

Modification Proposal

MP No: 18
(mandatory by BSCCo)

Title of Modification Proposal (mandatory by proposer):

Removing / Mitigating The Effect Of System Balancing Actions In The Imbalance Price Calculations

Submission Date (mandatory by proposer): 23 May 2001

Description of Proposed Modification (mandatory by proposer):

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.

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).

Two options for addressing this issue are proposed:

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.

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.

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.

Description of Issue or Defect that Modification Proposal Seeks to Address (mandatory by proposer):

See the attached paper, dated 23 May 2001

Impact on Code (optional by proposer):

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

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Impact on Core Industry Documents (optional by proposer):

None.

Impact on BSC Systems and Other Relevant Systems and Processes Used by Parties (optional by proposer):

Under either option, the software calculating System Sell Price and System Buy Price will need to be altered.

Impact on other Configurable Items (optional by proposer):

None

Justification for Proposed Modification with Reference to Applicable BSC Objectives (mandatory by proposer):

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."

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Attachments: YES

If Yes, Title and No. of Pages of Each Attachment:

Enhanced Trade Tagging - BSC Modification Proposal, 5 pages.