Draft MODIFICATION REPORT for Modification Proposal P199

'Quantification of Demand Control in the BSC as instructed under OC.6 (c), (d) & (e) of the Grid Code'

Prepared by: ELEXON[1] on behalf of the BSC Panel

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This document has been distributed in accordance with Section F2.1.10 of the Balancing and Settlement Code.[2]

Proposed Modification P199 seeks to make provision for the treatment of Demand Control within the Balancing and Settlement Code. P199 proposes to treat the demand reduction for each Balancing Mechanism Unit (BM Unit) as an Offer Acceptance. The Offer Volume would be included in the Energy Imbalance Price calculations as un-priced. No payment would be made to the affected BM Units for the Offer Acceptance, but the volume would be reflected in the affected Parties' credited energy.

P199 proposes the inclusion of a process whereby Parties affected by Demand Control may query the amount of Demand Control Volume allocated to them in light of additional information.

Alternative Modification P199 seeks to make provision that Parties affected by Demand Control would receive a payment for the associated Demand Control Volumes. The payment for the associated Demand Control Volumes would be made at the Market Price.

BSC PANEL'S RECOMMENDATIONS

Having considered and taken into due account the contents of the P199 draft Modification Report, the BSC Panel recommends:

- **that Proposed Modification P199 should not be made;**
- **that Alternative Modification P199 should not be made;**
- **an Implementation Date for the Proposed or Alternative Modification P199 of 22 February 2007 if an Authority decision is received on or before 23 August 2006, or 28 June 2007 if the Authority decision is received after 23 August 2006 but on or before 19 December 2006;**
- **the proposed text for modifying the Code, as set out in the Modification Report.**

[1] ELEXON Ltd fulfils the role of the Balancing and Settlement Code Company ('BSCCo').
[2] The current version of the Code can be found at http://www.elexon.co.uk/bscrelateddocs/BSC/default.aspx

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SUMMARY OF IMPACTED PARTIES AND DOCUMENTS

As far as BSCCo has been able to assess, the following parties/documents would be impacted by P199.

Please note that this table represents a summary of the full impact assessment results contained in Appendix 4 of the Assessment Report.

Parties	
Distribution System Operators	☒
Generators	☒
Interconnectors	☒
Licence Exemptable Generators	☒
Non-Physical Traders	☒
Suppliers	☒
Transmission Company	☒
Party Agents	
Data Aggregators	☐
Data Collectors	☐
Meter Administrators	☐
Meter Operator Agents	☐
ECVNA	☐
MVRNA	☐
BSC Agents	
SAA	☒
FAA	☐
BMRA	☒
ECVAA	☐
CDCA	☐
TAA	☐
CRA	☐
SVAA	☐
Teleswitch Agent	☐
BSC Auditor	☐
Profile Administrator	☐
Certification Agent	☐
Other Agents	
Supplier Meter Registration Agent	☐
Data Transfer Service Provider	☐

Sections of the BSC	
A	☐
B	☐
C	☐
D	☐
E	☐
F	☐
G	☒
H	☐
I	☐
J	☐
K	☐
L	☐
M	☐
N	☐
O	☐
P	☐
Q	☐
R	☐
S	☐
T	☒
U	☐
V	☒
W	☐
X	☒

Code Subsidiary Documents	
BSC Procedures	☐
Codes of Practice	☐
BSC Service Descriptions	☒
Party Service Lines	☐
Data Catalogues	☐
Communication Requirements Documents	☐
Reporting Catalogue	☐
Core Industry Documents	
Ancillary Services Agreement	☐
British Grid Systems Agreement	☐
Data Transfer Services Agreement	☐
Distribution Codes	☐
Distribution Connection Agreements	☐
Distribution Use of System Agreements	☐
Grid Code	☒
Master Registration Agreement	☐
Supplemental Agreements	☐
Use of Interconnector Agreement	☐
BSCCo	
Internal Working Procedures	☒
BSC Panel/Panel Committees	
Working Practices	☒
Other	
Market Index Data Provider	☐
Market Index Definition Statement	☐
System Operator-Transmission Owner Code	☐
Transmission Licence	☐

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1 DESCRIPTION OF MODIFICATION

This section outlines the solution for the Proposed Modification and Alternative Modification, as developed by the P199 Modification Group ('the Group') during the Assessment Procedure.

For a full description of the original Modification Proposal as submitted by National Grid Electricity Transmission ('the Proposer'), and the background to the proposal, please refer to the P199 Initial Written Assessment (IWA).

1.1 Proposed Modification

P199 seeks to make provision for the treatment of Demand Control within the Balancing and Settlement Code. In a Demand Control scenario P199 proposes to treat the demand impact for each BM Unit as an un-priced Offer Acceptance. In summary this would mean that:

- The Total Demand Control Volume would be included in the Energy Imbalance Price calculations and the volume would be un-priced;
- The Total Demand Control Volume would be apportioned to affected Parties and reflected in their Energy Imbalance Volume calculations;
- No payment would be made to affected Parties for the Offer Acceptance; and
- There would be an appeals process whereby Parties affected by Demand Control might appeal the amount of Demand Control Volume allocated to them in light of additional information they may possess.

1.2 Alternative Modification

The P199 Alternative Modification seeks to make provision for the treatment of Demand Control within the Balancing and Settlement Code and compensate those Parties who have bought energy in good faith, but are unable to then sell this energy on to customers whose demand has been reduced through Demand Control.

P199 Alternative Modification is identical to the Proposed Modification, but payment would be made to affected BM Units for their apportioned Demand Control Offer Acceptance at the Market Price. The Demand Control Volumes would still be treated as un-priced Offer Acceptances in the Energy Imbalance Pricing calculation.

2 AREAS RAISED BY THE TERMS OF REFERENCE

The following areas were considered by the Modification Group during the Assessment Procedure for P199:

- Demand Control Triggers and Reporting
- Determination of Total Demand Control Volume
- Volume Allocation
- Error Correction (P199 Appeals Process)
- Interaction with Non-Delivery Rules
- Energy Imbalance Price Impact
- Payment to Affected Parties
- Incentives on Parties

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- Interaction with Other Industry Codes
- Interaction with Other Modification Proposals
- Comparison with Gas Arrangements

These issues are discussed in the Assessment Report contained in Appendix 3, and are not covered further here.

3 IMPLEMENTATION APPROACH AND COSTS

3.1 Proposed Modification

PROPOSED MODIFICATION IMPLEMENTATION COSTS[3]

		Stand Alone Cost	Incremental Cost	Tolerance
Service Provider[4] Cost	Change Specific Cost	£14,482	£14,482	+/-10% (£1.4k)
	Release Cost[5]	£64,217		+/-0%
	Total Service Provider Cost	£78,699	£14,482	+/-10%
Implementation Cost	External Audit[6]	£0	£0	+/-0%
	Design Clarifications	£900	£900	+/-100%
	Additional Resource Costs	£0	£0	+/-0%
	Additional Testing and Audit Support Costs	£0	£0	+/-0%
Total Demand Led Implementation Cost		£79,599	£15,382	+/- 10%

ELEXON Implementation Resource Cost		54 Man days £11,880	54 Man days £11,880	+/- 10%
Total Implementation Cost		£91,479	£27,262	+/- 10%

PROPOSED MODIFICATION ONGOING SUPPORT AND MAINTENANCE COSTS

[3] An explanation of the cost terms used in this section can be found on the BSC Website at the following link: http://www.elexon.co.uk/documents/Change_and_Implementation/Modifications_Process_-_Related_Documents/Clarification_of_Costs_in_Modification_Procedure_Reports.pdf
[4] BSC Agent and non-BSC Agent Service Provider and software costs.
[5] The actual release cost incurred would be dependent on other changes delivered in Release.
[6] An external audit will not be carried out on P199.

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	Per Event Operational Cost Tolerance
Service Provider Operation Cost	Each occurrence will be different and so effort will be charged at T&M rates.
ELEXON Operational Cost	Each occurrence will be different; cost could be significant if the claim process is triggered.

a) BSC Agent Impact

The BSC Agent cost estimates outlined above reflect the following activities:

- Development of scripts for required data manipulation;
- Documentation of new process;
- Introduction of a new manual interface from the System Operator;
- Testing of scripts and process; and
- Project Management overhead.

The required BSC Agent lead time was three months from an Authority decision.

b) BSC Party and Party Agent Impact

A number of BSC Parties highlighted an impact on their Settlement systems. In addition, several Parties indicated an impact on their operational systems. Estimated implementation costs provided were up to £100k. Required lead times provided ranged from 10 days to 6 months after an Authority decision.

c) Transmission Company Impact

The Transmission Company impact assessment highlighted the requirement for changes to the Grid Code and the operational systems that send messages to the BMRS. In addition, a new manual interface to the SAA for the reporting of Demand Control information would be required. A lead time of approximately 2 months after the required Grid Code changes related to new system warning messages had been approved would also be required. Grid Code changes would be progressed by National Grid and BSC changes would not be dependent on changes to the Grid Code.

d) BSCCo Impact

The BSCCo cost estimates outlined above reflect the following activities:

- Review of changes to SAA documentation;
- Review of Logica documentation;
- Operation of ELEXON testing;
- Project management and planning activities;
- Audit activities;
- Changes to operational procedures; and
- Changes to Code Subsidiary Documents.

The required BSCCo lead time was three months from an Authority decision.

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3.2 Alternative Modification

ALTERNATIVE MODIFICATION IMPLEMENTATION COSTS[7]

		Stand Alone Cost	Incremental Cost	Tolerance
Service Provider[8] Cost	Change Specific Cost	£25,242	£25,242	+/-10% (£1.4k)
	Release Cost[9]	£64,217		+/-0%
	Total Service Provider Cost	£89,459	£25,242	+/-10%
Implementation Cost	External Audit	£0	£0	+/-0%
	Design Clarifications	£900	£900	+/-100%
	Additional Resource Costs	£0	£0	+/-0%
	Additional Testing and Audit Support Costs	£0	£0	+/-0%
Total Demand Led Implementation Cost		£90,359	£26,142	+/- 10%

ELEXON Implementation Resource Cost		54 Man days £11,880	54 Man days £11,880	+/- 10%
Total Implementation Cost		£102,239	£38,022	+/- 10%

ALTERNATIVE MODIFICATION ONGOING SUPPORT AND MAINTENANCE COSTS

	Per Event Operational Cost Tolerance
Service Provider Operation Cost	Each occurrence will be different and so effort will be charged at T&M rates.
ELEXON Operational Cost	Each occurrence will be different; cost could be significant if the claim process is triggered.

The impact of the Alternative Modification is identical to that of the Proposed Modification with the exception of the generation of ad-hoc cashflows to realise Demand Control payments to affected participants. Inclusion of this process requires further development by the BSC Agent at an estimated additional cost of **£10,760**.

[7] An explanation of the cost terms used in this section can be found on the BSC Website at the following link: http://www.elexon.co.uk/documents/Change_and_Implementation/Modifications_Process_-_Related_Documents/Clarification_of_Costs_in_Modification_Procedure_Reports.pdf
[8] BSC Agent and non-BSC Agent Service Provider and software costs.
[9] The actual release cost incurred would be dependent on other changes delivered in the Release.

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4 RATIONALE FOR MODIFICATION GROUP'S RECOMMENDATIONS TO THE PANEL

This section summarises the recommendations of the Modification Group, as detailed in the Assessment Report in Appendix 3.

4.1 Assessment of Proposed Modification Against Applicable BSC Objectives

4.1.1 Modification Group's Assessment

The majority view of the Modification Group was that the Proposed Modification would not better facilitate the achievement of **Applicable BSC Objectives (b), (c)** and **(d)** when compared to the current baseline. The Group agreed that the Proposed Modification would have a neutral impact on Applicable BSC Objective (a).

Applicable BSC Objective (b) – 'the efficient, economic and co-ordinated operation by the Transmission Company of the Transmission System"

Arguments identified in support of the Proposed Modification:

Reflecting Demand Control Volumes in Settlement and thereby better targeting the costs of imbalance during periods of Demand Control would help improve the calculated size and direction of the Net Imbalance Volume (NIV). In turn, this would lead to an associated improvement in Energy Imbalance Price accuracy, would provide more appropriate incentives for participants to balance and help to avoid Demand Control occurring. This improved incentive to balance would increase efficiency of the operation of the Transmission System.

The lack of a payment to affected Parties for Demand Control Volumes would increase the incentive on Suppliers to submit Offers into the Balancing Mechanism prior to a Demand Control event. This would benefit operation of the Transmission System.

Arguments identified not in support of the Proposed Modification:

The lack of a payment to affected Parties would mean there is no cost to the Transmission Company, should Demand Control be invoked. Subsequently, there are no incentives on the System Operator to ensure that Demand Control is exercised appropriately and contract ahead in order to avoid having to instruct Demand Control. The counter argument to this is that Demand Control is a last resort action and is therefore a decision taken based on operational – rather than economic – factors.

The Proposed Modification places negligible incentives on Parties to balance their position when compared to the current baseline. Demand Control may occur for a variety of reasons including: when there is insufficient generation to meet demand or, when problems occur on the Transmission System. Parties wish to avoid Demand Control and, by the time a Demand Control Instruction is issued, will have already exhausted their available demand-reducing options. Therefore Parties would not be in a position to balance and the modification would not introduce further incentives to balance.

Demand Control is a balancing action and should be handled in the same way as other balancing actions. The treatment of Demand Control Volumes as un-priced in the Energy Imbalance Price Calculation may not provide Energy Imbalance Prices that are reflective of the true cost of energy balancing during periods of Demand Control. This may not provide an appropriate incentive to balance.

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Applicable BSC Objective – (c) – "Promoting effective competition in the generation and supply of electricity, and (so far as consistent therewith) promoting such competition in the sale and purchase of electricity"

Arguments identified in support of the Proposed Modification:

Reflecting Demand Control Volumes in the Energy Imbalance Price calculation (and Parties' Energy Accounts) would result in a more appropriate allocation of the burden of imbalance to those who contributed to that imbalance. This would help ensure that the cost of balancing the System during periods of Demand Control is appropriately targeted at Parties with imbalance positions. Appropriate targeting of costs in this manner would promote competition.

P199 proposes no payment to Parties affected by Demand Control and, as such, there is an increased incentive on Suppliers to submit Offers into the Balancing Mechanism prior to a Demand Control event which would facilitate competition between Suppliers in the sale of electricity to the System.

Arguments identified not in support of the Proposed Modification:

The lack of payments to affected Parties would mean that Parties, who would otherwise have been balanced, because they procured sufficient energy to meet their customer's demand, would suffer a financial loss as a result of having bought energy in good faith which could not then be delivered to customers. This would have a detrimental impact on competition.

The inherent inaccuracies in the derivation and allocation of Demand Control Volumes could result in inaccurate Imbalance Charges for an affected Party during Demand Control periods. Inappropriate allocation of costs in this manner could be considered detrimental for competition.

By treating the Demand Control Volume as un-priced in the Energy Imbalance Price Calculation, P199 may not provide Energy Imbalance Prices that are reflective of the true cost of energy balancing during periods of Demand Control. This may not ensure that the true cost of balancing the System during periods of Demand Control is appropriately reflected on Parties with imbalance positions. This could be considered detrimental to competition.

Applicable BSC Objective (d) – "The promotion of efficiency in the implementation and administration of the balancing and settlement arrangements"

The process of Demand Control Volume identification and allocation is overly complicated. As such, it adds additional complexity to the Trading Arrangements, thereby reducing efficiency in the implementation and administration of the balancing and settlement arrangements. The necessary inclusion of an appeals process adds further complexity to the Trading Arrangements. Any delays in the volume reallocation process and the inaccuracies involved in identifying and allocating the Total Demand Control Volume would result in the increased uncertainty of Parties' imbalance positions. This would have a detrimental impact on **Applicable BSC Objective (d)**. However, the materiality involved in a Demand Control event could far outweigh the likely cost of the implementation and operation of the Demand Control Volume identification and allocation process.

Demand Control should not be seen as a balancing action, but rather a change in demand that should be treated in the same manner as any other variation in demand. Changes in customer demand are already reflected in Parties' imbalance positions and consequently, the Balancing Mechanism treats Demand Control appropriately under the current baseline. When considered in conjunction with the argument that P199 would not increase the incentives on Parties to balance (as they will already try to avoid Demand Control), any change to the current baseline could be considered to be inefficient and unnecessary. This would have a detrimental impact on **Applicable BSC Objective (d)**.

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4.2 Assessment of Alternative Modification Against Applicable BSC Objectives

The **MAJORITY** of the Group agreed that, whilst P199 Alternative better facilitates the BSC Objectives, when compared to the Proposed P199 Modification, they did not believe that it better facilitated the Applicable BSC Objectives when compared to the current baseline[10].

4.2.1 Assessment of Alternative Modification against Proposed Modification

Applicable BSC Objective (b) – 'the efficient, economic and co-ordinated operation by the Transmission Company of the Transmission System"

Arguments identified in support of the Alternative Modification:

The payment to affected Parties would act as a cost to the Transmission Company, should Demand Control be invoked, and would therefore help to ensure that Demand Control was exercised appropriately. Currently Demand Control might be viewed as a 'Free Option' for the System Operator. In putting a price on Demand Control, the SO would be appropriately incentivised to contract ahead in order to avoid having to instruct Demand Control. In turn this should stimulate the demand side to come forward with commercial demand reduction services to sell to the SO. The counter argument to this is that Demand Control is a last resort action and is therefore a decision taken based on operational – rather than economic – factors.

Arguments identified not in support of the Alternative Modification:

The Alternative Modification still treats the Demand Control Volume as un-priced in the Energy Imbalance Price calculation. Demand Control is a balancing action and should be handled in the same way as other balancing actions. The treatment of Demand Control Volumes as un-priced in the Energy Imbalance Price Calculation may not provide Energy Imbalance Prices that are reflective of the true cost of energy balancing during periods of Demand Control. This may not provide an appropriate incentive to balance.

Applicable BSC Objective – (c) – "Promoting effective competition in the generation and supply of electricity, and (so far as consistent therewith) promoting such competition in the sale and purchase of electricity"

Arguments identified in support of the Alternative Modification:

The inclusion of a payment at the market price would ensure that affected Parties who had purchased sufficient energy to supply their customers (i.e. Parties who would be balanced in the absence of Demand Control), would be appropriately compensated for lost customer revenue resulting from Demand Control.

Payment at the Market Price would provide payment to affected Parties at a 'neutral' price. The Market Price reflects the price of energy that a Party would have been able to buy or sell energy at, had it become aware of a reduction in Demand. The use of the Market Price helps ensure that there is no unwanted incentive on Parties to force Demand Control in the hope of obtaining a 'windfall gain'.

Arguments identified not in support of the Alternative Modification:

The Alternative Modification does not address the inherent inaccuracies in the derivation and allocation of Demand Control Volumes, which could result in inaccurate Imbalance Charges during Demand Control periods. Inappropriate allocation of costs in this manner could be considered detrimental to competition.

The Alternative Modification still treats the Demand Control Volume as un-priced in the Energy Imbalance Price Calculation. By treating the Demand Control Volume as un-priced in the Energy Imbalance Price Calculation, P199 may not provide Energy Imbalance Prices that are reflective of the true cost of energy

[10] One Group Member, whilst originally in favour of the P199 Proposed Modification in preference to both the Alternative Modification and the current baseline, noted during the Modification Report consultation phase that, upon further reflection, they now felt the P199 Alternative Modification better facilitated the Applicable BSC Objectives when compared to both the Proposed Modification and the current baseline. See section 5.2 for more information.

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balancing during periods of Demand Control. This may not ensure that the true cost of balancing the System during periods of Demand Control is appropriately reflected on Parties with imbalance positions. This could be considered detrimental to competition.

Applicable BSC Objective (d) – "The promotion of efficiency in the implementation and administration of the balancing and settlement arrangements"

Under the Alternative Modification, the same arguments were expressed for and against Applicable BSC Objective (d) as under the Proposed Modification.

4.2.2 Assessment of Alternative Modification against Baseline

In principle there would be beneficial impacts on **Applicable BSC Objectives (b)** and **(c)** in terms of reflecting Demand Control Volumes in Settlement and thereby better targeting the costs of imbalance during periods of Demand Control. However, these benefits would be undermined by detrimental impacts on **Applicable BSC Objectives (c)** and **(d)** due to:

- The inherent inaccuracies in the derivation and allocation of Demand Control Volumes, which could result in inappropriate Imbalance Charges during periods of Demand Control; and
- The complexity introduced by the Demand Control Volume identification, allocation and Reallocation Claims processes.

It is because these issues still remain in the Alternative Modification, that the Modification Group made the recommendation to the Panel that the P199 Alternative Modification should not be made.

4.3 Legal Text

At its meeting on 11 May 2006, the Panel endorsed the recommendation to refer the Assessment Report back to the P199 Modification Group so that the legal text might be finalised. Following this decision, the legal text was reviewed via correspondence and a fifth Modification Group meeting was held on 24 May 2006 to finalise the legal text. After the Modification Group meeting, a final draft of the legal text was produced, to take comments raised at the meeting into account. This draft was then reviewed by the Group via correspondence. Four members of the Group responded to the email to say that they have reviewed the legal text.

The legal drafting can be summarised as follows:

- Extra paragraph added to Section G to include provision for Demand Control (including a Reallocation Claims Process) in the BSC;
- Section Q amended to clarify the scope of Demand Control and ensure there is no overlap with the existing Emergency Instructions;
- Extra paragraph added to Section T to facilitate the treatment of Demand Control volumes as unpriced Offer Acceptances in the BSC;
- Extra paragraph added to Section V regarding Demand Control notifications and posted on the BMRA; and
- New definitions added to Annex X-1.

4.4 Implementation Date

The Modification Group agreed the following recommended implementation approach for P199:

- An Implementation Date for the Proposed Modification of 22 February 2007 if an Authority decision is received on or before 23 August 2006 or 28 June 2007 if the Authority decision is received after 23 August 2006 but on or before 19 December 2006

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- An Implementation Date for the Alternative Modification of 22 February 2007 if an Authority decision is received on or before 23 August 2006 or 28 June 2007 if the Authority decision is received after 23 August 2006 but on or before 19 December 2006

The BSC Party Impact Assessment highlighted one Party who stated they would require a lead time of 6 months and another Party which required a lead time of 5 months. Because of the length of the required lead times, the Group decided it would be prudent to include the Modification (should it be approved) into a Release no sooner than the February 2007 release.

If the Proposed Modification or Alternative Modification is approved, Settlement Runs and Volume Allocation Runs carried out for the Settlement Days where Demand Control has occurred on, or after, the Implementation Date should be carried out taking the Approved Modification into account. Runs for Settlement Days prior to the Implementation Date should be performed using the pre-P199 baseline.

5 RATIONALE FOR PANEL'S RECOMMENDATIONS TO THE AUTHORITY

5.1 Panel's Consideration of Assessment Report

The Panel considered the P199 Assessment Report at its meeting on 08 June 2006. This section summarises the Panel's discussions in formulating its provisional recommendation for inclusion in the draft Modification Report. Details of the Report Phase consultation responses, the Panel's discussion of the responses and its final recommendation to the Authority can be found in Sections 5.2, 5.3 and 5.4 respectively.

5.1.1 Current Pre-P199 Baseline

There was a consensus amongst Panel members that the current baseline was defective and there is a need to make more appropriate provision for Demand Control in the BSC. The Panel noted the need to avoid any distortion in the NIV which may result from occurrences of Demand Control. The Panel noted that it is vital to have rules that make adequate provision for the treatment of Demand Control in Settlement.

5.1.2 Defect Resolution

Several Panel members felt that sufficient weight had not been given by the Modification Group to the scale of the defect under the current baseline. One Panel member raised the point that the risk of not allocating the Demand Control with perfect accuracy needed to be assessed against the risks involved with the implementation of Demand Control. However, the majority of Panel members felt that the Proposed Modification did not offer a satisfactory solution to the treatment of Demand Control and may be worse than the current baseline.

The unanimous view amongst the Panel was that, when compared to the Proposed Modification, the Alternative Modification provides a better solution to the issues surrounding the treatment of Demand Control as it would provide compensation to those Parties affected by Demand Control. However, several Panel members were not convinced that the Alternative Modification addressed the defect adequately or that a better solution could not be developed.

One Panel member recognised the issues surrounding the Proposed Modification, but felt that it was essential to have rules in place to deal with the potentially random and damaging impact of Demand Control upon competition, even if these rules are not perfect, or require judgements to be made. The Panel member indicated that both the Proposed and Alternative Modifications mitigate against the damaging impact of Demand Control. Whilst the Alternative Modification is better than the Proposed Modification, the Proposed Modification is still better than the current baseline.

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5.1.3 Issues Group and the Consideration of other Solutions

The Panel noted that the Modification Group felt that the solutions detailed in both the Proposed and Alternative Modifications were the best solutions to the issue of the treatment of Demand Control in the BSC. However, one Panel member raised the point that the Modification Group has been constrained in their solution to P199 by the proposal.

The Panel member noted that Demand Control is a rare event and should not necessarily be 'hard-wired' into the operating procedures. The Panel member suggested the creation of an Issues Group and the production of a simpler solution would therefore be more appropriate. Several Panel members, whilst noting that there is a defect in the current baseline, agreed that the solutions detailed in both the Proposed and Alternative P199 Modifications may not be the best solution to the problems surrounding the treatment of Demand Control in the BSC.

One Panel member raised the point that industry should consider alternative, Party-centric solutions[11], as well as the more the typical, universal solutions. The Panel noted that another source of useful information might be to investigate the treatment of Demand Control scenarios in other markets; particularly those markets where the occurrences of Demand Control are common.

The Panel discussed the creation of an Issues Group, to consider other solutions for the treatment of Demand Control in the BSC, and the process by which such a Group would be set up. Several Panel members were keen to initiate the creation of an Issues Group as soon as possible. However, the Panel decided that an Issues Group would be more effective once a decision (and rationale for such a decision) had been received from the Authority.

5.1.4 Reallocation Claims Process

The Panel had mixed views on the inclusion of a Reallocation Claims Process in Modification P199.

Some Panel members reasoned that the inclusion of a claims process, whilst not the most preferable approach, would help ensure the Demand Control Volumes were allocated fairly and in line with the concept of 'natural justice'. Allowing those Parties who could prove that their Demand Control allocation was inaccurate to make a claim would help ensure that Parties are not unfairly penalised. However, one Panel member noted that there are inherent inaccuracies in the Trading Arrangements and areas where judgement is used. In many of these existing areas there is no appeals process in place to account for such inaccuracies. In addition, there is an existing solution to the issue of Demand Control in the gas market which relies on the use of estimates to determine the treatment of Demand Control.

Several other Panel members had concerns about the complexities introduced into the Modification through the inclusion of an appeals process. One Panel member noted that the occurrence of Demand Control is an extreme circumstance and no mechanics would be able to reflect such a circumstance into the BSC perfectly. However, such an event should be dealt with in the best possible way and if this requires the inclusion of an appeals process, one should be included, irrespective of any complexities this might introduce.

One Panel member noted that one of the principle causes of the inaccuracy in the Demand Control Volume Allocation process is the assumptions that are required in order to allocate Demand Control Volumes. The Panel member felt that many of these assumptions would remain during an appeals process and therefore questioned the value that an appeals process would add.

The Transmission Company Representative also noted that the original proposal for P199 did not include an appeals process and that he was concerned that the inclusion of an appeals mechanism has complicated the issues surrounding the Modification.

[11] A solution that enables different Parties to approach the problem of mitigating against the risk of Demand Control in ways that are most appropriate for each Party, rather than a universal 'one-size-fits-all' solution.

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Additionally, the Panel noted that there would be two phases of appeal. Initially Parties could appeal the Demand Control Volume that has been attributed to them. Following the Panel decision regarding the initial appeal(s), any Party impacted by the decision could appeal the additional volume that has been applied to them as a result of the initial appeal(s).

5.1.5 Incentives to Balance

A Panel member raised the point that the objective of the P199 Modification is not to provide incentives on Parties to avoid Demand Control, but rather to provide a set of rules that determine how Demand Control is handled in the BSC once it has occurred. Another Panel member noted that the principle objective of the Modification is about more appropriate incentives on Parties to balance their positions. More appropriate incentives on Parties to balance would help ensure System security by helping to avoid the need for Demand Control.

5.1.6 Applicable BSC Objectives

a) Proposed Modification

The unanimous provisional view of the Panel was that the Proposed Modification would better facilitate Applicable BSC Objective (b) but would not better facilitate Applicable BSC Objectives (c), and (d), when compared to the current Code baseline.

The majority view of the Panel was that the detrimental impacts of P199 under Applicable BSC Objectives (c), and (d) undermined any benefit provided under Applicable BSC Objective (b). However, there was a minority view amongst the Panel that the Proposed Modification is still preferable to the current baseline as it improves the calculated size and direction of the NIV which outweighs the detrimental impact to Applicable BSC Objectives (c) and (d).

Applicable BSC Objective a)

The Panel agreed that the Proposed Modification would have a neutral impact on Applicable BSC Objective (a).

Applicable BSC Objective b)

The Panel noted the arguments identified by the Modification Group in relation to Applicable BSC Objective (b).

The Panel supported the argument that the Proposed Modification would improve the calculated size and direction of NIV, and that this in turn would improve the accuracy of the Energy Imbalance Price calculation. As such, P199 would improve incentives on Parties to balance and increase efficiency of the operation of the Transmission System.

One Panel member indicated that less weight should be applied to arguments surrounding whether or not P199 would improve incentives on Parties to avoid Demand Control as it was felt, the true intention of P199 is to provide a set of rules to enable the Trading Arrangements to deal appropriately with Demand Control, once it has occurred. However, another Panel member noted that they would generally take the Modification Group's reasoning into account unless there was a strong reason not to.

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Applicable BSC Objective c)

The Panel noted the arguments identified by the Modification Group in relation to Applicable BSC Objective (c).

The Panel supported the intention of P199 to more appropriately target the cost of balancing the system during periods of Demand Control on to those Parties with imbalance positions. However, several Panel members had concerns that the inaccuracy involved in allocating Demand Control volumes could prevent this and result in Parties being subject to inaccurate imbalance charges.

The Panel indicated their support for the argument that a lack of payment for Demand Control Volumes could result in an affected Party being impacted financially and in an adverse manner. The Panel noted the example in the Assessment Report where a Party, who would otherwise have been balanced, because they procured sufficient energy to meet their customers' demand, suffers financial loss as a result of having bought energy in good faith which could not then be delivered to customers. The Panel supported the view that this would be detrimental to competition.

Applicable BSC Objective d)

The Panel noted the arguments identified by the Modification Group in relation to Applicable BSC Objective (d).

The Panel, whilst sympathetic towards the reasoning behind the inclusion of a Reallocation Claims Process in P199, indicated its concerns over the additional complexity this would introduce.

b) Alternative Modification

The unanimous provisional view of the Panel was that the Alternative Modification would better facilitate the BSC Objectives when compared with the Proposed Modification.

Whilst addressing some of their concerns with Applicable BSC Objective (c) when compared to the Proposed Modification, the Alternative did not address all of the concerns with Applicable BSC Objectives (c) and (d). Therefore, the majority view of the Panel was that the detrimental impacts of P199 under Applicable BSC Objectives (c), and (d) were still present in the Alternative Modification which undermined any benefit provided. However, there was a minority view amongst the Panel that the Alternative Modification is still preferable to the current baseline as it improves the calculated size and direction of the NIV which outweighs the detrimental impact to Applicable BSC Objectives (c) and (d).

Applicable BSC Objective a)

The Panel agreed that the Alternative Modification would have a neutral impact on Applicable BSC Objective (a) when compared to the Proposed Modification.

Applicable BSC Objective b)

The Panel noted the arguments identified by the Modification Group in relation to Applicable BSC Objective (b) and agreed that the Alternative Modification would provide the same benefits to Applicable BSC Objective (b) as the Proposed Modification.

Applicable BSC Objective c)

The Panel noted the arguments identified by the Modification Group in relation to Applicable BSC Objective (c).

The Panel members supported the argument that the inclusion of a payment at the Market Price would ensure that Parties affected by Demand Control, would be appropriately compensated for lost customer revenue resulting from Demand Control. As such, this would better facilitate competition.

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The majority of Panel members supported the argument that the inaccuracies in the methodology are still present under the Alternative Modification and these inaccuracies could result in Parties receiving inaccurate imbalance charges. The Panel also noted the concerns of the Modification Group that the detrimental impact of these inaccuracies upon Applicable BSC Objective (c) could outweigh any benefits introduced to Applicable BSC Objective (b).

Applicable BSC Objective d)

The Panel agreed that the Alternative Modification would have a neutral impact on Applicable BSC Objective (d) when compared to the Proposed Modification.

The majority of the Panel supported the view that the Alternative Modification does not address the detrimental impact of the complexities involved in the P199 process upon operational efficiency, particularly where the appeals process is concerned and therefore does not better facilitate Applicable BSC Objective (d) when compared to the current baseline.

c) Provisional recommendation to the Authority

The Panel therefore agreed:

- A provisional recommendation to the Authority that the Proposed Modification should not be made; and
- A provisional recommendation by majority to the Authority that the Alternative Modification should not be made.

5.1.7 Implementation Date

The Panel agreed the Implementation Date recommended by the Modification Group.

5.1.8 Legal Text

The Panel reviewed the draft text and agreed that it addresses the defect identified by the Modification Proposal.

5.2 Results of Report Phase Consultation

8 responses (representing 39 Parties and 1 non-Party) were received during the P199 Report Phase consultation. A summary of the consultation responses is provided in the table below (bracketed numbers represent the number of Parties and non-Parties represented by respondents).

Q	Consultation question	Yes	No	Neutral
1.	Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that the Proposed Modification **should not** be made?	**6** (28 + 0)	**1** (11 + 0)	**1** (0 + 1)
2.	Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that the Alternative Modification **should not** be made?	**4** (22 + 0)	**3** (17 + 0)	**1** (0 + 1)
3.	Do you agree with the Panel's view that the legal text provided in the draft Modification Report correctly addresses the issue or defect identified in the Modification Proposal?	**7** (39 + 0)	**0** (0 + 0)	**1** (0 + 1)
4.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P199?	**6** (38 + 0)	**1** (1 + 0)	**1** (0 + 1)

The majority of arguments expressed in the Report Phase consultation were consistent with those identified during the Assessment Procedure. However, a number of counter views were expressed in response to the Panel's initial assessment of P199 against the Applicable BSC Objectives and are detailed below.

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5.2.1 Proposed Modification

The majority of respondents supported the Panel's provisional recommendation and their views were generally in accord with those expressed by the Panel. On further reflection, one of the respondents noted that it now felt that, whilst both proposals improve the current baseline, the Alternative Modification more fully facilitates the Applicable BSC Objectives when compared to the Proposed Modification. Another respondent also expressed the view that the P199 Proposed Modification was preferable to the current baseline as it would provide more appropriate signals to the market to avoid Demand Control. However, the respondent recognised the limitations of the process used to calculate Demand Control.

Several respondents reiterated their arguments in support of the Panel, including:

- Lack of confidence in the ability of P199 to distinguish between (and therefore treat appropriately), the varying types of Demand Control;
- Concerns over the lack of compensatory payment to Parties affected by Demand Control;
- Concerns over the complexity of process required, including concerns over the inclusion of a potentially costly Reallocation Claims process; and
- Concerns over the risk of introducing inaccuracies into the Balancing Mechanism.

5.2.2 Alternative Modification

A slim majority of respondents agreed with the Panel's provisional recommendation that the P199 Alternative Modification should not be made and reiterated their arguments in support of the Panel:

- Lack of confidence in the ability of P199 to distinguish between (and therefore treat appropriately), the varying types of Demand Control;
- Concerns over the complexity of process required, including concerns over the inclusion of a potentially costly Reallocation Claims process; and
- Concerns over the risk of introducing inaccuracies into the Balancing Mechanism.

However, a number of respondents expressed views which were contrary to those expressed by the Panel in its initial assessment of the P199 Alternative Modification. Whilst the arguments expressed had been previously identified during the Assessment Procedure, respondents provided further justification and explanation to support their views. Those respondents, who did not agree with the Panel's initial view that any benefit introduced by the P199 Alternative Modification was undermined by the detrimental impacts of the Modification, reiterated the following arguments:

- The volume of energy associated with Demand Control is not currently accurately reflected in the energy accounts of BSC participants; nor is it reflected in the calculation of NIV in the Energy Imbalance Price calculation. Participant's imbalance exposure may then not adequately reflect their relative contribution to the state of system imbalance at that time. This in turn will distort the incentive on participants to balance their position and as such this distortion will have implications on security of supply at a time when the system may be under considerable stress. It has been widely acknowledged within the working group and the Panel that these distortions constitute a recognised defect.
- The Alternative Modification will more appropriately allocate the burden of imbalance to those who contributed to it and more accurately reflect the level of NIV in the Energy Imbalance Price calculation. Compensation to reflect lost revenue, that does not introduce a windfall gain, is appropriate in these circumstances and the Alternative Modification therefore better facilitates the relevant BSC Objectives when compared to the Proposed Modification.

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- The Alternative must be considered in conjunction with the current baseline and the solution devised by the Modification Group is an improvement on the current baseline.
- Where suitable evidence is available, there is opportunity for Parties to appeal against their Demand Control Volume Allocation. Respondents felt that the inclusion of a Reallocation Claims process means that the generalised method of Demand Control Volume Allocation is acceptable and would help mitigate against any potentially detrimental impact to Applicable BSC Objective(c).

5.2.3 Legal Drafting

The majority of respondents agreed with the Panel's provisional view that the legal drafting appropriately addresses the issue identified under P199. One respondent, whilst agreeing with the Panel's provisional view, expressed:

- A concern that the description of Demand Control Offer Price in section 6.1.2(i) of the Alternative Modification legal text, whilst not incorrect, could give the false impression to the lay reader that the deemed offer price is SBP rather than Market Price; and

  The legal drafting for the P199 Alternative Modification is correct, but an investigation has been carried out into a possible re-wording of section 6.1.2(i) of the legal text. Unfortunately, since 'Market Price' is not a defined term in the BSC, it was found that it is not possible to improve clarity by removing the term, 'System Buy Price' from this section of the legal text.

- A preference for the process and reporting of Settlement data to be described in the legal text, rather than via another medium (such as the ELEXON website).

  The P199 legal text describes the process involved in the determination and allocation of the Demand Control Volumes and the obligations on BSC participant. In practice, the correction of the affect of Demand Control is carried out via a manual operational process, which will have an impact on reporting. Clauses 6.4.4 and 6.4.5 of the legal text recognise the need for this process and the impact it will have. However, it is not appropriate to document these kinds of operational processes in the BSC.

5.2.4 Implementation Timescales

The majority of respondents agreed with the Panel's provisional recommendation concerning the Implementation Date for P199. One respondent did not agree with the provisional Implementation Date, expressing their disappointment that P199 would not be implemented in time for the 2006 winter period. A number of respondents reiterated their view that the decision to include P199 into the February 2007 Release was a prudent one. Parties requiring lead times greater than five months would therefore be able to fully develop and test all required system and process changes ahead of implementation.

5.2.5 Other Comments

A number of respondents reiterated some of the issues surrounding the attempt to address the defect highlighted by the original P199 Proposal:

- The nature of the defect highlighted by the original P199 Proposal requires any solution to rely on the expertise of industry members, particularly in the areas of Settlement Metering and Distribution Network Operator activity as well as System Operation. Expertise to address this issue would be more readily found in areas other than the Transmission Company.
- One respondent, whilst understanding the reasoning behind the introduction of a Reallocation Claims Process, had a concern whether the introduction of the Reallocation Claims Process would add any value or greater accuracy to the process. The respondent expressed a preference for relevant industry

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experts to further explore a more robust allocation procedure and improve Industry confidence in the Demand Control Volume Allocation process.

- One respondent noted that it would welcome a review of the Demand Control provisions in the Grid Code, and the interaction of these provisions with the Balancing Settlement Code.

One respondent reiterated its argument that the appropriate level of compensation for Demand Control should be related to the value of lost energy (the Value of Lost Load, VOLL) and the firmness of contractual arrangements. The respondent noted that, in a fully evolved market, customers would respond to price signals according to their individual value of energy and there would be no requirement for Demand Control. However, in practice the customer demand response is insufficiently developed, so Demand Control is required and effectively unlimited imbalance prices are possible. The respondent suggested that a cap on imbalance prices at a notional 'Value of Lost Load' would be a proxy for the absence of an effective demand response.

The use of VOLL had been previously considered by the Modification Group and Several Group members had previously expressed concerns over how VOLL could actually be calculated. The majority of the Group felt that, whilst the use of VOLL makes sense logically (VOLL is a reflection of the threshold cost of electricity at which a customer would decide they would rather be disconnected), it is not practicable. More information about the Groups discussions can be found in the P199 Assessment Report.

5.3 Panel's Consideration of Draft Modification Report

[This section to be completed following the Panel meeting at which the draft Modification Report and Report Phase consultation responses are considered.]

5.3.1 Report Phase Consultation Responses

5.3.2 Applicable BSC Objectives

5.3.3 Implementation Date

5.3.4 Legal Text

5.4 Panel's Final Recommendation to the Authority

[This section to be completed following the Panel meeting at which the draft Modification Report and Report Phase consultation responses are considered.]

6 TERMS USED IN THIS DOCUMENT

Other acronyms and defined terms take the meanings defined in Section X of the Code.

Acronym/Term	Definition
BM	Balancing Mechanism
BM Unit (BMU)	Balancing Mechanism Unit
BSC	Balancing and Settlement Code
DC	Demand Control
Demand Control	Demand Control is either (i) an instructions issued in accordance with OC6.1.2 (c) or (e) to Local Distribution System Operator(s) as an instruction to reduce demand within their distribution area in the event of System stress, such as

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Acronym / Term	Definition
	where there is insufficient generation to meet demand or a problem on the Transmission System; (ii) the automatic low frequency disconnection of demand under OC6.1.2 (d); or (iii) action undertaken by the SO in accordance with OC6.7.7 or OC6.7.8.
ECQ	Emergency Curtailment Quantity (Gas Arrangements)
GDE	Gas Deficit Emergency (Gas Arrangements)
IWA	Initial Written Assessment (see Reference 1 below)
LDSO / LDSOs	Licensed Distribution System Operator
NIV	Net Imbalance Volume
NTS	National Transmission System (Gas Arrangements)
OCM	On-the-day Commodity Market (Gas Arrangements)
SAP	System Average Price (Gas Arrangements)
SBP	System Buy Price
SMP (Buy/Sell)	System Marginal Price (post-fix identifies if price is Buy Price or Sell Price – part of Gas Arrangements)
SO	System Operator
SSP	System Sell Price

7 DOCUMENT CONTROL

7.1 Authorities

Version	Date	Author	Reviewer	Reason for Review
0.1	09/06/2006	Richard Bennett	Thomas Bowcutt	For peer review
0.2	13/06/2006	Richard Bennett	Sarah Jones	For technical review
0.3	13/06/2006	Richard Bennett	Sarah Jones	For quality review
0.4	30/06/2006	Richard Bennett	Sarah Jones	Post-consultation review
0.5	06/07/2006	Richard Bennett	Alex Grieve	For quality review
0.6	07/07/2006	Change Delivery	Panel	For Panel decision
1.0	13/07/2006	Change Delivery		For Authority decision

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APPENDIX 1: LEGAL TEXT

Draft legal text for the Proposed Modification is attached as a separate document, Appendix 1A.

Draft legal text for the Alternative Modification is attached as a separate document, Appendix 1B.

APPENDIX 2: PROCESS FOLLOWED

Copies of all documents referred to in the table below can be found on the BSC Website at:

http://www.elexon.co.uk/changeimplementation/ModificationProcess/ModificationDocumentation/modProposalView.aspx?propID=217

Date	Event
30/01/2006	Modification Proposal raised by NGC
09/02/2006	IWA presented to the Panel
14/02/2006	First Assessment Procedure Modification Group meeting held
07/03/2006	Second Assessment Procedure Modification Group meeting held
23/03/2006	Third Assessment Procedure Modification Group meeting held
04/04/2006	Requirements Specification issued for BSC Agent impact assessment
04/04/2006	Request for Party/Party Agent impact assessments request issued
04/04/2006	Request for Transmission Company analysis issued
04/04/2006	Request for BSCCo impact assessment issued
04/04/2006	Assessment Procedure consultation issued
18/04/2006	BSC Agent impact assessment response returned
18/04/2006	Party/Party Agent impact assessment responses returned
18/04/2006	Transmission Company analysis returned
18/04/2006	BSCCo impact assessment returned
18/04/2006	Assessment Procedure consultation responses returned
26/04/2006	Fourth Assessment Procedure Modification Group meeting held
11/05/2006	Assessment Report presented to the Panel
13/06/2006	Draft Modification Report consultation issued
28/06/2006	Draft Modification Report consultation responses received
13/07/2006	Draft Modification Report presented to Panel

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ESTIMATED COSTS OF PROGRESSING MODIFICATION PROPOSAL[12]

Meeting Cost	£1500
Legal/Expert Cost	£5000
Impact Assessment Cost	£5000
ELEXON Resource	50 Man days £13,000

APPENDIX 3: ASSESSMENT REPORT

The P199 Assessment Report is attached as a separate document, Appendix 3A.

For the purposes of the Report Phase Consultation and the Panel's consideration of the draft Modification Report, the P199 Assessment Report can be found on the BSC Website at:

http://www.elexon.co.uk/changeimplementation/ModificationProcess/ModificationDocumentation/modProposalView.aspx?propID=217

The Assessment Report includes:

- The conclusions of the Modification Group regarding the areas set out in the P199 Terms of Reference;
- Details of the Group's membership;
- The full results of the Assessment Procedure impact assessment;
- Full copies of all responses to the Assessment Procedure consultation; and

APPENDIX 4: REPORT PHASE CONSULTATION RESPONSES

Full copies of the consultation responses are attached as a separate document, Appendix 5a.

[12] Clarification of the meanings of the cost terms in this appendix can be found on the BSC Website at the following link: http://www.elexon.co.uk/documents/Change_and_Implementation/Modifications_Process_-_Related_Documents/Clarification_of_Costs_in_Modification_Procedure_Reports.pdf

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