



Nick Simpson
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5 July 2006

Dear Nick,

Panel recommendation regarding urgency for Modification Proposal P205 'Increase in PAR Level from 100MWh to 500MWh'

Modification Proposal P205 'Energy Imbalance Incentive Band' (P202) was raised by Good Energy Ltd on 5 July 2006.

The Proposer has recommended that P205 should be progressed as an Urgent Modification Proposal. In accordance with the procedures set out in Section F2.9 of the Balancing and Settlement Code ('the Code'), the Panel has carefully considered this recommendation, and recommends to the Authority that P205 should be progressed as an Urgent Modification Proposal.

I am writing to seek the Authority's determination as to whether urgency should be granted and, if so, endorsement of the process and timetable to be followed in respect of the Urgent Modification Proposal.

Issues Addressed by the Modification Proposal

A copy of Modification Proposal P205 is attached to this letter.

P205 seeks to amend the Price Averaging Reference Volume (PAR) from 100MWh to 500MWh. The effect of this would be to mitigate, to a large extent, the effect of Approved Modification P194 – 'Revised Derivation of the Main Energy Imbalance Price' (P194). The Proposer expresses concern that P205 was assessed based on historic data from 2004/2005 and that imbalance prices have subsequently been more volatile. It is suggested that P205 should be implemented ahead of winter 06/07 to reduce the effect of P194 given the expected increased imbalance price volatility compared to the period on which assessment of P194 was based. The Proposer has indicated that the intention, should P205 be approved, would be to conduct further analysis on an appropriate PAR value within the scope of another Modification Proposal following winter 06/07.

Rationale for Urgency Recommendation

In recommending urgency the Proposer cites a need to address the issue ahead of Implementation of P194 on 2 November 2006 - a date related event. The Proposer asserts in the proposal that there would be material commercial impact over winter 06/07 if the defect is not addressed.

Panel Views

The Panel considered the P205 urgency request via teleconference on 5 July 2006. Two Panel members, the Transmission Company Panel Member and the DSO Representative were available for

the teleconference; four further Panel Members were contacted outside the meeting. The Panel agreed by majority that P205 should be progressed as an Urgent Modification Proposal. The majority of Panel members noted that P205 was related to an imminent date related event – i.e. the implementation of P194. It was also recognised by Panel members in support of urgent progression of P205 that the Proposer cited significant commercial implications to participants as a consequence of the issues raised by P205. The Transmission Company Panel Member did not support urgent progression as it was considered that the questions raised had been fully assessed in the progression of P194 and the effects of P194 had not yet been experienced.

The Panel recognised that, should P205 not be treated as an urgent Modification Proposal, the final Modification Report would not be issued to the Authority before November 2006. The proposed urgent timetable would allow the Urgent Modification Report to be issued to the Authority at the end of September 2006.

The Panel noted that implementation of P205 would be limited to adjustment of a parameter within central systems and that urgent progression of the proposal could allow implementation ahead of winter 06/07.

The Panel noted that the issue identified in the proposal is of significant concern to some participants ahead of winter 06/07. The Panel also acknowledged that the imbalance charging mechanism over winter periods may have material commercial impacts on some participants.

The Panel noted that the raising of P205 introduces a level of regulatory uncertainty. It was considered by some Panel members that processing P205 in the shortest possible timescale would be beneficial as it would ensure this uncertainty was removed at the earliest opportunity. One Panel expressed concern that this argument could be applied to all Modifications Proposals and should not be used to justify urgent treatment.

It was questioned by some Panel Members why the issue was now considered urgent given the time during which the industry has been aware of the potential for system stress over the winter period and the fact that P194 was approved in March 2006. It was noted that, whilst earlier raising would have eased the pressures, the Modification Proposal remains valid.

Some Panel members questioned the appropriateness of treating a proposal as urgent which effectively seeks to undo the effect of an Approved Modification, which has been subject to a full assessment, prior to its implementation. However, it was noted that there is no restriction in the BSC on the raising of such proposals.

A Panel Member noted that the proposal must be progressed urgently if it was to address the issues identified. If the Modification Proposal were not treated as urgent, irrespective of the merits of the proposal, it could send out an inappropriate message in terms of discouraging participants from raising issues where they believed there would be significant commercial impact.

Proposed Process and Timetable

The Panel agreed that, to derive any value from the assessment of P205, it would be necessary to generate imbalance price data for P194 (PAR 100) and P205 (PAR500) over 05/06.

The proposed process and timetable that would be adopted if this Modification Proposal were to be treated as urgent is set out in the table below. The aim would be to submit an Urgent Modification Report in respect of P205 to the Authority on 26 September 2006. It should be noted that this timescale is based on the assumption that Transmission Company would generate the required data (as was the case for P194) and that this would take six weeks. Investigations are ongoing to identify alternative methods of producing the required data in shorter timescales.

P202 Proposed Process and Timetable

Activity	Date
First Modification Group Meeting	11 July 06
Generate Pricing Data (assumed 6 weeks)	12 July - 22 August 06
Second Modification Group Meeting	23 August 2006
Issue Consultation to Modification Group for review	29 August 2006
Comments from Modification Group	31 August 2006
Consultation	4-8 September 2006
Third Modification Group Meeting	12 September 2006
Issue Urgent Modification Report to Modification Group for review	18 September 2006
Comments from Modification Group	20 September 2006
Issue Urgent Modification Report to Panel	21 September 2006
Panel Meeting	22 September 2006
Issue Urgent Modification Report to Authority	27 September 2006

Decision Required

You are invited to determine whether P205 should be treated as Urgent Modification Proposal and, if so, to direct the processes and timetables to be followed. Given the proposed timing of the first Modification Group Meeting on 11 July 2005, I would be grateful if a timely decision could be reached on this matter. It would be helpful if a decision could be provided by midday on Friday 7 July 2006.

Yours sincerely,



Laone Roscorla
BSC Panel Secretary

On behalf of the BSC Panel Chairman

Enc: 1. Modification Proposal P205