

Modification Proposal

MP No: 175
(mandatory by BSCCo)

Title of Modification Proposal (mandatory by proposer):

Development of provisions related to certain bid offer acceptances issued pursuant to the Grid Code (e.g. BC2.9 and BC2.10).

Submission Date (mandatory by proposer): 01/10/04

Description of Proposed Modification (mandatory by proposer):

Changes to the BSC are required to introduce specific provisions relating to certain bid offer acceptances issued under the Grid Code BC2. The provisions should allow for construction of replacement bid offer prices and parties to claim for costs incurred in providing the service to NGC (such costs recovered from NGC).

Bid offer acceptances under the Grid Code that are subject to the revised provisions could include emergency instructions and intertrips. Subject to changes to the Grid Code, the provisions could also apply to unplanned outages of the transmission system and system events such as demand control.

Replacement prices for qualifying Grid Code bid offer acceptances could be based on the bids or offers that NGC would have accepted (having regard to the principles on which NGC generally selects bids or offers) if the bid offer acceptance under the Grid Code had not been issued.

Lead parties for the affected BMUs subject to a qualifying Grid Code bid offer acceptance should be provided with an option to claim compensation for any such acceptance based on the costs incurred in responding to the event as instructed by NGC. In making a claim, lead parties could be obliged to take into account revenues received as compensation under the CUSC or any bilateral agreement with NGC. Determination of a claim could result in a specific ad hoc trading charge and, if it does, it is proposed that such charges could be recovered from NGC (and ultimately from users under BSUoS) when these result in the calculation of a replacement price (e.g. system faults).

Changes to the BSC may include the following:

- Definition of the circumstances in which the replacement price and cost claim processes will be initiated;
- A process to ensure that NGC issues notices on the BMRA which could include a notice issued as soon as practicable after becoming aware of any instructions that would result in Bid Offer acceptances issued pursuant to the Grid Code;
- A process to enable NGC to construct the relevant data for a bid offer acceptance in relation to Bid Offer acceptances issued pursuant to the Grid Code and to submit the relevant information to Elexon within a defined timescale;
- Where the process results in a replacement price, a process that removes any obligation to make payments to/from a lead party in settlements for bid offer acceptances issued pursuant to the Grid Code;
- A process that enables a lead party to claim costs (including plant damage costs), such costs taking into account any payments made or received paid under the CUSC or any other bilateral agreement with NGC; and
- A process that may allow any claim for costs in relation to bid offer acceptances issued pursuant to the Grid Code to be treated as "ad hoc" trading charges recovered from the transmission company in certain circumstances.

These changes could be based on the current manifest error provisions.

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

Under the Grid Code, NGC will issue bid offer acceptances for intertrips and for emergency instructions issued in response to emergency conditions prevailing on part or all of the NGC Transmission System. In each case, NGC creates an acceptance based on the particular circumstances of the event. In settlement the prevailing bid or offer prices are utilised for such acceptances, which in some circumstances could result in extreme bid or offer prices. This may result in inappropriate price signals and cash flows in the balancing mechanism as a consequence of "system" related events.

This modification proposal has been raised to ensure that price signals and cashflows can be adjusted to take into account "system" related events. Where certain qualifying bid offer acceptances are created pursuant to the Grid Code, arrangements under the BSC should allow for the creation of a replacement price for the purposes of cash out and remove the cash flows associated with the specific acceptance from settlement.

In addition, it is important to ensure that parties can be effectively remunerated for any costs (such as plant damage or consequential loss) caused by certain qualifying instructions issued under the Grid Code that would result in a bid offer acceptance not remunerated under the CUSC or any bilateral arrangement. Therefore, it is proposed that provisions are included to allow parties to claim compensation for costs associated with such events. These provisions will take into account revenues received (or paid) under the CUSC or any bilateral agreement with NGC in order to ensure that there are no windfall gains or losses arising from such events.

It should be noted that in the case of unplanned outages of the transmission system, maximum generation and demand control events involving instructions to a network operator or an externally interconnected system operator, there are currently no provisions for the creation of bid offer acceptances under the Grid Code. However, such events may distort cash out prices. This modification proposal would remove this distortion if changes to the Grid Code were made which allowed NGC to create bid offer acceptances for these events.

Impact on Code *(optional by proposer):*

This amendment may interact with BSC Modifications P171, P172 and P173.

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

This amendment may interact with CUSC Amendment CAP76.

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

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

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

This modification would better facilitate the following Applicable BSC Objectives:

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

- This modification would ensure that the Lead Party of the affected BM Unit will remain cost neutral as a result of responding to the instructions under the Grid Code and remove any potential commercial disincentive to respond to Grid Code instructions that may arise if its prevailing Bid-Offer price did not adequately compensate it for the actions requested by NGC through the relevant instruction.
- The modification ensures that there is consistent treatment in relation to bid offer acceptances issued under the Grid Code. This will align incentives under the BSC including the incentive on parties to avoid the event (cash out price signals) and to provide the service to NGC.

(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

- This modification would remove any potential distortion to prices faced by NGC brought about by Lead Parties attempting to factor the costs of responding to an instruction under the Grid Code into their Bid or Offer prices. By including an explicit mechanism for determining appropriate compensation for responding to interruptions on the transmission system 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.
- This modification would remove the potential for distortion of cash out prices arising as a result of bid offer acceptances under the Grid Code by allowing a replacement price to be constructed based on the actions NGC would have taken as if the event had not occurred.
- The modification would remove potential distortions of cash out prices and associated cash flows by "system" related acceptances (i.e. acceptances taken out of price order) that could occur if bid offer acceptances issued pursuant to the Grid Code result in high priced offers or low priced bids.

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Attachments: NO

If Yes, Title and No. of Pages of Each Attachment: