitate the efficient, economic and co-ordinated operation by the Transmission Company of the Transmission System (objective (b)), because it was anticipated that the removal of the price distortions in System Buy Price would reduce the incentives on parties to deliberately trade long, and it was more likely that they would instead seek to balance. It was believed that arrangements that gave proper incentives for parties to balance would assist the Transmission Company in the co-ordinated operation of the Transmission System. It would also be more efficient and economic, because the Transmission Company would be less likely to be required to make distressed sales of energy in the balancing mechanism. It was believed that energy was currently being "forced" onto the system by those deliberately purchasing more energy than required to meet their demand and/or submitting physical notifications in excess of their contract sales.

Second, it would better promote effective competition in the generation and supply of electricity (objective (c)). This is because it would help to ensure that system balancing costs are not included in energy imbalance prices. This would help to reduce the incentive for parties to trade long, and hence would reduce the inherent bias currently present in the market. The Panel believed that there were many potential benefits to this, including the scope for improvements in short-term liquidity (there was some concern that physical participants are currently unwilling to adjust physical positions in the short-term because of the increased probability of plant failure and consequent exposure to SBP), and OTC and exchange prices being set based on the prevailing supply-demand balance, rather than on a biased, long market.

Given the above, the Panel believed that implementing P18A would better meet the relevant BSC Objectives. This view and the arguments set down above were supported by a majority of respondents to the consultation.

6.2.3 CID-Definition and Implementation

In deciding upon the recommended implementation route, the Panel believed that it was more difficult to balance matters so as to best meet the BSC Objectives. Clearly it was necessary to minimise the costs of introducing the revised arrangements so as to meet objective (d). Furthermore, all of the workaround implementation options would result in a delay in the publication of energy imbalance prices. The Panel recognised that the reduction in transparency was undesirable, and should be minimised if possible.

The relative merits of CID-definition 3, compared to CID-definition 1a in the longer term were considered. The Panel did not believe that CID-definition 3 was necessarily more effective, nor was it necessarily more intellectually robust. Even if CID-definition 3 was viewed as more robust, there was a general view that the types of acceptances which it would deal with in a more appropriate manner were unusual and unlikely to occur. Given the fact that the P18A Modification was necessarily somewhat crude (demonstrated partly by the fact that it included a tuning parameter, and also because

it was seeking to re-define a split between system and energy balancing which was necessarily ambiguous), the Panel was generally of the view that P18A CID-definition 3 could be considered to be unduly accurate.

It was also the case that no analysis had been carried out on CID-definition 3, and to recommend any implementation in the absence of any such analysis would be inappropriate. This was particularly true, given the additional costs associated with implementing CID-definition 3. On balance, given that the Panel believed that CID-definition 1a would deliver the benefits, and that there was no reason to believe that CID-definition 3 would necessarily do this more effectively, the Panel decided not to recommend a move to an implementation of CID-definition 3 in the longer term, and instead decided to recommend that CID-definition 1a be adopted as the enduring option.

The Panel also considered the relative merits of CID-definition 1a and CID-definition 0. It was noted that the main benefit of CID-definition 0 was that it permitted prices to be determined immediately after the end of the half-hour. However, this benefit would not be delivered in any of the workaround solutions. The Panel also acknowledged the fact that the additional BMRS Reporting costs may not be incurred.

However, the Panel believed that under CID-Definition 1a, prices could be determined CID-minutes after the end of the Settlement Period, and with a CID of 15 minutes, the theoretical delay would only be 15 minutes. In practice, this may be set at 30 minutes, depending upon the flexibility of the implementation. In any event, it was recognised that the maximum delay would be 30 minutes, as it was not anticipated that the CID limit would be set to be above this level (and indeed, based upon the drafting in Annex 2, a further BSC Rules change would be needed to deliver this).

Overall, the Panel did not believe that the potential benefits of CID-option 0 outweighed its main disadvantage. This disadvantage was that it was viewed as being significantly more crude in the way in which continuous acceptances were measured. Furthermore, neither NGC as proposer of the initial Modification, nor the Panel believed that the scope that this option introduced for NGC to manipulate prices to a greater or lesser degree by choosing whether or not to "chop" acceptances into a series of short duration acceptances was desirable.

The Panel decided that the CID-definition 1a alternative should be adopted for both the workaround and enduring solutions.

Given the magnitude of the distorting effect on prices that an inappropriate classification of short duration acceptances as energy balancing actions could have, the Panel believed that introducing P18A as a matter of urgency was important (as discussed above, the Panel was of the view that it would clearly better meet objectives (b) and (c)). Implementation via the quickest workaround implementation would, however have a number of disadvantages, for example there were increased implementation costs associated with introducing a workaround solution followed by an enduring solution, particularly if workaround 1a were initially adopted. Second, the reduction in price transparency noted above was also undesirable, as were the risks associated with a rapid, largely manual initial implementation outside central systems. These factors tended to undermine objectives (c) and (d). On balance, however, the Panel unanimously believed that P18A should be implemented as quickly as possible via workaround architecture 1a. Thereafter, an enduring solution should be implemented via central systems.

Given that it is recommended that changes to the BSC should be made to reflect Modification P18A, the Panel agreed unanimously that no further action be taken in relation to P18B, as both alternatives were intended to address the same issue.

6.2.4 CID Limit

The Panel discussed in detail the issues associated with setting the value of the CID limit. Whilst noting the impact on prices highlighted in the ELEXON analysis, the Panel believed that it was important to select a value based primarily upon whether actions were system or energy balancing. On balance, the majority of the Panel believed that a CID Limit of 15 minutes should be set.

It was noted that the proposed BSC drafting allowed the value of CID Limit to be revised by the Panel further to consultation with the Transmission Company and Trading Parties, and the approval of the Authority.

7 SUMMARY OF CONSULTATION RESPONSES

A total of sixteen responses to the consultation were received. Most respondents supported an initial implementation based on CID-definition 1a.

The main messages from the consultation responses were as follows:

- Most believed that P18A would meet its stated objectives and should be implemented. Three respondents indicated that they were not in favour of the proposal.
- Most believed that a workaround was feasible, and that P18A CID-definition 1a should be implemented as a workaround. Three respondents indicated that they did not believe that P18A necessarily achieved a better division of system and energy balancing trades.
- A number of respondents were concerned over the timescales in which the analysis had been carried out and/or the information that was available in order to support their response to the consultation.
- A number of respondents indicated that they wanted access to price information as soon as possible, one stating that P18A should not be implemented until changes to the BMRS to facilitate price reporting had been made. Another respondent (who did not support the implementation of P18A) believed that the delay in determination of the prices could result in a reduction in market liquidity.
- A number of parties supported the Modification Group's recommendation to either retain CID-definition 1a, or to implement CID-definition 3 as the enduring solution, dependent upon the relative impact of the systems changes required for implementation. Some respondents did not believe that there was merit in going on to implement CID-definition 3 as the enduring solution, and that instead, either 1a should be retained, or that a fuller review should be undertaken. Conversely, a number of respondents explicitly favoured CID-definition 3 as the longer-term solution.
- There was a range of views on the value at which the CID limit should be set. Those arguing for shorter values of CID limit believed that there was a danger that energy balancing trades would be tagged, and that there may be a significant increase in the number of periods in which prices were set on a default basis. A number of respondents believed that additional analysis was needed, particularly in order to set the value for the winter period. One respondent believed that CID should be set at 30 minutes so as to ensure all system balancing actions were removed, even though some energy balancing trades may also be affected. They believed that this was necessary in order prevent parties participating in the market so as to minimise imbalance price risk instead doing so to achieve outcomes that are mutually beneficial for themselves and the system.

Respondent	Summary of comments	Workaround	Enduring	CID duration
1) London	Agrees with the recommendations of the Modification Group, but, does not want to progress until prices can be published on BMRS within ½ an hour of existing calculation timescales. The CID limit should be parameterised, and initially set a 20 minutes.	1a	1a or 3 ⁵	20 mins
2) Vattenfall	Agrees with recommendations, except that does not favour CID-option 3.	1a	1a	minimum 20 mins
3) Northern Gas and Electric	Does not support proposals Believes alternative mechanism to split system and energy balancing trades should be developed.	None	None	0 (max 5 mins) ⁶
4) Bizz Energy	Agrees with recommendations, except that does not favour CID-option 3. Believes visibility of prices is an issue.	1a	1a	minimum 20 mins
5) NGC	Agrees with Modification Group recommendations, although notes that the feasibility of a workaround is not yet proven.	1a	1a or 3 ⁵	15 mins
6) TXU	Does not support proposals Concerned over delay in release of prices May have an impact on NGC incentives and BSUoS.	None	None	0 mins
7) Edison Mission	Does not support proposals Dislikes delay in pricing. Believes more fundamental review of pricing required, e.g. reduction of GC. P18A would distort incentives on parties and have a detrimental effect on liquidity and impact on NGC incentives.	None (0)	None (0)	0 (max 5 mins)
8) Dynegy	Generally supports proposals Believes that alternative longer term solution should be found.	1a	Alternative	minimum 15 minutes
9) SEEBOARD	Agrees with Modification Group recommendations. Has concerns over the amount of analysis, in particular on setting value of CID.	1a	1a or 3 ⁵	15 minutes, or 15-20
10) British Energy	Concerned about amount of time/consideration of issues.	1a	3 (but also wider review)	10 minutes
11) British Gas Trading	Strongly support proposal. ELEXON should seek to publish whatever information possible on prices asap whilst workaround in place.	1a	Not stated (1a?)	minimum 20 minutes

1.1.1.1

⁵ With the decision being made dependent upon the results of the impact assessment as suggested by the Modification Group.

⁶ In this summary, brackets are used where a respondent does not agree with the proposed Modification, but has stated what they believe the answer should be if the Modification is implemented. Those not supporting the Modification have been given a CID duration of zero minutes.

12) Scottish and Southern	Concerned that quality of decision may be affected by timetable, and that the Mod is being rushed. Any implementation should be followed by wider review. Could simply remove "fast plant" from the price setting process. Believe that further consideration is needed over how accurate, timely price data can be published.	1a	3 or 1b (or 1a) depending on impact	20 minutes
13) Scottish Power	Concerned over timescales, and do not believe that it is necessarily best to modify one part of a complex system. Does not feel competent to comment on some more detailed questions. Despite this favours CID-option 0	0	0 (?)	15 minutes
14) Innogy	Broadly agree with Modification Group recommendations, but believe that the enduring solution should not be unduly influenced by implementation issues. Should select best solution, and then determine how it may most efficiently implemented.	1a	Not stated	10 minutes
15) Enron Europe	Broadly agree with the Modification Group recommendations. All options broadly meet the objectives, and so choice of enduring solution should be based on cost, not technical correctness. Believe that any initial implementation should be reconciled against final trading rules.	1a (0)	1a or 3 ⁵	30 minutes
16) PowerGen	Given timescales and amount of information, unable to give the issue proper consideration. Believe that CID definition 3 should be implemented initially.	3 (1a)	3	10 minutes

8 RESULTS OF IMPACT ASSESSMENTS

The following table sets down the results of the high-level impact assessments carried out by the Central Service Provider and ELEXON.

It should be noted that these costs are based on high-level impact assessments and are therefore only approximate, and may increase by as much as 50%. Furthermore, they are based upon the information provided at the time of writing the impact assessment, and they have not been discussed in detail between ELEXON and the Central Service Provider.

It should also be noted that the results quoted make a number of assumptions, including:

- The time to complete the work is measured from the time it is instructed to commence⁷; and
- It assumes that no other development work is being carried out at the time.

			Development Costs/Time		Operation and Maintenance Costs (£k/month)
			£k	weeks	
Interim	1a	Central	72	5	12.0
		ELEXON	80	5	30.0
	2	Central	174	14	2.5
Enduring	2	Pricing	289	18	4.3
		BMRA Reports	222	17	3.4
	3	Pricing	356	22	5.3
		BMRA Reports	404	32	6.0

1.1.1.1

⁷ Note that some work to develop specifications etc. would be needed in order to permit this to take place after any decision by the Authority to implement the recommended changes.

ANNEX 1 – RESPONSES TO CONSULTATION

Responses from P18 Urgent Modification Report Consultation

Representations were received from the following parties:

No	Company	File Number
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

This Annex is contained within a separate document accompanying this paper.

ANNEX 2 - LEGAL TEXT TO SUPPORT MODIFICATION PROPOSAL P18A CID DEFINITION 1A

Modification P18A –CID Definition 1a – legal text

Section T

After paragraph 3.1, insert new paragraphs 3.1A and 3.1B as follows:

3.1A Continuous Acceptance Duration (CAD^{k_i})

3.1A.1 In relation to each Acceptance, k, for a particular BM Unit, another Acceptance for the same BM Unit is “related” to Acceptance k where such other Acceptance has a Bid-Offer Acceptance Time that falls within the period:

- (a) from and including the spot time at the start of the Settlement Period which falls eight Settlement Periods prior to the Settlement Period in which the Bid-Offer Acceptance Time for Acceptance k falls, and
- (b) to and including the spot time at the end of the Settlement Period which falls eight Settlement Periods after the Settlement Period in which the Bid-Offer Acceptance Time for Acceptance k falls.

3.1A.2 In relation to each Acceptance k, another Acceptance is “continuous” with Acceptance k if it is related to Acceptance k, and:

- (a) the spot time associated with:
 - (i) the first Point Acceptance Volume of the Acceptance is earlier, and
 - (ii) the last Point Acceptance Volume of the Acceptance is not earlier than the spot time associated with the first Point Acceptance Volume of Acceptance k; or
- (b) the spot time associated with:
 - (i) the last Point Acceptance Volume of the Acceptance is later, and
 - (ii) the first Point Acceptance Volume of the Acceptance is not later than the spot time associated with the last Point Acceptance Volume of Acceptance k; or
- (c) the Acceptance is continuous (in accordance with paragraph (a) or (b)) with another Acceptance which is determined (including, for the avoidance of doubt, by virtue of this paragraph (c)) to be a continuous Acceptance in relation to Acceptance k.

3.1A.3 In relation to each Acceptance k, for a particular BM Unit, the Continuous Acceptance Duration (CAD^{k_i}) shall be the duration of the period:

- (a) commencing at the earliest spot time associated with:
 - (i) any value of Point Acceptance Volume for Acceptance k; or

- (ii) any Point Acceptance Volume for any Acceptance that is a continuous Acceptance in relation to Acceptance k, and
- (b) ending at the latest spot time associated with:
 - (i) any value of Point Acceptance Volume for Acceptance k; or
 - (ii) any Point Acceptance Volume for any Acceptance that is a continuous Acceptance in relation to Acceptance k.

3.1B Continuous Acceptance Duration Limit (CADL)

- 3.1B.1 For the purposes of the Code the “Continuous Acceptance Duration Limit” (CADL) shall be 15 minutes or such other amount (in minutes) determined by the Panel and approved by the Authority.
- 3.1B.2 The Panel may revise such amount from time to time subject to the approval of the Authority.
- 3.1B.3 In revising the amount of the Continuous Acceptance Duration Limit from time to time, the Panel shall consult with Parties and consider the views expressed in the course of such consultation prior to making its determination (and shall provide a detailed summary of such views to the Authority).

After paragraph 3.8, insert new paragraph 3.8A as follows:

3.8A Determination of Period Priced Accepted Offer Volume (QAPO^{kn}_{ij}) and Period Priced Accepted Bid Volume (QAPB^{kn}_{ij})

- 3.8A.1 In respect of each Settlement Period and Acceptance k, for each BM Unit, the Period Priced Accepted Offer Volume and Period Priced Accepted Bid Volume shall be established as follows:
 - (a) if, there exists any Acceptance k’ (including for the avoidance of doubt Acceptance k) relating to the BM Unit, for which $CADL_i^{k'} < CADL$, then no values of the Period Priced Accepted Offer Volume and Period Priced Accepted Bid Volume will be determined in relation to Acceptance k in any Settlement Period:
 - (i) from and including the Settlement Period in which the earliest Point Acceptance Volume associated with Acceptance k’ falls, and
 - (ii) to and including the Settlement Period in which the latest Point Acceptance Volume associated with Acceptance k’ falls.
 - (b) in any other case, the Period Priced Accepted Offer Volume and Period Priced Accepted Bid Volume will be determined as follows:
 - (i) $QAPO_{ij}^{kn} = QAO_{ij}^{kn}$; and
 - (ii) $QAPB_{ij}^{kn} = QAB_{ij}^{kn}$;

After paragraph 3.9, insert new paragraph 3.9A as follows:

3.9A Determination of Period BM Unit Total Priced Accepted Offer Volume (QAPOⁿ_{ij}) and Period BM Unit Total Priced Accepted Bid Volume (QAPBⁿ_{ij})

3.9A.1 In respect of each Settlement Period, for each BM Unit, the Period BM Unit Total Priced Accepted Offer Volume shall be established as follows:

$$QAPO_{ij}^n = \sum^k QAPO_{ij}^{kn}$$

where \sum^k represents the sum over all Acceptances within the Settlement Period.

3.9A.2 In respect of each Settlement Period, for each BM Unit, the Period BM Unit Total Priced Accepted Bid Volume shall be established as follows:

$$QAPB_{ij}^n = \sum^k QAPB_{ij}^{kn}$$

where \sum^k represents the sum over all Acceptances within the Settlement Period.

After paragraph 4.4.2, Insert new paragraphs 4.4.2A and 4.4.2B as follows

4.4.2A In respect of each Settlement Period, the System Total Un-Priced Accepted Offer Volume will be determined as follows:

$$TQUAO_j = \sum_i \sum^n QAO_{ij}^n - \sum_i \sum^n QAPO_{ij}^n$$

where \sum_i represents the sum over all BM Units and \sum^n represents the sum over all Bid-Offer Pair Numbers for the BM Unit.

4.4.2B In respect of each Settlement Period, the System Total Un-Priced Accepted Bid Volume will be determined as follows:

$$TQUAB_j = \sum_i \sum^n QAB_{ij}^n - \sum_i \sum^n QAPB_{ij}^n$$

where \sum_i represents the sum over all BM Units and \sum^n represents the sum over all Bid-Offer Pair Numbers for the BM Unit.

In paragraphs 4.4.5, 4.4.6, 4.4.7, 4.4.9 and 4.4.10 replace the term QAO_{ij}^n (wherever appearing) with the term $QAPO_{ij}^n$

In paragraphs 4.4.5, 4.4.6, 4.4.8, 4.4.9 and 4.4.10 replace the term QAB_{ij}^n (wherever appearing) with the term $QAPB_{ij}^n$

In Annex T-1, modify paragraph 1.1, and add in paragraph 1.2 as follows:

1.1 For the purposes of this Annex T-1, and paragraph 4.4, in relation to a BM Unit and Settlement Period, an **"accepted Offer"** means the Period BM Unit Total Priced Accepted Offer Volume (QAPOⁿ_{ij}), and an **"accepted Bid"** means the Period BM Unit Total Priced Accepted Bid Volume (QAPBⁿ_{ij}) but excluding Offers and Bids where the value of Period BM Unit Total Priced Accepted Offer Volume or Period BM Unit Total Priced Accepted Bid Volume (as the case may be) is zero.

1.2 For the purposes of any other provision of the Code, in relation to a BM Unit and Settlement Period, an **"accepted Offer"** means the Period BM Unit Total Accepted Offer Volume (QAOⁿ_{ij}), and an **"accepted Bid"** means the Period BM Unit Total Accepted Bid Volume (QABⁿ_{ij}) but excluding Offers and Bids where the value of Period BM Unit Total Accepted Offer Volume or Period BM Unit Total Accepted Bid Volume (as the case may be) is zero.

In Annex T-1, replace the term QAO^n_{ij} (wherever appearing) with the term $QAPO^n_{ij}$; and replace the term QAB^n_{ij} (wherever appearing) with the term $QAPB^n_{ij}$.

The following addition is required to Table X-2 of Annex X-2:

Continuous Acceptance Duration	CAD^k_i	Minutes	The quantity determined in accordance with paragraph 3.1A of Section T. <i>The Continuous Acceptance Duration determined in relation to each Acceptance k, as the period of time from earliest spot time associated with Acceptance k, or any other continuous acceptance, to the latest spot time associated with Acceptance k or any other continuous acceptance.</i>
Continuous Acceptance Duration Limit	CADL	Minutes	The value established and from time to time revised and approved in accordance with Section T3.1B
Period BM Unit Total Priced Accepted Bid Volume	$QAPB^n_{ij}$	MWh	The quantity determined in accordance with Section T3.9A. <i>The period BM Unit Total Priced Accepted Bid Volume is the quantity of Bid n, accepted in respect of BM Unit i, in Settlement Period j, as a result of all Acceptances that may contribute to the determination of System Sell Price.</i>
Period BM Unit Total Priced Accepted Offer Volume	$QAPO^n_{ij}$	MWh	The quantity determined in accordance with Section T3.9A. <i>The period BM Unit Total Priced Accepted Offer Volume is the quantity of Offer n, accepted in respect of BM Unit i, in Settlement Period j, as a result of all Acceptances that may contribute to the determination of System Buy Price.</i>
Period Priced Accepted Bid Volume	$QAPB^{kn}_{ij}$	MWh	The quantity determined in accordance with Section T3.8A. <i>The Period Priced Accepted Bid Volume is the volume of Bid n, accepted in respect of BM Unit I, in Settlement Period j, as a result of Acceptance k that may contribute to the determination of System Sell Price.</i>

Period Accepted Volume	Priced Offer	$QAPO^{kn}_{ij}$	MWh	The quantity determined in accordance with Section T3.8A. <i>The Period Priced Accepted Offer Volume is the volume of Offer n, accepted in respect of BM Unit I, in Settlement Period j, as a result of Acceptance k that may contribute to the determination of System Buy Price.</i>
System Total Un-Priced Accepted Bid Volume		$TQUAB_j$	MWh	The quantity determined in accordance with Section T4.4.2B. <i>The System Total Un-Priced Accepted Bid Volume is the difference between the System Total Accepted Bid Volume and the sum of the Period BM Unit Priced Accepted Bid Volume over all BM Units in Settlement Period j.</i>
System Total Un-Priced Accepted Offer Volume		$TQUAO_j$	MWh	The quantity determined in accordance with Section T4.4.2A. <i>The System Total Un-Priced Accepted Offer Volume is the difference between the System Total Accepted Offer Volume and the sum of the Period BM Unit Priced Accepted Offer Volume over all BM Units in Settlement Period j.</i>

ANNEX 3 – COPY OF ORIGINAL MODIFICATION PROPOSAL

Modification Proposal	MP No: 18 <i>(mandatory by BSCCo)</i>
Title of Modification Proposal <i>(mandatory by proposer):</i> Removing / Mitigating The Effect Of System Balancing Actions In The Imbalance Price Calculations	
Submission Date <i>(mandatory by proposer):</i> 23 May 2001	
<p>Description of Proposed Modification <i>(mandatory by proposer):</i></p> <p>The current imbalance price calculations utilise Trade Tagging to identify system balancing actions and exclude them from setting SBP and SSP. The trade tagging methodology was based on the assumption that there would be a significant volume of balancing actions in both directions in each half-hour. However, experience to date is that many periods have only a small volume of balancing actions in one direction, and so the methodology is less effective at removing system balancing actions.</p> <p>It is recognised that it is not possible to separate balancing actions into 'energy' and 'system' in an unambiguous and clearcut manner. However, the current methodology is resulted in some extreme imbalance prices, as balancing actions that appear to be more related to system effects (such as minute by minute frequency control) are being included in price setting, and can have a disproportionate effect on the prices (when there are only small balancing volumes taken in one direction in a period).</p> <p>Two options for addressing this issue are proposed:</p> <p>Option A: This proposes an enhanced definition of system balancing actions. Bid / Offer acceptances of 'Continuous Instruction Duration' less than a threshold duration of [15] minutes are tagged as System rather than Energy balancing actions, and so are excluded from the imbalance price calculation. In consequence, fewer acceptances are eligible to set imbalance prices. The rationale is that short duration balancing actions are most likely to related to minute-by-minute frequency control, rather than energy balancing at a half-hour level. Therefore, it is not appropriate that these actions are used to set imbalance prices which are faced by market participants who have half-hourly imbalances.</p> <p>Option B: This proposes that the BRL parameter is set as a minimum volume of balancing actions from which the imbalance prices can be set. When there is a smaller volume of actions, the imbalance price is set as a weighted average of the price derived from the current rules, and the default price that would apply if no balancing actions had been taken. The weighting would be in proportion to the volume of balancing actions, and BRL minus this volume, respectively.</p> <p>The rationale for this option is that it limits the impact that any small volume balancing action can have on the imbalance price in the cases where the assumptions behind the trade tagging methodology (i.e. that there will be at least BRL volume of balancing actions in each direction) are invalid. It does not attempt to improve the allocation of balancing actions between energy and system, but ensures that the price effects of system balancing actions which are incorrectly tagged as energy is mitigated.</p>	
Description of Issue or Defect that Modification Proposal Seeks to Address <i>(mandatory by proposer):</i> See the attached paper, dated 23 May 2001	

Modification Proposal	MP No: 18 <i>(mandatory by BSCCo)</i>
Impact on Code <i>(optional by proposer):</i>	
Option A: Modification required to the 'Trade Tagging' Annex T-1 of the Code, to include a definition of Short Duration Bids and Short Duration Offers. Exclusion of Short Duration Bids and Offers in 'Determination of Energy Imbalance Prices' (section T4.4) of the Balancing and Settlement Code.	
Option B: Modification required to calculation of System Buy Price and System Sell Price in Section T Paragraphs 4.4 of the Code	
Impact on Core Industry Documents <i>(optional by proposer):</i>	
None.	
Impact on BSC Systems and Other Relevant Systems and Processes Used by Parties <i>(optional by proposer):</i>	
Under either option, the software calculating System Sell Price and System Buy Price will need to be altered.	
Impact on other Configurable Items <i>(optional by proposer):</i>	
None	
Justification for Proposed Modification with Reference to Applicable BSC Objectives <i>(mandatory by proposer):</i>	
Option A refines the definition of system and energy balancing actions, and thus results in a more appropriate stack of accepted Bids and Offers being used in the determination of System Buy Price and System Sell Price. Option B ensures that small volume system balancing actions cannot have a disproportionate effect on the System Buy Price and System Sell Price. Therefore both options meet the objective of "promoting efficiency in the implementation and administration of the balancing and settlements agreement."	
Details of Proposer:	
Name: Mike Calviou	
Organisation: National Grid	
Telephone Number: 02476 423958	
Email Address: mike.calviou@uk.ngrid.com	
Details of Proposer's Representative:	
Name: Mike Calviou	
Organisation: National Grid	
Telephone Number: 02476 423958	
Email Address: mike.calviou@uk.ngrid.com	

Modification Proposal	MP No: 18 <i>(mandatory by BSCCo)</i>
Details of Representative's Alternate:	
Name: Paul Plumptre	
Organisation: National Grid	
Telephone Number: 02476 423106	
Email Address: paul.plumptre@uk.ngrid.com	
Attachments: YES	
If Yes, Title and No. of Pages of Each Attachment:	
Enhanced Trade Tagging - BSC Modification Proposal, 5 pages.	

ANNEX 4 - COPY OF SLIDES PRESENTED AT PANEL MEETING OF 12TH JULY 2001

This Annex is contained within a separate document accompanying this paper.