

Modification Proposal

MP No: 177
(mandatory by BSCCo)

Title of Modification Proposal (mandatory by proposer):

Removal of Intertrip provisions from the BSC

Submission Date (mandatory by proposer): **04 October 2004**

Description of Proposed Modification (mandatory by proposer):

This Modification seeks to remove Paragraph Q.5.1.5 and all references to it from the BSC.

Description of Issue or Defect that Modification Proposal Seeks to Address (mandatory by proposer):

Paragraph Q.5.1.5 states that "the operation of an intertrip in the circumstances described in BC2.5.2.3 of the Grid Code shall be treated as being an Acceptance..."

This modification forms one of a range of changes to industry codes and transmission licence documents required to amend the definition, management and remuneration arrangements associated with operational intertrips (see attached paper). Industry discussion and debate in relation to these proposals was initiated via CUSC Amendment Proposal CAP076. This modification to the BSC is a consequential change required to ensure that duplicate compensation arrangements do not exist following the operation of an intertrip. It is intended that this modification should be considered for approval by Ofgem at the same time and alongside the related modifications to other industry documents.

Assuming that the changes proposed to the CUSC under CAP076 are approved, there will be full, complete and appropriate compensation arrangements for operational intertrips defined within the CUSC. Such arrangements would be in line with Ofgem's comments in its decision letter on BSC Modification P87 (Removal of risk associated with the operation of a generator intertrip scheme) where it stated that;

"...the BSC is not the right forum for consideration of an issue that relates to the terms for transmission access". It went on to state that "...compensation for operational intertrips should be considered under the CUSC or Charging Methodology governance arrangements rather than under the BSC. This is because it relates to terms for transmission access rather than the details of the electricity trading arrangements."

Whilst CAP076 sets out provisions for operational intertrip compensation within the CUSC, this BSC modification seeks to remove the existing intertrip compensation arrangements from the BSC. The removal of intertrip compensation arrangements from the BSC is required to enable the efficient and economic implementation of the proposed arrangements for intertrip remuneration within other industry codes.

Furthermore, as part of the range of industry document changes associated with operational intertrips, paragraph BC2.5.2.3 of the Grid Code is likely to be amended or removed. Assuming that such changes are approved under the Grid Code governance process, the link to the Grid Code contained within Paragraph Q.5.1.5 of the BSC will be inaccurate and will lead to confusion and uncertainty as to its relevance.

As previously stated, the operation of an intertrip is currently classified as a Bid-Offer Acceptance under the BSC, and is therefore remunerated at the prevailing Bid Price at the time of operation. Experience shows that Bid-Offer prices are often used to indicate operational inflexibility rather than a price at which a change in the Import or Export of the BM Unit is intended to be recompensed.

There is a risk that high negative 'sleeper' bids (intended to indicate operational inflexibility) could result in significant payment being made to the affected party, resulting in significant consequential cash flows throughout the industry. The removal of existing arrangements for operational intertrips contained within the BSC, as proposed by this modification, will remove the potential for extreme cash flows (Imbalance Prices, Residual Cashflow Reallocation Cashflow and NGC's Balancing Services Use of System Charges) which could impact all parties within the industry. Changes to be proposed to the BSAD Methodology Statement will ensure that, whilst the risk of extreme cash flows caused by intertrips are removed from the BSC, correct signals are still received in relation to the calculation of market length.

Impact on Code *(optional by proposer):*

The removal of Paragraph Q.5.1.5 and all references to it.

Impact on Core Industry Documents *(optional by proposer):*

This modification is being taken forward as part of a wider package of amendments and modifications to the Grid Code, NGC Transmission Licence Condition C16 statements and Connection and Use of System Code (See attached paper).

Impact on BSC Systems and Other Relevant Systems and Processes Used by Parties *(optional by proposer):*

Impact on other Configurable Items *(optional by proposer):*

Justification for Proposed Modification with Reference to Applicable BSC Objectives **(mandatory by proposer):**

(a) the efficient discharge by the licensee of the obligations imposed on it by the Transmission Licence

NGC has an obligation under its licence to have in force a BSC setting out the terms of the balancing and settlement arrangements for increasing or decreasing the quantities of electricity delivered to or taken off the total system. It also has an obligation to prepare a CUSC setting out arrangements for parties connecting to and having access to the use of the Transmission System.

The operation of an intertrip is a system related action that removes access to the transmission system from the affected lead party. It occurs automatically following a fault on the transmission or other third party system in order to prevent a further overload on a circuit on the transmission or other third party system. The current arrangements for intertrips within the BSC treat the operation of an intertrip as a deemed Acceptance.

As stated by the Authority in its decision letter on BSC Modification P87, it is not appropriate that a Party be compensated for the loss of transmission access through the Balancing and Settlement Code, when it is the Connection and Use of System Code that contains transmission access arrangements. By removing existing arrangements relating to intertrips from the BSC, and introducing them within the CUSC, NGC believes that it is better complying with the obligations placed upon it under its licence. To enable the proposed compensation arrangements within the CUSC to be fully implemented requires the removal of the remuneration mechanism from the BSC. Removal of BSC Q.5.1.5 and all associated references will prevent duplication and inconsistent remuneration mechanisms being in force in both the BSC and CUSC for a single event.

(b) the efficient, economic and co-ordinated operation by the licensee of the licensee's transmission system

Should the Authority approve CUSC Amendment Proposal CAP076, the continued inclusion of intertrip compensation arrangements within the BSC would be inappropriate. Providing an additional unpredictable payment for the automatic removal of access to the transmission system when that loss of access has already been compensated under another governance framework would be inefficient and uneconomic.

(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

The current arrangements for intertrip compensation within the BSC treat the intertrip volume as a deemed Acceptance. This results in parties with intertrip agreements factoring the cost and potential risk of an intertrip operating into their bid prices. This has the potential to distort the prices submitted into the Balancing Mechanism and creates a risk of unpredictable and high negative bid prices feeding into cash out calculations and sending inappropriate signals to the market in relation to system length. The removal of intertrip compensation arrangements from the BSC would remove distortion to prices faced by NGC and ensure that cashout prices remain appropriate should an intertrip operate, thus increasing effective competition within the Balancing Mechanism.

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System to Generator Intertipping Schemes (Intertrips) - Overall Proposal

2 Pages