

Modification Proposal	MP No: 90 <i>(mandatory by BSCCo)</i>
Title of Modification Proposal <i>(mandatory by proposer):</i> Improving The Representation Of Energy Balancing Actions In Cashout Prices.	
Submission Date <i>(mandatory by proposer):</i> 08 July 2002	
Description of Proposed Modification <i>(mandatory by proposer):</i> Cashout out prices are calculated from a stack of all Bid-Offer Acceptances and all NGC forward trades. All offers and forward buys are stacked in price order at the price at which they were bought on a buy stack and all bids and forward sells in price order at the price at which they were sold on the sell stack. After arbitrage tagging, the volume on the smaller stack is tagged off of the bigger stack to the level of the BRL. The main price is then a weighted average of the trades that comprise the Remaining Imbalance Volume (RIV). The BRL concept is retained for the reverse price at the level determined from time to time by the Authority. The attachment shows how the mechanism would work.	
Description of Issue or Defect that Modification Proposal Seeks to Address <i>(mandatory by proposer):</i> Cashout prices are being polluted by trades taken to alleviate constraints. Additionally, trades that are currently tagged as system trades and yet have a net impact on the energy balance are not necessarily factored into imbalance cashout prices. Cashout prices are not therefore representative of the costs of energy balancing. This modification ensures that genuine system trades (that have a compensating opposite action) do not influence cashout prices whilst ensuring that trades that impact energy balance are better represented in imbalance cashout prices. In addition, this modification seeks to simplify the calculation of cashout prices, which has become overly complicated, by removing any distinction between forward system and energy trades (including PGBTs). Instead it deems the RIV of all trades to have been taken for energy purposes. (The Proposer recognises that the smaller stack may still contain energy balancing actions and that deeming the RIV of all trades to be taken for energy purposes will exclude these actions; this mod is a compromise where the RIV results in the majority of energy balancing actions being reflected in imbalance cashout prices.) The modification removes the need for non transparent judgments over the split between system and energy trades and the need for arbitrary rules for the treatment of short duration trades. The modification ensures consistency of approach for all Bid-Offer Acceptances and forward trades. In doing so, it removes the possibility of cashout prices being set at an artificial level which is unreflective of the costs of energy balancing.	
Impact on Code <i>(optional by proposer):</i>	
Impact on Core Industry Documents <i>(optional by proposer):</i>	
Impact on BSC Systems and Other Relevant Systems and Processes Used by Parties <i>(optional by proposer):</i>	
Impact on other Configurable Items <i>(optional by proposer):</i>	

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

The modification better facilitates three of the four Applicable BSC Objectives:

In simplifying the calculation of cashout prices and applying the treatment of 'system and energy trades' in a consistent manner, this modification proposal will promote efficiency in the implementation and administration of the balancing and settlement arrangements. Resulting prices and their constituent parts will be transparent, auditable and verifiable by all market participants. We regard these as important criteria for the setting of cashout prices.

This modification will improve the transparency of trade reporting which will encourage the Transmission Company to operate the Transmission System in a more efficient, economic and coordinated manner.

The modification will allow cashout prices to better reflect the costs of energy balancing. This will improve the economic signals to operate and invest in generation capacity. This will promote competition in the generation, sale and purchase of electricity whilst removing the current distortion resulting from the inclusion of constraints in cashout prices.

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Attachments: YES

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

Cashout price calculation