

Modification Proposal

MP No: 144
(mandatory by BSCCo)

Title of Modification Proposal (mandatory by proposer):

Removal of CADL from the BSC

Submission Date (mandatory by proposer): 10 October 2003

Description of Proposed Modification (mandatory by proposer):

It is proposed that the CADL methodology introduced under P18A is removed from the BSC. Short duration trades would be treated in the same way as all other trades. The Net Imbalance Volume (NIV) tagging process will be used to determine whether trades are electricity related or system related.

We are requesting that this modification be given urgent status. To speed its implementation, if changing systems would result in a delay to implementation, it is suggested that the value of CADL is set to zero as an interim solution.

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

Ofgem was persuaded that CADL as defined in P18A better facilitates achieving the relevant objectives of the BSC since it augmented the then existing (pre P78) trade tagging system and improved cost targeting. Ofgem considered that P18A would promote effective competition in the generation and supply of electricity by avoiding any potential cross subsidies between participants by ensuring that imbalance prices better reflect the prices and costs incurred by NGC in buying and selling electricity to keep the system in electricity balance.

However, in approving P18A, Ofgem recognised that it is difficult to establish a rule that clearly determines when acceptances relate to system balancing rather than electricity balancing, especially in real time. In its decision letter, Ofgem also recognised that the P18A solution was considered and developed in a short timescale and that there may be alternative methods of determining the duration of acceptances which could be developed over time and which may better facilitate achieving the applicable BSC Objectives than Modification Proposal P18A. However, the P78 NIV "net imbalance volume" (NIV) negates the need for CADL (CADL is in effect obsolete).

Under P78 system balancing costs are removed from electricity imbalance prices through a process of "NIV tagging". In effect, the NIV methodology determines the volume of electricity balancing actions by subtracting the shorter bid or offer volume from the larger stack of bids or offers in the balancing mechanism. Short duration bid-offer acceptances are, in general, priced higher than longer duration bid-offer acceptances so are likely to be tagged first. Under normal conditions, they will rarely contribute to the imbalance price calculation. Even if they do, their effect will be considerably diluted by other acceptances and forward trades.

If the system is very short, NGC have indicated that they will accept all feasible offers to avoid demand reduction. In this event, short duration trades will be contributing to energy balancing and should be included in the imbalance price calculation.

In addition, the adoption of CID definition 1a has always been recognised as flawed in that it tags out all acceptances in a half hour if the first acceptance is less than the Continuous Acceptance Duration. This means that some trades with a duration of longer than CAD are being removed from the calculation of cashout prices.

It is requested that this modification be given urgent status. NGC is still forecasting a negative generation surplus this winter (6 October 2003 Operational Forum). If the modification is implemented in time for winter it will enhance the incentives to contract sufficiently to avoid imbalance exposure when the system is

Modification Proposal

MP No: 144
(mandatory by BSCCo)

short. In particular, strengthening these signals to the market at times of system stress will incentivise plant availability, reducing the generation shortfall. This will have a beneficial effect on security of supply.

Impact on Code (optional by proposer):

Removal of provisions related to CADL

Impact on Core Industry Documents (optional by proposer):

None

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

None

Impact on other Configurable Items (optional by proposer):

None

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

The modification proposal will better facilitate Objective (a) relating to the efficient discharge by the Transmission Company of the obligations imposed under the Transmission Licence by more appropriately targeting the costs of electricity balancing and incentivising parties to balance for the benefit of all market participants.

The NIV tagging methodology is intended to ensure that system and electricity balancing actions are properly identified and appropriately targeted. Including short duration trades in the price calculation will strengthen the signals to the market, in particular at times of system stress. This will further encourage participants to avoid going short reducing the actions that NGC must take to balance the system. The proposal therefore better facilitates Objective (b) relating to the efficient, economic and co-ordinated operation by the Transmission Company of the Transmission System.

By improving the cost reflectivity of the calculation of the main price, the modification will better facilitate Objective (c) by 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. Removal of CADL and associated cross subsidies will ensure that the costs of electricity balancing are appropriately targeted at the parties that cause them.

The CADL methodology requires the Panel to define certain short duration trades as system related while others are electricity related in a process that is complex and cumbersome to manage and is reviewed at frequent intervals. Therefore removing CADL from the BSC will remove risk and uncertainty and therefore better facilitate Objective (d) by promoting efficiency in the implementation and administration of the balancing and settlement arrangements.

Modification Proposal

MP No: 144
(mandatory by BSCCo)

Details of Proposer:

Name: Libby Glazebrook

Organisation: First Hydro Company

Telephone Number: 0870 238 5558

Email Address: lglazebrook@edisonmission.com

Details of Proposer's Representative:

Name: As above

Organisation:

Telephone Number:

Email Address:

Details of Representative's Alternate:

Name: Kevin Dibble

Organisation: First Hydro Company

Telephone Number: 0870 238 5523

Email Address: kdibble@edisonmission.com

Attachments: NO

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