

Modification Proposal – F76/01	MP No:167 <i>(mandatory by BSCCo)</i>
Title of Modification Proposal <i>(mandatory by originator):</i>	
Erroneous Calculation of Bid Offer Acceptance (BOA) Volume	
Submission Date <i>(mandatory by originator):</i> 28 June 2004	
Description of Proposed Modification <i>(mandatory by originator)</i>	
<p>The Balancing Settlement Code (BSC) calculates BOA volume based on the Final Physical Notification (FPN) submitted by the Party. In the majority of settlement periods it is appropriate to calculate the BOA volume based upon the FPN. However British Gas Trading (BGT) have identified an anomaly in the calculation of the BOA volume in a specific circumstance. This anomaly occurs when a Party re-declares its Maximum Export Limit (MEL) below its FPN after Gate Closure and the System Operator (SO) then accepts a Bid from the Balancing Mechanism Unit (BMU).</p> <p>The SO instructs the Bid against the re-declared MEL, however the settlement calculation in the BSC calculates the volume of the acceptance back to the FPN level. This has the effect of overstating the volume of the delivered acceptance. For clarification this modification proposal is not proposing to amend the actions undertaken by the SO, the SO is acting in accordance with its obligations and the Code. The calculation is being undertaken in accordance with the current baseline, however BGT believe there is an anomaly in the baseline and therefore this modification proposal is recommending changing the settlement calculation to ensure that the volume associated with the acceptance is not erroneously calculated. This could be achieved by amending the settlement calculation to take into account MEL and MIL re-declarations when calculating BOA volumes.</p> <p>BGT initially raised this as an issue to the Settlement Standing Modification Group (SSMG) issue 7. The group discussed the issue and agreed there was an anomaly, however there were mixed views from within the group mainly surrounding the cost of correcting the error. Due to these concerns the group asked ELEXON to undertake a High Level Impact Assessment (HLIA) so the group could gain an indication of the costs of making changes to the central systems. The implementation costs were significantly lower than the anticipated level of costs and BGT therefore believes a modification proposal should be raised to address this anomaly.</p> <p>Issue 7 was presented to the June Panel meeting (78/001(e)). Included within the paper, based upon ELEXON analysis an estimation of the materiality of the issue was provided. The 'best case' estimate was £113,000 the 'mid-range' £620,000 and the 'worst case' £1,500,000. BGT believe based on our own analysis that the materiality of the error is somewhere between the mid-range and the worst case.</p> <p>As part of the discussions of Issue 7 it became apparent that there was a converse issue in terms of MIL re-declarations. This leads to an overstatement of the Offer volume. In raising this proposal BGT is looking to address both cases of the anomaly.</p>	

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

BGT believe the anomaly identified has a direct impact on the calculation of BOA volume and therefore Party's credited energy volume. As a result of the anomaly this consequentially impacts on a number of different areas:-

- As the calculated volume is based upon the FPN level and not the MEL parameter the volume of the BOA is overstated. This has an impact on the volume of credited energy attributed to the Party delivering the BOA. Dependent upon the imbalance position of the Party prior to the acceptance this anomaly could result in the Party being less short and therefore reducing the SBP liability or alternatively the Party could made more long resulting in a greater SSP payment.
- The impact on the imbalance position of the Party will also impact on the Residual Cashflow Reallocation Cashflow (RCRC). The reallocation is dependent upon the total system imbalance and the differential between the 2 imbalance prices. The RCRC is calculated based on these parameters and overstatement of a Party's credited energy will impact on the overall system imbalance position. This will then result in the RCRC being under or over stated and this will impact all BSC Party's with a physical position.
- The increased volume associated with these erroneous acceptances also has the potential to impact on the calculation of imbalance prices. This impact results from the volume of the stack being overstated which means the tagging actions undertaken are overstated, potentially removing too much volume from the stack. ELEXON's initial analysis of this area suggests that a number of settlement periods have been impacted although the magnitude of the effect on imbalance prices has been minimal.
- This anomaly also impacts on the calculation of Balancing Services Use of System (BSUoS) costs. The SO recovers the costs of its balancing actions via BSUOS. Due to the anomaly, generally the Party will be paying more to the SO for delivering the acceptance. This means Parties are paying less in BSUoS costs than they should be, if the volume of the acceptance was being calculated based on the MEL parameter.
- This reduction in the level of BSUoS could also impact on the SO incentive scheme. BGT has not been able to calculate this impact.

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Impact on Code <i>(optional by Originator)</i>	
<p>BGT is of the view that Section Q of the BSC will need amending. This is to ensure that in the cases when MEL/MIL is re-declared below/above FPN the acceptance volume is calculated based upon MEL/MIL rather than FPN.</p>	
Impact on Core Industry Documents <i>(optional by Originator)</i>	
Impact on BSC Systems and Other Relevant Systems and Processes Used by Parties <i>(optional by originator)</i>	
<p>BGT believes that there will need to be some changes made to BSC Systems. This is based upon the HLIA provided by the Logica consortium as part of the considerations of the SSMG.</p>	
Impact on other Configurable Items <i>(optional by originator)</i>	

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(mandatory by BSCCo)**Justification for Proposed Modification with Reference to Applicable BSC Objectives** (mandatory by originator)

BGT believe this modification proposal will better facilitate Applicable BSC Objective (c) “Promoting effective competition in the generation and supply of electricity and promoting such competition in the sale and purchase of electricity” in the following ways:-

- BSC Party’s imbalance positions are being incorrectly calculated under the current baseline, which is mitigating their exposure to imbalance prices. The overstatement of the credited energy means that Party’s are not paying the correct imbalance costs. Party’s are either being protected from the prevailing SBP by appearing less short or they are receiving too much SSP as their long position is being overstated. This is impacting on the amount of RCRC Party’s are receiving or having to pay. Correcting this anomaly will ensure that Party’s imbalance positions are being reported correctly and they are being exposed to the right level of imbalance costs, be that a positive or a negative.
- This in turn will ensure that the remaining BSC Party’s are receiving or paying the right level of RCRC payments.
- The amendment to the methodology will also ensure that the prevailing imbalance price is correctly calculated. BGT acknowledge that the impact on the cash-out prices appears to have been relatively minor to date but the impact could be more significant in the future if the anomaly remains.

Details of Proposer:**Name** Mark Manley**Organisation** British Gas Trading (BGT)**Telephone Number** 01753 431137**Email Address** mark.manley@centrica.co.uk**Details of Proposer’s Representative:****Name** Mark Manley**Organisation** BGT**Telephone Number** 01753 431137**Email address** mark.manley@centrica.co.uk

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Details of Representative's Alternate:	
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<i>Organisation</i> BGT	
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Attachments: Yes	
<ul style="list-style-type: none">• Trading Arrangements Issue (TAI) produced by ELEXON for the SSMG• A calculation of the materiality of the issue for May 04 against System Buy Price (SBP) and System Sell Price (SSP). BGT have also tried to introduce some sensitivities to try and give a more accurate materiality of the issue. BGT have excluded all instances of the anomaly when the duration is only 1 settlement period. BGT believes that this results in a more accurate representation of the materiality of the issue. Using the figures presented for May the SBP liability for the month of May is approximately £101,000 and the SSP is approximately £72,000. If these are extrapolated across a 12-month period the materiality of the issue ranges from £1.2 million to £864,000.	