Attachment A: Detailed Assessment for P236

What stage is this document in the process?

01 Initial Written Assessment

02 Definition Procedure

03 Assessment Procedure

04 Report Phase

This attachment details the discussions of the Modification Group, impacts and costs, the Group membership and Glossary

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About this document:

This is Part 2 (Attachment A) of the P236 Assessment Consultation.

This attachment provides additional detail of how the Group's discussions led it to its chosen solution and its initial recommendations.

1 Terms of Reference

The P236 Modification Group consists of members of the Settlement Standing Modification Group (SSMG) and those with expertise in the Q8 claims process. Section 5 contains full details of the Group's membership.

Table 1 shows the areas which the Group has considered in accordance with its Terms of Reference, and where in this document you can find its discussions of each area.

Table 1 – P236 Assessment Procedure Terms of Reference

Area of Terms of Reference	See:
The Principle of P236: - Are there any reasons why Subsidiaries should not be included in a claim? - What was the original intention of the BSC?	Section 2.1
Whether a Joint Claims process is required (i.e. both the Lead Party and the Subsidiary Party submit a single joint claim or whether a single separate claims could be supported).	Section 2.2
Are the current BSC claims timescales sufficient?	Section 2.3
How the compensation arrangements will work: - Does the Lead Party receive the total compensation amount? - Does the Q8 committee use its discretion in working out a compensation arrangement? or - As requested in the claim form?	Section 2.4
Would the lack of unanimous support between the Lead Party and Subsidiary Party (or Parties) make a claim invalid?	Section 2.5
Is the current definition of Avoidable Costs sufficient for the Q8 claims process.	Section 2.6
The benefits and drawbacks of P236.	P236 Consultation Part A – Section 6
Whether an Alternative Modification is required.	P236 Consultation Part A – Section 3

Who is the SSMG

A standing group of industry experts, appointed by the Panel to consider potential Code changes in a number of subject areas – including Settlement invoicing and payment

2 Group's Discussions

2.1 Principle of P236

The Group considered whether there was a reason why Subsidiary Parties Trading Charges and Avoidable Costs should not be included in the Q8 claims process.

The original intention of the BSC was explored by the Group. One member explained that MVRNs did not exist within the Pool arrangements, so no previous methodology would have been transferred across when the BSC was drafted. The Group believed that not allowing Subsidiary costs in the Q8 claims process was an oversight when the BSC was drafted. It was also felt that if the BSC had a specific intention then the rules around MVRNs would be stricter and more defined.

The Group then discussed why this issue had not been flagged before. A question was raised on how often an Outage Compensation Period occurs. Since NETA Go-Live there have been 90 Outage Compensation Periods, on average 10 Outage Compensation Periods a year. In contrast, only 9 claims have been submitted to the Q8 committee, and only 1 (the previous claim) impacted a Subsidiary Party. The Group noted that the relatively low usage of the claims process may be a reason for the delay in spotting this issue.

The Group agreed that MVRNs were a legitimate way to transact business. and endorsed by the BSC. As such any costs incurred by those Parties who use them during an Outage Compensation Period could the subject of a claim. Furthermore, the Group felt that it would be counter the principles of justice if you could claim in one circumstance (i.e. as Lead Party), but not the other (i.e. subsidiary Party).

It was also considered, that as Parties are Grid Code obligated to stick to their Final Physical Notifications it is only fair that a compensation process should exist for all those impacted Parties.

The Group concluded that there was no reason why Subsidiary Parties Trading Charges and Avoidable Costs (if applicable) should not be considered as part of the Q8 Claims process.

2.2 Is a Joint Claims process required?

The Group strongly believed that as the current claims process is adequate in function, the revised claims process should be as similar as possible to it. Therefore, the Lead Party would be the only Party who can claim. The impact on Subsidiary Parties Trading Charges and Avoidable costs (if applicable) would be included in the claim evaluation, but the Subsidiary Party should not have to do anything.

A Subsidiary Party cannot submit a claim separately from the Lead Party.

It was discussed by the Group what information the Q8 committee would need to process such a claim. It was agreed that where a BM Unit is subject to a MVRN and the Lead Party claims, the Lead Party must produce details of all MVRNs in place on that BM Unit. The Group believed that this would enable a transparent view of all the costs and charges incurred for both the Lead Party and any Subsidiary Party/Parties.

The Group also believed that it was appropriate for the Lead Party to produce letters of support from any impacted Subsidiary Party/Parties when their claim is heard by the Q8 Committee. It was felt that providing this information would give the Q8 committee some comfort that the Subsidiary Party was aware of the actions of the Lead Party, and that they had knowledge of what was to be claimed.

It was also noted that if the Q8 committee believed it to be appropriate, it could request copies of the contractual arrangements between Lead and Subsidiary Parties.

2.3 Are the current BSC claims timescales sufficient for the revised claims process?

In keeping with the Group's desire to avoid any significant changes for the revised claims process, the Group unanimously believed that 10 Working Days provides sufficient time for a Lead Party to submit a claim.

However, it was noted that under the P236 arrangements it may take longer for the Lead Party to obtain a letter of support from the Subsidiary Party. Therefore the Group felt it appropriate to require the Lead Party to produce the necessary letters in advance of the Q8 meeting considering its claim, but not necessarily within the original 10 Working Days.

2.4 How will the compensation arrangements work?

The Group discussed how any compensation would be attributed to Parties if a claim was upheld.

It was strongly believed by the Group that, as with the current Q8 claims process, all compensation would be issued to the Lead Party. It would then be up to individual bi-lateral contracts between the Lead Party and Subsidiaries to decide on how this compensation is distributed.

The Group felt this was a sensible and pragmatic approach as only the Lead Party is engaging in the claims process and that the BSC should not become involved in the private contracts of Parties which sit outside of its remit.

2.5 Is unanimous support required from Subsidiary Parties?

The Group believed unanimous support from Subsidiary Parties was not required for any submitted claim and the Q8 committee would make a judgement on any issues where needed. Only a letter of support is required from Subsidiary Parties.

2.6 Is the current definition of Avoidable Costs sufficient?

The Group considered the definition of Avoidable Costs and believed that it was sufficient for the Q8 claims process. It was noted that this definition covered other contingencies such as Black Start and Manifest Errors.

The Group believed that the current definition of Avoidable Costs was clear in that it relates to the operational costs for a Generator running a BM Unit. If further clarity was required Group members believed that an Issue Group should be convened.

The impact of Avoidable Costs on Subsidiary Parties was discussed. The Group concluded that a Subsidiary Party would never have Avoidable Costs since the current BSC definition refers to operational costs of running a BM Unit and, by its very nature, Subsidiaries do not run the BM Unit. Therefore only the Trading Charges of Subsidiary Parties would be considered as impacted.

A consultation question has been included in the consultation questionnaire to gather views on whether respondents agree with the Group's view that Subsidiary Parties would not incur any Avoidable Costs.

2.7 Gaming under the current claims arrangements

The question of whether or not including Subsidiary Parties costs in the claims process would increase the possibility of gaming was raised by the Group.

The Group concluded that P236 would not increase the possibility of gaming. In fact, it was agreed that it was possible for gaming to occur more readily under the current claims process, and P236 would reduce the this potential for Parties to game

This is explained using the following examples, where the System Sell Price as £200 and the Fuel Cost as £50 per MWh.

Current situation where MVRNs are in place:

In this situation a 100% MVRN arrangement exists between a Lead and Subsidiary Party, where the Lead Party wishes to decrease its Final Physical Notification. Therefore should an Unplanned Outage occur, the Lead Party would be unable to decrease its Final Physical Notification by 100MWh and in order to comply with its accepted PNs and the Grid Code, would not decrease generation. This would result in the Subsidiary Party effectively earning income:

100MWh x £ 20 (System Sell Price) = £ 2,000

However, the Lead Party faces fuel costs associated with running the BMU as a result of not being able to decrease Generation as intended:

100MWh x £50MWh = £ 5,000

This is demonstrated in the table below:

	Lead Party	Subsidiary
Trading Charge	-	+£ 2,000
Avoidable Cost	-£ 5,000	n/a
Compensation amount	-£ 5,000	+£ 2,000

Due to the presence of a MVRN, the ‘Trading Charges for the Lead Party’ and the ‘Avoidable Costs for the Subsidiary Party’ are zero.

The current claims process does not consider the Trading Charges and Avoidable Costs of Subsidiary Parties. Therefore, the Lead Party can submit a claim for £ 5,000 as the Q8 committee has no visibility of the Subsidiary Party. In principle, as there is a gain of £ 2,000, the Lead Party should submit a claim for £ 3,000.

As the current Q8 rules do not allow for the Trading Charges and Avoidable Costs for both the Lead and Subsidiary Party to be considered, the Subsidiary Party earns £ 2,000 and the Lead Party can now claim for the whole £ 5,000. This example does not take into account any contractual arrangements that exist between both Parties.

Under P236 arrangements where MVRNs exist:

Like the above example, the Lead Party has a MVRN arrangement with a Subsidiary Party. Therefore if a Lead Party wishes to decrease its Final Physical Notification by 100MWh but cannot do so because of an unplanned Outage, then the Subsidiary Party that earns the income:

100MWh x £ 20 (System Sell Price) = £ 2,000

However, there are fuel costs associated with running the BMU as a result of not being able to decrease Generation:

100MWh x £50MWh = £ 5,000

Therefore:

	Lead Party	Subsidiary
Trading Charge	-	+£ 2,000
Avoidable Cost	-£ 5,000	n/a
Compensation amount	-£ 5,000	+£ 2,000

Under the P236 arrangements, the Trading Charges and Avoidable Costs of both, the Lead and Subsidiary Party must be considered. In contrast to the above example, the Q8 committee has visibility of the Subsidiary Party and the £ 2,000 'gained'. Therefore the Lead Party will only be able to claim £ 3,000 (as opposed to the £ 5,000 in the above example), seeing as a gain of £ 2,000 has been made in this instance.

This example does not take into account any contractual arrangements that exist between both Parties.

Conclusion:

Therefore, the possibility of gaming is reduced by virtue of having the Trading Charges and Subsidiary Costs of the Lead and Subsidiary Party considered. With reference to the above example, the Lead Party would be entitled to a compensatory amount of £ 3,000, taking into account the Subsidiary Party earning £ 2,000.

3 Impacts & Costs

Costs

ELEXON Cost		ELEXON Service Provider cost	**Total Cost**
Man days	Cost		
3.5	£ 770	Nil	**£ 770**

Indicative industry costs
As the P236 solution has no system impacts, it is believed that any costs would be minimal, confined to updating internal working procedures and documentation.

P236 impacts

This Modification Proposal is not expected to impact BSC Systems or Code Subsidiary Documents (unless the Modification Group considers that a new BSC Procedure is required for Q8 claims).

Impacts

Impact on BSC Parties and Party Agents
Both Lead Parties and Subsidiary Parties will be required to familiarise themselves with the revised claims process. There are no systems impacts.

Impact on BSC Systems and process	
BSC System/Process	Potential impact
None	None

Impact on BSC Agent/service provider contractual arrangements	
BSC Agent/service provider contract	Potential impact
None	None

Impact on Code	
Code section	Potential impact
Section Q	This section will require amendment to reflect that a Lead Party can claim for impacts on a Subsidiary Party's Trading Charges and Avoidable Costs.

Impact on Transmission Company
To be confirmed

Impact on ELEXON	
Area of ELEXON's business	Potential impact
Change Implementation	Updates to the BSC to reflect the P236 solution.

Impact on ELEXON	
Stakeholder Assurance	Update internal working procedures to effectively manage the new claims process.

Impact on Code	
Code section	Potential impact
Section Q	This section will require amendment to reflect that a Lead Party can claim for impacts on a Subsidiary Party's Trading Charges and Avoidable Costs.

Impact on Code Subsidiary Documents	
CSD	Potential impact
None	None

Impact on Core Industry Documents and other documents	
Document	Potential impact
Ancillary Services Agreements	None
Connection and Use of System Code	None
Data Transfer Services Agreement	None
Distribution Code	None
Distribution Connection and Use of System Agreement	None
Grid Code	None
Master Registration Agreement	None
Supplemental Agreements	None
System Operator-Transmission Owner Code	None
Transmission Licence	None
Use of Interconnector Agreement	None

Impact on other Configurable Items	
Configurable Item	Potential impact
None	None

Other Impacts	
Item impacted	Potential impact
None	None

4 Glossary

Glossary Table		
Acronym	Term	Definition
BM Unit	Balancing Mechanism Unit	A unit which exports or imports electricity.
MVRN	Metered Volume Reallocation Notification	A notification of a Metered Volume Reallocation in relation to Settlement Periods.

5 Modification Group membership

Member	Organisation	18/05/09
Adam Lattimore	ELEXON (Chairman)	√
Sherwin Cotta	ELEXON (Lead Analyst)	√
Mark Edwards	First Hydro (Proposer)	√
Neil Rowley	National Grid	√
Andrew Colley	Scottish and Southern	√
Chris Stewart	Centrica	√
Lisa Waters	Waters Wye	X
Hannah McKinney	EDF Energy	√
Colette Baldwin	E.ON	X
Gary Henderson	Scottish Power	√
Attendee	**Organisation**	**18/05/09**
Diane Mailer	ELEXON (Lawyer)	√
Steve Francis	ELEXON (DA)	√
Jonna Pipponen	ELEXON	√
Abid Sheik	Ofgem (Videoconference)	√

PROCESS FOLLOWED

Date	Event
14/05/09	IWA presented to the Panel
18/05/09	First Modification Group meeting held
02/06/09	P236 issued for simultaneous Industry Impact Assessment and Consultation