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<b>Meeting name</b>	BSC Panel
<b>Date of meeting</b>	8 July 2004
<b>Paper Title</b>	INITIAL WRITTEN ASSESSMENT FOR MODIFICATION PROPOSAL P167: ERRONEOUS CALCULATION OF BID OFFER ACCEPTANCE (BOA) VOLUME
<b>Purpose of Paper</b>	For Decision
<b>Synopsis</b>	Modification Proposal P167 seeks to amend the calculation of Bid Offer Acceptance (BOA) Volumes to account for changes in BM Unit Maximum Export Level (MEL) and Maximum Import Level (MIL). ELEXON recommend that Modification Proposal P167 is submitted to a 2-month Assessment Procedure and that an Assessment Report is submitted for consideration at the Panel meeting of 9 September 2004.

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## 1. PROPOSED MODIFICATION

- 1.1. Modification Proposal P167 'Erroneous Calculation of Bid Offer Acceptance (BOA) Volume' (P167) was raised on 28 June 2004 by British Gas Trading (BGT). P167 seeks to amend the calculation of Acceptance Volumes to account for changes in BM Unit Maximum Export Level (MEL) and Maximum Import Level (MIL). The perceived defect was initially raised to the Settlement Standing Modification Group (SSMG) as Issue 7, a summary of the group's discussions was presented to the Panel at its meeting of 10 June 2004.
- 1.2. The issue that P167 seeks to address is that the Balancing and Settlement Code ('the Code') requires that the volume of the Acceptance is always calculated with reference to Final Physical Notification (FPN). The Proposer of P167 contends that this approach is not appropriate under all circumstances, as the Transmission Company takes Acceptances in relation to the physical dynamics of the BM Unit (i.e. its notified output; FPN or MEL / MIL if MEL has been re-declared below FPN / MIL has been re-declared above FPN) at the time the Acceptance is instructed.
- 1.3. This results in the calculation and creation of Acceptance Volumes, in Settlement, that were essentially not instructed by the Transmission Company, therefore P167 seeks to ensure that Acceptance Volumes are calculated with reference to the output level the Transmission Company actually instructed against (i.e. FPN or MEL / MIL), and thus the 'correct' Acceptance Volumes feed into the Settlement calculations.
- 1.4. As a result of calculating the Acceptance Volume in relation to the FPN, the Acceptance Volume(s) for the BM Unit can be overstated. Overstating Acceptance Volumes has the main effect of protecting the Party from exposure to imbalance to the extent of the overstated Acceptance Volume. Furthermore, overstating the Acceptance Volume has a direct effect on the Net Imbalance Volume (NIV) calculation, and therefore on the resulting Energy Imbalance Price. This has implications for other Settlement calculations, such as the Residual Cashflow Reallocation Cashflow (RCRC) derivation (directly for the affected Party, and indirectly for all other Parties).
- 1.5. The Proposer is of the view that P167 would 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:-

- Correcting the perceived defect would improve the accuracy to which imbalance positions are reported and level of imbalance Parties are exposed to;
- Correcting the perceived defect will help to ensure that all Parties are receiving appropriate RCRC payments; and
- Amending the methodology for calculating Acceptance Volumes will result in a more appropriate calculation of imbalance prices.

## **2. RESULTS OF INITIAL WRITTEN ASSESSMENT**

2.1. ELEXON has prepared an Initial Written Assessment for P167, which is included as Attachment 1 to this paper. This identifies the following issues:

- The Code and BSC Systems require amendment to account for MEL and MIL resubmissions in the calculation of Acceptance and Non-Delivery volumes;
- Consequential impacts on Party imbalance positions, imbalance prices, and RCRC require assessment. Refinement of the initial analysis performed in this area under the scope of Issue 7 is required, if possible;
- Party, Transmission Company and BSCCo impact assessment is required;
- The potential for exploitation of the issue (i.e. deliberate avoidance of imbalance via re-declaration of MEL or MIL post Gate Closure) requires assessment; and
- Exception rules for specific circumstances where it would be inappropriate for the Acceptance Volume to be calculated from MEL / MIL requires consideration.

2.2. The SSMG conducted initial analysis of the issues raised by P167 under the scope of Issue 7, hence the issues associated with P167 are sufficiently well defined for ELEXON to recommend submitting P167 to the Assessment Procedure, as set out in F2.6 of the Code, in order to determine whether P167 better facilitates the achievement of the Applicable BSC Objectives.

2.3. On consideration of Issue 7, it was noted by the SSMG that there was a consequential impact on the calculation of the Energy Imbalance Prices and it was the view of the SSMG that members of the Pricing Standing Modification Group (PSMG) should be involved in the assessment of any Modification Proposal in this area. Therefore, it is recommended that the SSMG be used to assess P167 with support from the PSMG.

## **3. PROCESS AND TIMETABLE FOR PROGRESSING THE MODIFICATION**

3.1. In recognition of the above, it is recommended that the Panel endorse that Modification Proposal P167 be submitted to the Assessment Procedure with an Assessment Report being presented to the Panel at their meeting on 9 September 2004.

3.2. It is estimated that the progression of P167 through the Modification Process will incur third party costs of £1,500 funded from the demand led budget in addition to core team staff costs of 50 man days. This estimate is based on current information and may be subject to change.

- 3.3. An outline timetable for the assessment of P167 is included in Attachment A and will be discussed at the first meeting of the Modification Group (provisionally planned for 13 July 2004).

#### **4. RECOMMENDATIONS**

##### **4.1 The Panel is invited to:**

- a) **NOTE the results of the Initial Written Assessment;**
- b) **DETERMINE that Modification Proposal P167 should be submitted to the Assessment Procedure in accordance with section F2.6 of the Code;**
- c) **AGREE the Assessment Procedure timetable such that an Assessment Report should be completed and submitted to the Panel for consideration at their meeting of 9 September 2004;**
- d) **DETERMINE that the Assessment Procedure should be undertaken by the Settlement Standing Modification Group (with support from the Pricing Standing Modification Group); and**
- e) **AGREE any refinement to the Modification Group Terms of Reference.**

**Chris Rowell**  
**Modification Secretary**

##### ***List of attachments:***

Attachment A: Initial Written Assessment of Modification Proposal P167 - Erroneous Calculation of Bid Offer Acceptance (BOA) Volume

Attachment B: Annex 1 of the Initial Written Assessment – Modification Proposal

Attachment C: Annex 1 of the Initial Written Assessment - Modification Proposal attachment