Attachment A: Detailed Assessment for P236

# P236: Compensation Claims for MVRN Parties arising from an Outage

What stage is this document in the process?

01 Initial Written Assessment

02 Definition Procedure

03 Assessment Procedure

04 Report Phase

## Contents



## About this document:

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

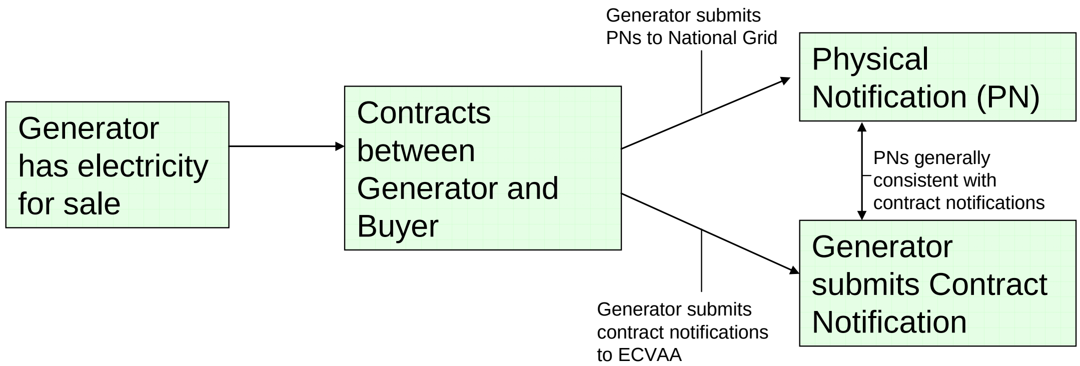
This document explains how the Group's discussions led it to its chosen solution and its recommendations to the Panel. It also includes a summary of the industry responses received to the Group's consultation.

You can download copies of the full industry consultation responses on the P236 webpage.

# 1 An overview of Outages and Physical Notifications

This section provides a high-level outline the relationship between Outages and Physical Notifications (PNs). It also summarises why an Outage could cause a Party to be subject to Imbalance Charges.

## Submitting Contract and Physical Notifications




The diagram above shows how other BSC Parties e.g. Suppliers, Traders, Subsidiary Parties, enter into Bi-lateral contracts with Generators for the purchase of electricity. Once the Generator has contracts in place they inform both National Grid and BSCCo of their contracted Generation levels.

The Generator informs National Grid of the Generation levels by submitting Physical Notifications (PNs) to National Grid's IT systems. This enables National Grid, in conjunction with other received PNs, to balance the Transmission System and ensure that Supply meets Demand.

Similarly, the Generator informs BSCCo by submitting 'Contract Notifications' to the BSC System ECVAA. These notifications inform of the contracted generation level and are used in Settlement Calculations. A Parties contracted generation levels are compared to the actual metered volumes. If there is a difference between a Party's contracted position and metered volume, then the Party is liable for Imbalance Charges.

Under the Grid Code, there is an obligation on Parties (in this example Generators) to meet their PNs. Similarly, under the BSC, the Code encourages Parties to meet their stated contract notification levels. Generally, a Party's Physical Notification will be consistent with its Contract Notification as they will use contracts to meet their latest submitted PN.

As described above, since a Parties PN reflects their actual metered volume (due to Grid Code Obligation), if there is an inconsistency between the PN and the Contract Notification then the Party incurs an Imbalance charge under the BSC.

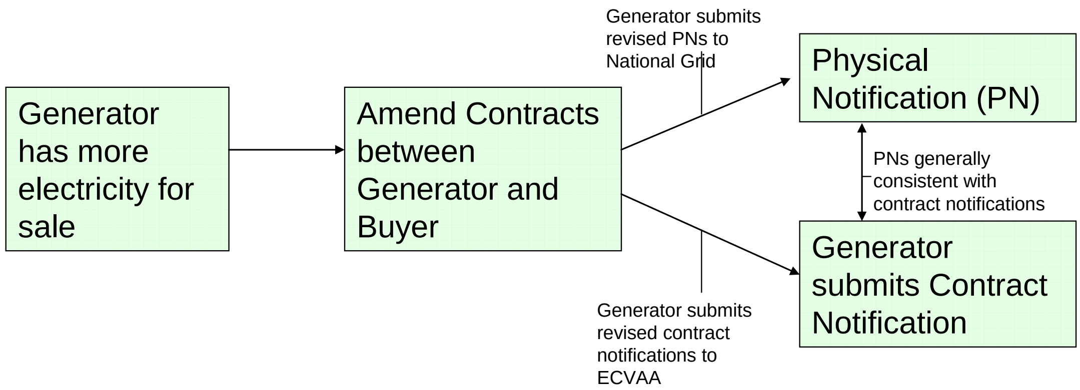

**Any questions?**

Contact:
**Sherwin Cotta**

**sherwin.cotta@elexon.co.uk**

**0207 380 4361**

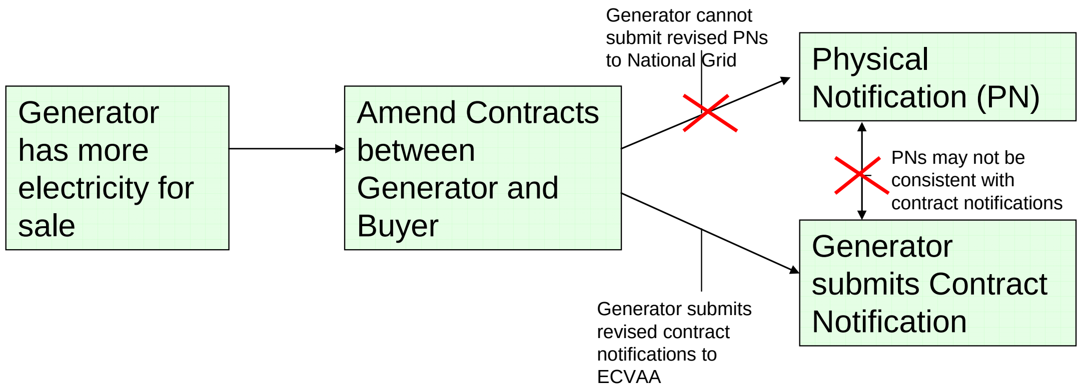
## What happens when you need to Generate differently to your first submitted PN / Contract Notification?




In this instance, we will assume that the Generator desires to generate more electricity. Both Parties (Generator and Buyer) will agree the new contract Generation level, followed by a submission of an updated PN and Contract Notification to National Grid and EVCAA respectively.

As before, the updated Physical Notification should reflect a Parties actual metered volume (due to Grid Code Obligation) and should be consistent with the updated Contract Notification.

## So what happens in an Outage?




As in the above example, we assume that the Generator desires to generate more electricity, both Parties (Generator and Buyer) agree a new contract Generation level and. an updated PN and Contract Notification is submitted to National Grid and EVCAA respectively.

However, let us assume that, because of an Outage to National Grid's IT systems, the Generator cannot submit an updated PN. For the avoidance of doubt the Generator would still submit an updated Contract Notification as ECVAA systems would not be impacted by the Outage. This results in the PN and Contract Notification being mismatched.

When an Outage occurs a Party is obligated under the Grid Code (BC 2.9.7.2 (b)) to follow the last submitted valid PN. This means the generation levels, whilst reflecting the last submitted PN, will not be consistent with latest submitted Contract notification. Therefore under the BSC, the actual metered volume would be different to the Generator's last valid contract notification. Resulting in the Party facing an Imbalance cost for not meeting its contractual position.

The BSC allows a Party to claim compensation for this situation through Section Q8.

## 2 Roles of BSCCo and the Q8 committee

This section outlines the role of BSCCo and the Q8 Committee in the current claims process.

If a Party is seeking compensation, the Lead Party has 10 Business Days after the Outage Compensation Period to submit a claim. The Lead Party must also submit a report detailing the impact on their Trading Charges and Avoidable costs.

### What is BSCCo's role in the current Q8 claims process?

The role of BSCCo is to investigate any claims and provide supporting information to enable the Q8 Committee to make a decision.

Following the submission of any claim, BSCCo will:

1. Acknowledge receipt of the claim

2. Check if an Outage occurred and, if it has occurred, whether it qualifies as an Outage Compensation Period. This information is contained within ELEXON but can be verified by contacting National Grid.

3. Confirm the claim has been submitted by the Lead Party of the BM Unit and that it has been submitted within 10 Working Days of an Outage Compensation Period.

4. Investigate the impact on the Lead Party's Trading Charges. BSCCo will check that the Party's Trading Charges were impacted and that the compensation calculations are in line with Section Q8. In particular that:
   - They use correct System Sell and Buy prices
   - They use correct Transmission Loss Multipliers
   - Have been calculated without any errors
   - Contracts and PNs match the data provided by BSC Agents
   - All calculations take into account both cost savings and incurred.

5. BSCCo will ensure that sufficient information is provided for the calculation of Avoidable Costs.

6. In order to provide as complete picture of the events as possible BSCCo will contact National Grid and the Energy Contract Volume Aggregation Agent (ECVAA).

   National Grid provides:
   - The reason for the Outage
   - Market Impacts /affected Settlement Periods
   - Operation of relevant BM unit i.e. which PNs were followed
   - Views on validity of the claim

   ECVAA provides details on the contracted volumes for the Party for the relevant Settlement Periods.

7. Where necessary, request the Lead Party provides any further information as required.

## Q8 Claims Committee

Following these investigations, BSCCo will draft a Q8 Committee paper, containing all the information they have obtained. The paper will cover:

- What the Q8 Committee needs to consider
- Whether there was a Outage Compensation Period as defined in Section Q8 of the BSC
- A timeline of events, e.g. PN submissions, contract updates, Start of the Outage and Gate Closure
- Whether the compensation amount considers Avoidable Costs
- Whether there is a direct Impact on the Lead Party's Trading Charges
- Whether there is a MVRN in place

The role of the Q8 Committee is to:

- Consider and determine whether an Outage Compensation Period occurred
- Confirm that the claim is valid
- Determine the compensation amount

The Q8 Committee will use the information provided by BSCCo to make an informed decision. If the claim is upheld, the Q8 Committee will direct BSCCo to instruct the FAA to make the necessary payments.

## 3 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 9 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.

**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

***Table 1 – P236 Assessment Procedure Terms of Reference***

| Area of Terms of Reference | See: |
|---|---|
| The Principle of P236:<br>- Are there any reasons why Subsidiaries should not be included in a claim?<br>- What was the original intention of the BSC? | Section 4.1 |
| 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 separate claims could be supported). | Section 4.2 |
| Are the current BSC claims timescales sufficient? | Section 4.3 |
| How the compensation arrangements will work:<br>- Does the Lead Party receive the total compensation amount?<br>- Does the Q8 committee use its discretion in working out a compensation arrangement? or<br>- As requested in the claim form? | Section 4.4 |
| Would the lack of unanimous support between the Lead Party and Subsidiary Party (or Parties) make a claim invalid? | Section 4.5 |
| Is the current definition of Avoidable Costs sufficient for the Q8 claims process? | Section 4.6 |
| The benefits and drawbacks of P236. | P236 Assessment Report – Section 6 |
| Whether an Alternative Modification is required. | P236 Assessment Report – Section 3 |

# 4 Group's intial Discussions

Please note that this section of the document deals with **the Groups initial discussions.** Following responses received during the consultation, the P236 solution has been amended where **a letter of support is no longer required.** Please see Section 6 for further details.

## 4.1 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 to exclude Subsidiary Parties from claiming via the Q8 claims process, then the rules around MVRNs would be stricter and more defined.

The Group then discussed why the issue of Subsidiary Parties being excluded from the claims process 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) was identified as impacting 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 are fully endorsed by the BSC. As such, any costs incurred by those Parties who use MVRNs during an Outage Compensation Period should be able to claim. Furthermore, the Group felt that it would be counter to 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 obligated by the Grid Code 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.**

## 4.2 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 makes a claim, 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.

## 4.3 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.

## 4.4 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.

## 4.5 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/awareness is required from Subsidiary Parties.

## 4.6 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 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.

## 4.7 Transparency of the current claims arrangements

The Group raised the question of whether the ability to 'game' would be increased by including Subsidiary Parties' costs in the claims process. The Group concluded that this was not the case and that P236 would reduce the potential for Parties to game within the market, as the impacts of the Subsidiary Party would be taken into account if, for example, the Lead Party has made a loss in relation to Avoidable Costs and the Subsidiary Party has gained Trading Charges.

The Group also noted that to 'game' was not really the issue and the concern is really more around the transparency of the current claims process. Currently Lead Parties cannot submit a total net loss, which forces them to claim in an undesirable manner i.e. not showing the full picture of what has been gained and lost. Allowing the impacts of the Subsidiary Party to be taken into account will mean Parties can claim in a more desirable and transparent way.

The following examples demonstrate this, where the System Sell Price is £200 and the Fuel Cost is £50 per MWh.

***Current situation*** *(where MVRNs are in place):*

In this example a 100% MVRN arrangement exists between a Lead and Subsidiary Party. If the Lead Party wished to decrease its generation level by 100MWh it would submit the relevant Contract notification and an updated PN. However, if it is unable to submit an updated PN, due to an Unplanned Outage, it would have to generate its last PN i.e. 100MWh higher than its contracted position.

If the extra 100MWh was generated then the Subsidiary Party would be able to trade the energy, effectively earning them an income of £2,000.

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

Due to the presence of a MVRN, the 'Trading Charges for the Lead Party' are zero. However, the Lead Party faces fuel costs associated with running the BMU as a result of not being able to decrease Generation as intended; a loss of £5,000.

**100MWh x £50MWh = £5,000**

These costs are summarised in the table below. The current claims process does not consider the Trading Charges and Avoidable Costs of Subsidiary Parties so these have been shaded grey.

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

| | | |
|---|---|---|
| Compensation amount | -£5,000 | +£2,000 |

Under the current Q8 claims process the Lead Party is perfectly entitled to claim for any financial losses incurred (£5,000). However, the Q8 Committee has no visibility of the total net loss or gain as it cannot see the £2,000 gain of the Subsidiary Party. In principle, as there is a gain of £2,000, the Lead Party should submit a claim for £3,000.

### ***Under P236 arrangements*** *(where MVRNs exist):*

Like the above example, the Lead Party has a MVRN arrangement with a Subsidiary Party, and wishes to decrease its generation level by 100MWh but cannot do so because of an unplanned Outage.

As before, the Subsidiary Party can trade the energy, effectively earning them an income of £2,000.

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

And the Lead Party incurs a loss of £5000 due to fuel costs associated with running the BMU as a result of not being able to decrease Generation:

**100MWh x £50MWh = £5,000**

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

| | Lead Party | Subsidiary |
|---|---|---|
| Trading Charge | n/a | +£2,000 |
| Avoidable Cost | -£5,000 | n/a |
| Compensation amount | -£3,000 | |

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

### ***Conclusion:***

The increased transparency under the P236 arrangements means that the Q8 committee can see the total net loss or gain of the Lead and Subsidiary Party allowing them to make a more informed decision. It also removes the need for Parties to have to claim in an undesirable manner.

## 5 What did industry think?

The Group's initial views were issued as part of an industry Consultation on 2 June 2009. The sections below highlight the opinions expressed by respondents.

### Consultation Responses

Five responses were received which are summarised below. Full responses can be found on the P236 webpage.

- **Does P236 better facilitate the Applicable BSC Objectives?**

  Respondents unanimously agreed with the Modification Groups view and rationale that P236 does better facilitate BSC Objectives (c) and (d). No new arguments were made with respect to the Applicable BSC Objectives.

- **What are the impacts of P236 on industry?**

  Respondents were split, with the majority indicating that they would be impacted. The rationale provided was that these Parties use MVRNs, and therefore would be involved in the Q8 claims process if a National Grid Outage occurred. Some respondents indicated that there would be minor impacts on their contractual arrangements.

- **Is there any reason why Subsidiary Parties should not have their Trading Charges considered as part of a claim?**

  Respondents unanimously believed that there is no reason why a Subsidiary Party's Trading Charges are considered as part of a Q8 claim.

- **Does the industry agree that a Subsidiary Party's Avoidable Costs are 'zero'?**

  Respondents unanimously agreed that these costs would be zero, as Subsidiary Parties are not responsible for the direct operation of, and are not the registrant of a BM Unit.

- **Would P236 change the way Parties use MVRNs or impact contractual arrangements?**

  The majority of respondents believed that P236 would have no impact on their contractual arrangements or the way they used MVRNs. One respondent noted that the changes may be required to the contracts.

- **What are the industry's views on P236 increasing the opportunity for a Party to game or act in a undesirable manner (refer to section 4.7)?**

  Respondents unanimously agreed that the implementation of P236 would not increase the opportunity for Parties to game and would in fact reduce the potential for this to happen.

- **Does the industry agree with the P236 implementation approach?**

  Respondents unanimously agreed with the P236 implementation approach.

- **Does the industry believe that any Alternative solutions exist?**

  Respondents unanimously agreed that the Modification Group explored all possible outcomes for the relevant issues.

- **Further comments made during the consultation?**

  Two respondents highlighted their concerns with the ability for a Subsidiary Party to veto the claims process by not providing a letter of support/awareness. The Modification Group considered this aspect of the solution, details of which can be found in Section 6 of this document.

# 6 What are the Group's conclusions?

## 6.1 Groups final views

The Group noted that the responses received to the P236 consultation were unanimously supportive of the Groups initial recommendations.

However, they also noted concerns with respect to Subsidiary Parties being able to effectively 'block' valid claims raised by the Lead Party, by not providing a letter of support. These discussions are noted below:

- **Subsidiary Party awareness of a claim**

As a result of the concerns raised, the Group considered the purpose of the letter of support/awareness, which is simply to ensure that all Parties involved were aware of the existence of a claim. However, it may be possible that a Subsidiary Party disagrees with the claim and so does not provide a letter of support/ awareness or cannot provide a letter of support in time. Under the initial proposal, if no letter is received, the Q8 committee would not consider the claim, effectively blocking a valid claim.

With this in mind, the Group decided against a requirement for a letter of support. Instead it was suggested that, within 10 Working Days of a claim being submitted, BSCCo would contact the relevant Subsidiary Parties where a Lead Party has submitted a claim. It will still be the Lead Party's responsibility to ensure that the claim has a detailed explanation of the losses faced by both the Lead and Subsidiary Party. The Group believed that this provided sufficient comfort, in that all relevant parties were aware that a claim was being made.

- **Q8 committee decision on a claim**

In line with the discussions above, the Group believed that BSCCo should communicate the decision of the Q8 claims committee to all relevant Parties.

- **Legal text**

The Group unanimously agree that the Legal text delivers the intended solution. The legal text is available on the P236 webpage.

## 6.2 Groups views on the materiality of P236

The Group agreed that it was important to try to quantify the potential benefits of a revised claims process to Lead and Subsidiary Parties which would arise from implementing P236.

On behalf of the Group, ELEXON undertook a modelling exercise to establish the potential cost benefits. This section summarises the results of the cost-benefit analysis undertaken by ELEXON, as well as the Group's discussions of the results.

- **Source data and assumptions**

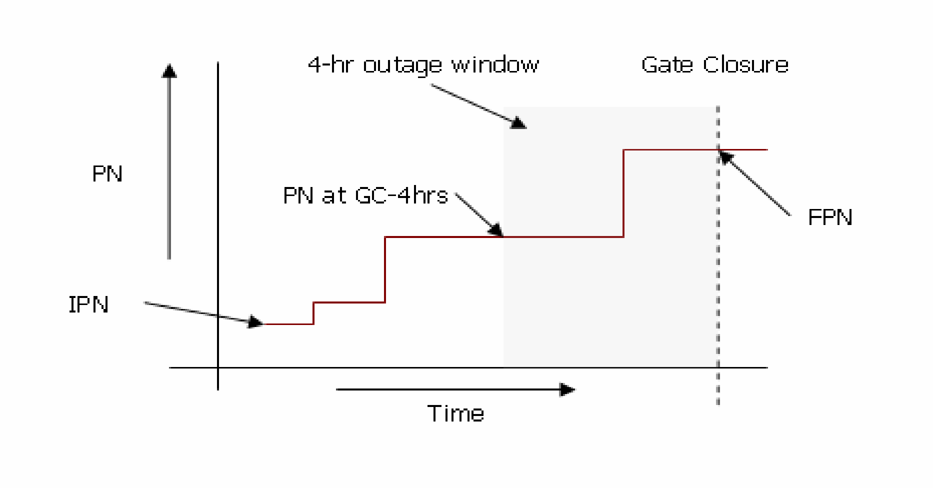
The Grid Code (BC 2.9.7.2 (b)) requires that the registrant for a BM Unit submit PNs e.g. CVA BM Units which deal with Generation and SVA BM Units which deal with Demand.

The data analysis relates to Central Volume Allocation (CVA) BM Units, as these BM Units are more likely to change their PNs. The other type of BM Unit, Supplier Volume Allocation (SVA), remain constant and as a result are less likely to be impacted by an Outage of

National Grid's IT systems. Of the approximately 466 CVA BM Units, 265 BM Units use MVRNs which account for 71% of the total Energy traded for each Settlement Period.

We were able to obtain data for the 221 most active CVA BM units (146 BM Units with MVRNs and 75 BM units without MVRNs) that submit PNs to National Grid. While not covering every BM Unit, this covers the larger market participants, who would have a sizeable impact if an Outage occurred. As a result, these participants would be more likely to claim.

The analysis used the assumption that an average Outage Compensation Period lasts for 4 hours. As such, for a sample of BM Units, the PN notifications submitted 4 hours before Gate Closure were compared with those Submitted at Gate Closure.




This highlights how a Party would be impacted if it couldn't update its PN should an Outage occur. This analysis was carried out for those BM Units with and without MVRNs in place. The difference in PNs is treated as an Imbalance and multiplied by the System Sell/ System Buy Price to give the corresponding Trading Charge. This has been done for each BM Unit and the results have been added to give the overall market view.

This allows a comparison between the compensation that could possibly be claimed under the current Q8 process, and the potential compensation amounts under a P236 regime.

- **Materiality of the P236 solution**

The costs in the tables are assessed on the imbalances between the Physical Notification four hours before Gate Closure and the Final Physical Notification for that Period. This simulates the PN changes that could be blocked by an Outage.
The tables below show data for the Generation BM Units provided by National Grid over 6 Settlement Periods (SP) for:

- 17 March 2009 (the most recent day for which data can be obtained); and
- 09 October 2008 (the day when the Proposer faced the Outage, coupled with peak system prices).

For 17 March 2009, Settlement Periods:

- 17 and 18 are used as these periods generally have lower System Buy/Sell prices; and
- 37 and 38 are used as these periods generally have higher System Buy/Sell prices.

For 09 October 2008, Settlement Periods:

- 40 and 41 are used as these periods are immediately prior to the National Grid Outage that impacted the Proposer.

The data reflects the overall, negative-only totals (Negative Imbalances where a Party has to pay for being in Imbalance) and the maximum Imbalance costs from each Settlement Period. In addition, the number of separate imbalances is given, as well as the number of negative payments and payments of £1000 or greater. (A negative number indicates payment by the Party and a positive number indicates a payment to the Party, in the normal convention.)

Table 1 details the values from using just the BM Units that **do not submit MVRNs** (Lead Parties/Generators only), whereas table 2 shows the values for **all the BM Units**, including those that submit MVRNs (Lead Parties and Subsidiary Parties). Therefore the difference in data between table 1 and table 2 indicates data for MVRN BM Units only. This gives an idea of how these values could change under P236.

**TABLE 1: Non-MVRN BM Units only**

| Date | Period | Total net payment(+) | Total negative payment(*) | Maximum payment by single BM Unit | Total number of Imbalances | Number of negative Imbalances | Number of Imbalances more than -£1000 |
|---|---|---|---|---|---|---|---|
| 17 March 09 | 17 | -6074.58 | -6099.41 | -1650.83 | 6 | 5 | 3 |
| 17 March 09 | 18 | -8371.20 | -8416.52 | -1813.80 | 10 | 8 | 5 |
| 17 March 09 | 37 | -213.06 | -2007.11 | -1408.88 | 8 | 3 | 1 |
| 17 March 09 | 38 | 1809.36 | -4763.71 | -4014.51 | 7 | 2 | 1 |
| 09 Oct 08 | 40 | 4496.15 | -266.29 | -198.83 | 6 | 2 | 0 |
| 09 Oct 08 | 41 | 8234.23 | -316.15 | -189.69 | 6 | 2 | 0 |

**TABLE 2: All BM Units**

| Date | Period | Total net payment(+) | Total negative payment(*) | Maximum payment by single BM Unit | Total number of Imbalances | Number of negative Imbalances | Number of Imbalances more than -£1000 |
|---|---|---|---|---|---|---|---|
| 17 March 09 | 17 | -22749.11 | -23968.49 | -3445.20 | 33 | 20 | 11 |
| 17 March 09 | 18 | -19944.74 | -21656.77 | -3627.60 | 29 | 18 | 9 |
| 17 March 09 | 37 | -13244.87 | -16068.02 | -4009.88 | 19 | 11 | 6 |
| 17 March 09 | 38 | -2332.62 | -12114.56 | -4014.51 | 19 | 6 | 4 |
| 09 Oct 08 | 40 | -43180.31 | -49256.77 | -32143.38 | 22 | 14 | 6 |
| 09 Oct 08 | 41 | -40998.33 | -57500.35 | -23479.45 | 21 | 12 | 6 |

1. *Please note that, for the purpose of applying SBP/SSP to each imbalance, each BM Unit has been treated individually, with SBP applied to a negative imbalance and SSP applied to a positive imbalance.*
2. *(*) A Party has a financial loss for being in Imbalance i.e. Trading Charges*
3. *(+) This is the combination of the total number of Parties being in negative Imbalance (Short) and Positive Imbalance (Long) i.e. financial loss and financial gain respectively. A positive 'Total net payment' such as that seen in Settlement Period 40, denotes that the majority of BM units received payments for being in a 'positive Imbalance', whereas a negative 'Total net payment' denotes that the majority of payment was received from BM units, as these BM Units were in a 'negative Imbalance'.*

While two rows have been chosen for simplicity and for further explanation (highlighted in green above), the underlying rationale is applicable to all the above rows in both Tables. These tables highlight the negative Imbalances (i.e. Parties paying Trading Charges) that could be incurred by BM Units, should an Outage occur. Under the current claims process, the Lead Party can claim only if its Trading Charges and Avoidable Costs are directly impacted.

The current claims process does not consider the effect of MVRNs and consequently the Trading Charges of a Subsidiary Party. Therefore some Trading Charges may not be liable for compensation. P236 proposes that both the Trading Charges of the Subsidiary Party and the Trading Charges and Avoidable Costs of the Lead Party should be considered as part of a claim, where an Outage has occurred.

**With reference to the green highlighted rows:**

**Tables 1 and 2 for 17 March (non peak system prices) – Settlement Period 18:**

For this Settlement Period the 'Total negative payment' for all BM units (table 2) (Parties paying Imbalance costs) amounted to -£21,656, where the biggest Imbalance payment by a single BM unit was -£3,627.

If an Outage occurred during this period, then under the current arrangements, only the Non-MVRN BM units would be subject to a compensation claim. This means that of the -£21,656 total (table 2), only the -£8,416 (table 1) relating to Non-MVRN BM Units could be claimed for. Overall, the maximum payment of -£3,627 by a single BM unit is that of a MVRN BM unit.

In this Settlement Period the  MVRN Subsidiary Parties would be faced with a combined loss of -£13,126 ([table 2] £21,656 – [table 1] £8,416) that could not be compensated under the current process.  Under the P236 arrangements, however, there would be no distinction between Non-MVRN and MVRN BM units, and the full -£21,656 could be claimed for.

**Tables 1 and 2 for 9 October (peak system prices) – Settlement Period 40:**

For this Settlement Period the total negative payment for all Parties (Parties paying Imbalance costs) amounted to -£49,256, where the biggest Imbalance payment by a single BM unit was -£32,143. This includes Non-MVRN and MVRN BM units (see table 2).

If an Outage under occurred during this period, under the current arrangements, only the Non-MVRN BM units would be able subject to a compensation claim (table 1). This means that of the total -£49,256 (table 2), only the -£266 (table 1) relating to Non-MVRN BM Units could be claimed for; the total loss of -£48,990 would be spread across all MVRN Subsidiary Parties. However, if only Non-MVRN BM units are considered, most Parties have financially gained, where the total payment is only -£266.

However, should P236 have been in place, all Parties would have been eligible to claim compensation through their respective Lead Party; a greater amount could have been paid as compensation than if only Non-MVRN BM units were compensated.

- **Why does the number of Parties that could claim increase?**

This can be simply be explained by the fact that more Parties are included in the claims process i.e. both a Lead Party and Subsidiary Party. This is in contrast to the current process which only includes Lead Parties.

- **What is the materiality of these potential claims?**

While the average increase in compensation amounts when considering both MVRN and non MVRN BM Units is four fold, the data indicates that 50% of these claims would be no greater than £1,000. In addition, the analysis has indicated that over the last 12 months a number of Outage impacted MVRN BM units have not attempted to raise claims for their financial losses. This suggests that Parties do not see every compensation amount under the Q8 process as being significant.

This assumption is supported by the majority of respondents to the P236 consultation stating that they would not change the way they use MVRNs nor would they have raised a claim if the P236 solution was in use. Therefore it is believed that there would not be a significant increase in claims under the P236 arrangements.

- **Final Conclusions**

The current arrangements leave MVRN BM units at risk of financial losses should an Outage occur, whereas the P236 solution would ensure that Non-MVRN and MVRN BM units are treated equally with respect to submitting a claim. From the data used, we can see there is an increase in the materiality of claims. With exception of the Proposer's Q8 claim, no attempts have been made to claim several high Imbalances (e.g. £23,479 in table 2), which suggests that most Parties do not believe this to be a significant issue; an assumption which is supported by the P236 consultation responses.

# 7 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. |

## 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 Transmission Company |
|---|
| The Transmission Company has indicated that P236 will not have any impact upon it's ability to discharge it's obligations under the Transmission Licence. |

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

**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).

| Impact on Core Industry Documents and other documents | |
|---|---|
| Use of Interconnector Agreement | None |

| Impact on other Configurable Items | |
|---|---|
| Configurable Item | Potential impact |
| None | None |

# 8 Glossary

| Glossary Table | | |
|---|---|---|
| Acronym | Term | Definition |
| BM Unit | Balancing Mechanism Unit | A unit which exports or imports electricity. |
| FAA | Funds Administration Agent | means the BSC Agent for Funds Administration in accordance with Section E1.2.4 |
| MVRN | Metered Volume Reallocation Notification | A notification of a Metered Volume Reallocation in relation to Settlement Periods. |

# 9 Modification Group membership

| Member | Organisation | 18/05/09 | 18/06/09 |
|---|---|---|---|
| Adam Lattimore | ELEXON (Chairman) | √ | √ |
| Sherwin Cotta | ELEXON (Lead Analyst) | √ | √ |
| Mark Edwards | First Hydro (Proposer) | √ | √ |
| Neil Rowley | National Grid | √ | √ |
| Andrew Colley | Scottish and Southern | √ | X |
| Chris Stewart | Centrica | √ | √ |
| Hannah McKinney | EDF Energy | √ | X |
| Gary Henderson | SAIC | √ | √ |
| Attendee | Organisation | 18/05/09 | |
| Diane Mailer | ELEXON (Lawyer) | √ | √ |
| Steve Francis | ELEXON (DA) | √ | √ |
| Jonna Pipponen | ELEXON | √ | √ |
| Abid Sheik | Ofgem (Videoconference) | √ | X |
| Oliver Dancel | Ofgem | X | √ |
| Martin Mate | British Energy/EDF | X | √ |
| Emma Williams | First Hydro | X | √ |

**PROCESS FOLLOWED**

| Date | Event |
|---|---|

| 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 |
| 16/06/09 | P236 consultation responses returned |
| 18/06/09 | Second Modification Group meeting held |
| 09/07/09 | Assessment Report presented to the Panel |