

Modification Proposal

MP No: P3
(mandatory by BSCCo)

Title of Modification Proposal (mandatory by proposer):

Correction Of Price Spikes Generated By De-Minimis NGC Purchases

Submission Date (mandatory by proposer): 27 March 2001

Description of Proposed Modification (mandatory by proposer):

1. NGC's Balancing Services costs in a period that are part of BCA but are not associated with a direct energy purchase (i.e. Aggregated standing reserve option fees + Aggregated Firm regulating reserve option fees) should be included as an entity in the BSC as "Buy Option Fees" (BOF).
2. Whenever the contribution of BOF to the SBP is greater than [25]% this contribution should be capped at [25]%.
3. A new entity "Buy Option Cost" (BOC) should be the Buy Option Fees capped at [25]% of SBP.
(Algebra attached)

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

The issue was pointed out by the BRL Subgroup in BSCP 11/10 ISSUES ASSOCIATED WITH THE PRICE SETTING MECHANISM IN THE BALANCING AND SETTLEMENT CODE (attached).

In a period where NGC is carrying Standing Reserve, if - because the system is basically long, NGC purchases only a small amount of energy then - the resultant SBP can be extremely high.

On 27th March the NGC BCA was set at £2,333.51 per period, for 14 hrs of the day. The smallest recorded non-zero total trade in a period was 1.403MWh of system sell (at 15:30). Given that there is no reason to expect system buy volumes to be significantly different from sell volumes, a system buy of 1.403MWh in a period where Standing Reserve fees applied would generate a price of £1,663.23/MWh. This level of price spike can be expected as a regular, perhaps daily occurrence, with NGC occasionally buying less than 1MWh (for example, a buy finishing 1 minute after the start of a period could feasibly mean an energy purchase of 1/120MWh hence a price of £280,021.20/MWh).

This undue and unnatural price volatility is a function of NGC's prudent purchase of Standby Reserve, and their acceptance of BM Offers to minimise cost (not price) within a price mechanism that needs further development.

Impact on Code (optional by proposer):

Impact on Core Industry Documents (optional by proposer):

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

Impact on other Configurable Items (optional by proposer):

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

The Applicable BSC Objective is:

BSC Section B1.2.2 (b) (iii) promoting effective competition in the generation and supply of electricity, and (so far as consistent therewith) promoting such competition in the sale and purchase (as defined in the Transmission Licence) of electricity;

Spurious price spikes raise the cost of risk and hence act as a barrier to new entrants.

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Attachments: YES

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

De-minimis Price Spike Algebra - 1page

BSCP 11/10 ISSUES ASSOCIATED WITH THE PRICE SETTING MECHANISM IN THE BALANCING AND SETTLEMENT CODE (attached) - 4 pages