



Nick Simpson
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8 June 2006

Dear Nick,

Panel recommendation regarding urgency for Modification Proposal P202 'Energy Imbalance Incentive Band'

Modification Proposal P202 'Energy Imbalance Incentive Band' (P202) was raised by Bizzenergy on 7 June 2006.

The Proposer has recommended that P202 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 P202 should **not** 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 P202, including the recommendation for urgency, is attached to this letter.

P202 seeks to introduce a tolerance band for the application of imbalance charges to Supplier Consumption Energy Accounts. Where a Supplier is in imbalance in the same direction as the overall System (i.e. where the Party is short when the system was short, or where the Party was long where the system is long), the Party would be exposed to a Tolerance Price for the first 20 MWh of imbalance (rather than the Main Price). The Tolerance Price would be the Market Price adjusted to include a premium (e.g. plus or minus 10 percent).

Rationale for Urgency Recommendation

In recommending urgency the Proposer cites a need to address the issue ahead of winter 06/07 – a date related event. It is also suggested that there would be material commercial impact over winter 06/07 if the defect is not addressed (particularly as a consequence of P194 being implemented in November 06). This rationale is expanded in the attached confidential letter provided by the Proposer to BSCCo, the Panel and the Authority.

Panel Views

The Panel considered P202 at its scheduled meeting of 8 June 2006. Panel Members were split as to whether P202 should be progressed as an Urgent Modification Proposal. 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, should P202 not be treated as an Urgent Modification Proposal, the final Modification Report would be issued to the Authority in October 2006. The proposed urgent timetable would allow the Urgent Modification Report to be issued to the Authority on 14 August 2006.

The Panel then considered the question as to whether Urgent progression of the proposal would actually allow for implementation ahead of winter 06/07.

The Panel noted that the proposal potentially impacts imbalance charges for every Party in every Settlement Period. A system change of this nature typically requires a lead time of at least 6 months. The Panel thus noted that a full system change is highly unlikely to be feasible ahead of winter 06/07 with or without urgency. At this stage, no workaround has been identified that could support the proposal in the short term pending delivery of the full system change. Such options would need to be investigated fully when assessing the Modification Proposal. Bearing this in mind a number of Panel members who did not support urgent progression of P202 did not consider that there would be any benefit from using the urgent procedures.

In addition, some Panel members who were not in support of urgent progression, indicated that the absence of a feasible solution at the present time should not be a factor in considering whether a proposal should be progressed urgently. However, these Panel Members questioned 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 also noted that the proposal presents complex and fundamental issue in relation to imbalance settlement and that progression in the normal Modification Procedures would allow for a fuller assessment by the industry.

Those Panel Members supportive of urgent treatment of P202 agreed with the rationale of the Proposer and reiterated the view that the issue highlighted by P202 is significant to a number of (smaller) participants ahead of winter 6/07. It was the view of these Panel Members that urgent progression of the proposal would provide the only possibility of identifying an implementation approach that would allow the issue to be addressed ahead of winter. One of these Panel Members said that in considering the merits of urgency it was not relevant to pre-judge whether a solution could or could not be found.

Both the Transmission Company Panel Member and the Distribution System Operator representative expressed a view that P202 should not be progressed as an Urgent Modification Proposal. In casting his deciding vote the Panel Chairman supported the views of those who did not believe that the proposal should be considered urgent.

Interaction with P202

The Panel acknowledged the relationship between P202 and P201 – ‘Energy Imbalance Tolerance Band’ (P201). It was noted that an Authority decision on P201 and P202 may need to be taken in parallel. Any benefit of progressing P202 via the urgent process may be lost if the P201 Modification Report is not provided to the Authority in the same timescale. The Panel noted that, should the Authority determine P202 be progressed as an Urgent Modification, BSCCo would recommend that P201 also be treated as an Urgent Modification.

Proposed Process and Timetable

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 P202 to the Authority on 14 August 2006.

P202 Proposed Process and Timetable

Activity	Date
First Modification Group Meeting	14 June
Second Modification Group Meeting	22 June
Issue Consultation and Requirements Specification to Modification Group for review	30 June
Comments from Modification Group	5 July
Consultation / Impact Assessment	6 July – 19 July
Third Modification Group meeting	25 July
Issue Urgent Modification Report to Modification Group for review	2 August
Comments from Modification Group	6 August
Issue Urgent Modification Report to Panel	8 August
Panel Meeting	10 August
Issue Urgent Modification Report to Authority	14 August

Decision Required

You are invited to determine whether P202 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 14 June 2006, I would be grateful if you could reach a timely decision on this matter. Ideally a decision would be provided by midday on Monday 12 June 2006, allowing time for consideration of the implications for progression of P201 prior to the scheduled Modification Group Meeting.

Yours sincerely,



Nick Durlacher
BSC Panel Chairman

- Enc:
1. Modification Proposal P202
 2. Proposer's Confidential Representation regarding urgent progression