

P173 TRANSMISSION COMPANY ANALYSIS AND IMPACT ASSESSMENT – RESPONSE PRO-FORMA

In accordance with paragraph F 2.8 of the Code, please respond to the following questions concerning P173 (including the rationale for each response):

Q	Question	Response
1	Please outline any impact of the Proposed Modification (and, if applicable, any Alternative Modification) on the ability of the Transmission Company to discharge its obligations efficiently under the Transmission Licence and on its ability to operate an efficient, economical and co-ordinated transmission system.	<p>Emergency Instructions are issued by NGC to maintain the integrity of the Transmission System in response to emergency conditions prevailing on part or all of the NGC Transmission System. In such circumstances an Emergency Instruction may be given to a BM Unit that may partly or completely mitigate the emergency conditions. NGC would expect any BM Unit in receipt of an Emergency Instruction to act upon it without delay in accordance with BC2.9 of the Grid Code without regard to the settlement implications.</p> <p>NGC believes that this modification would better facilitate the following Applicable BSC Objectives:</p> <p><i>(b) the efficient, economic and co-ordinated operation by the licensee of the licensee's transmission system</i></p> <ul style="list-style-type: none"> This modification would ensure that the Lead Party of the affected BM Unit will remain cost neutral as a result of responding to the 'relevant emergency instruction' removing any potential commercial disincentive to respond to the 'relevant emergency instruction' which may arise if its prevailing Bid-Offer price did not adequately compensate it for the actions requested by NGC through the 'relevant emergency instruction'. <p><i>(c) promote effective competition in the generation and supply of electricity and (so far as consistent therewith) promote such competition in the sale and purchase of electricity</i></p> <ul style="list-style-type: none"> This modification would remove any potential distortion to Balancing Mechanism Prices brought about by Lead Parties attempting to factor the costs of responding to an Emergency

		<p>Instruction into their Bid or Offer prices. By including an explicit mechanism for determining appropriate compensation for responding to a 'relevant emergency instruction' this removes the need for a Lead Party to factor the potential costs associated with responding to a 'relevant emergency instruction' into their Bid or Offer prices.</p> <ul style="list-style-type: none"> A 'relevant emergency instruction' is issued in response to emergency conditions prevailing on a part of the Transmission System. As such it is inappropriate that a party who responds to such an instruction has the potential to receive a financial "windfall" gain at the expense of other Parties, or be exposed to financial losses as a result of complying with the instruction. This modification would, by removing the potential for such gains or losses promote effective competition in the generation and supply of electricity and (so far as consistent therewith) promote such competition in the sale and purchase of electricity. <p>NGC also believe that the wider Industry should similarly not be exposed to losses or gains resulting from a 'relevant emergency instruction' through any consequential impact on Industry cashflows, including NGC's Balancing Services Use of System Charges. This Modification would only pass through those costs that would have reasonably and prudently incurred as a result of the change in Exports and/or Imports caused by the 'relevant emergency instruction' and therefore promotes effective competition in the generation and supply of electricity and (so far as consistent therewith) promote such competition in the sale and purchase of electricity</p>
2	Please outline the views and rationale of the Transmission Company as to whether the Proposed Modification (and, if applicable, any Alternative Modification) would better facilitate achievement of the Applicable BSC Objectives.	See above

3	How much time do you believe a Party would reasonably require to establish the costs incurred through compliance with Emergency Instruction?	<p>We believe that ordinarily this process should not require a significant amount of time to resolve. We see the Avoidable Costs process as being one where a Party prepares a statement that outlines the net costs of operating the BM Unit that would not have been incurred but for the actions taken pursuant to the Emergency Instruction. We note the use of the word net within the BSC baseline and assume therefore that a Party would be required to submit a single figure as part of its claim. However to allow the Panel, and the Authority where it deems such intervention necessary, to determine what costs the Party had included within this figure, it should be accompanied by a description of the costs that have contributed to the net figure. Note however we do not envisage that a breakdown of these costs would be given. Then where the Panel or the Authority require any of these categories to be disregarded the Party would then have to submit a revised claim. Finally if the Panel or the Authority are still uncertain as to the appropriateness of the claim then an Auditors statement may be required.</p> <p>We would envisage the last two steps of such a process to be necessary only in exceptional circumstances and not as a rule. Therefore under “normal” circumstances it is the view of NGC that a Party may prepare its initial claim for Avoidable Costs within 20 Business Days.</p> <p>We do recognise that under certain circumstances a BSC Party may be subject to more than one Emergency Instruction for a given period. Therefore in such cases we recognise that BSC Parties may need additional time to allow for the fact that multiple claims for Avoidable Costs may be prepared simultaneously. In such cases allowances would need to be built into any timetable.</p>
4	Do you believe that the Panel Determination of the replacement price should be open to appeal?	<p>If the Panel’s determination on Avoidable Costs were to be open to appeal then this would be inconsistent with other contingency arrangements. We also note that the existing Avoidable Costs methodology allows the Authority to request that the Panel discuss</p>

		any determination on Avoidable Costs with the Authority or to provide guidance to the Panel prior to a determination being reached by the Panel. Furthermore the Authority may direct the Panel to exclude any cost or a cost of any description from the final determination upon total Avoidable Costs. In the presence of such powers for the Authority it does not seem appropriate that any further right to Appeal to the Authority or to the Electricity Arbitration Association should exist for a Party following a Panel determination on the replacement price.
5	<p>How do you think the Acceptances associated with an Emergency Instruction should be treated prior to the availability of Avoidable Cost information:</p> <p>(a) at the prevailing Bid Offer Price?</p> <p>(b) as un-priced Volumes?</p> <p>(c) not entered into Settlement</p> <p>(d) in a manner other than the above (please specify)?</p>	<p>It would appear that option B would represent the interim arrangement that would have least impact upon imbalance prices. It has the advantage that it would ensure that NIV is calculated correctly regarding imbalance prices for the SF run and so ensure that the reverse imbalance price will be calculated correctly whilst limiting the impact upon the main imbalance price. In this regard it is preferable to option C which would result in both the main and reverse imbalance prices being calculated incorrectly until the Replacement Price becomes available. Option B also has advantages over Option A as P173 was proposed originally as a way to mitigate the effect on imbalance prices seen by the one instance of an Emergency Instruction since Go-Live. Therefore if the interim settlement approach used was essentially the same as the current settlement arrangements some of the benefits we see as being brought about by P173 would be lost in the interim period. We believe that whichever approach is taken, due regard should be given to the rarity of Emergency Instructions and that the implementation costs of any interim arrangements should not outweigh the perceived benefits of mitigating any adverse impact on imbalance prices in the interim period. We note that the Option B interim approach would be consistent with the solution proposed for P171/P172 which has been assessed by the PSMG as part of its assessment of P171/P172.</p>
6	Please outline the impact of the Proposed Modification (and, if applicable, any	If P173 or any of the Potential Alternatives were to be implemented

	<p>Alternative Modification) on the computer systems and processes of the Transmission Company, including details of any changes to such systems and processes that would be required as a result of the implementation of the Proposed Modification (and, if applicable, any Alternative Modification</p>	<p>then two processes are highlighted by the Impact Assessment namely:</p> <ul style="list-style-type: none"> • Notifying the Industry of an Emergency Instruction • Determining Acceptance Data and entering it into settlement <p>These processes are identical to the first two processes necessary in the case of P171/P172.</p> <p>Notifying the Industry of an Emergency Instruction:</p> <p>It is envisaged that such a notification would be relayed via the Systems Warnings page on the Balancing Mechanism Reporting Service (BMRS) website. This would employ existing IS functionality and so there is not anticipated to be an impact on any of the Transmission Company's computer systems. In terms of process, a new Control Room procedure will need to be put into place to facilitate the publishing of such information. This is not expected to be onerous provided a number of key factors are taken into consideration. These include:</p> <ul style="list-style-type: none"> • That any message is provided on a reasonable endeavours basis once Transmission System conditions have returned to normal. In an extreme event where several Emergency Instructions are having to be issued by the Control Room, it is unlikely that there will be sufficient time for a Control Engineer to input messages to the BMRS. This could only happen once the extreme event had subsided. • That the information contained within such a message is limited to the time of issue of the Emergency Instruction(s) and the BMU(s) instructed to provide an Emergency Instruction. It is unlikely that any further information will be available in Control timescales, as all Emergency Instructions will be instructed via telephone. As a result any information regarding Acceptance Data/volumes will not be available until after any such telephone instructions have been carefully analysed. <p>Determining Acceptance Data and entering it into settlement</p>
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7	Please outline any potential issues relating to the security of supply arising from the Proposed Modification (and, if applicable, any Alternative Modification).	<p>Emergency Instructions are an essential element of the suite of tools used by NGC when operating the transmission system and it is important to security of supply that all Parties follow their obligations under the Grid Code. We believe that arrangements should be put in place that give all Parties comfort that if an Emergency Instruction is issued, it will be treated appropriately in settlement.</p>
8	Please provide an estimate of the development, capital and operating costs (broken down in reasonable detail) which the Transmission Company anticipates that it would incur in, and as a result of, implementing the Proposed Modification (and, if applicable, any Alternative Modification).	<p>Minimal costs in this area are currently envisaged.</p>
9	Please provide details of any consequential changes to Core Industry Documents and/or the System Operator Transmission Owner Code that would be required as a result of the implementation of the Proposed Modification (and, if applicable, any Alternative Modification).	<p>No further consequential changes to Core Industry Documents and/or the System Operator Transmission Owner Code are currently envisaged as a direct result of the implementation of the Proposed Modification (and, if applicable, any Alternative Modification).</p>

10	Any other comments on the Proposed Modification (and Alternative Modification if applicable).	No
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Please send your response by **12:00 Midday on Tuesday 9 November 2004** to modifications@elexon.co.uk. Any queries regarding the analysis should be addressed to Tom Bowcutt on 020 7380 4309, email address Thomas.bowcutt@elexon.co.uk.