

October 2002

**URGENT MODIFICATION REPORT  
MODIFICATION PROPOSAL P104-  
Amendments to the Solution to P78  
'Revised Definition of System Buy  
Price and System Sell Price'**

Prepared by ELEXON on behalf of the Balancing  
and Settlement Code Panel

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## 1 SUMMARY AND RECOMMENDATIONS

### 1.1 Recommendation

*On the basis of the analysis, consultation and assessment undertaken in respect of this Modification Proposal, the Balancing and Settlement Code Panel ('the Panel') recommends that:*

- The Proposed Modification P104, as set out in section 3 of this Urgent Modification Report, should be made with an Implementation Date of 25 February 2002 (consistent with the Implementation Date for Proposed Modification P78).*

*These recommendations are provisional, pending Panel deliberation on Modification Proposal P104.*

### 1.2 Background

Modification Proposal P104 'Amendments to the Solution to P78 'Revised Definition of System Buy Price and System Sell Price'' (P104) was raised by the Panel on 17 October 2002. The Panel agreed with the recommendation of BSCCo, to raise Modification Proposal P104, which seeks to correct two minor inconsistencies in the legal drafting for Proposed Modification P78, which could lead to material errors in the calculation of Energy Imbalance Prices.

Modification Proposal P104 was therefore raised in accordance with Section F 2.1.1 (d) (iv) of the Code, which allows a Modification Proposal to be raised 'on the recommendation of BSCCo to rectify manifest errors in or to correct minor inconsistencies (or make other minor consequential changes) to the Code'.

BSCCo requested that Modification Proposal P104 be treated as Urgent, due to the significant interaction with the implementation of Proposed Modification P78 and the Implementation Date of 25 February 2002. This request and proposed timetable, was granted by the Panel and confirmed by the Authority (on Monday 21 October 2002, see Annex 2).

The following table contains the agreed process and timetable for Urgent Modification Proposal P104.

ACTIVITY	DATE
Modification Group agree proposed solution by correspondence	By 16:00 hrs – 25 October 2002
Draft Consultation Document and issue to Parties	25 October 2002
Consultation Responses due back	By 08:00 hrs 5 November 2002
Draft Urgent Modification Report reviewed and agreed by Modification Group.	8 November 2002
Urgent Modification Report submitted to the Panel for consideration	8 November 2002
Panel consideration of draft Urgent Modification Report	14 November 2002
Final Urgent Modification Report submitted to the Authority	15 November 2002

The minor inconsistencies in the legal drafting for Proposed Modification P78 were discovered during the detailed development and implementation of Modification Proposal P78. Both issues have an impact on the development and implementation of Proposed Modification P78 within the BSC Systems. Therefore, Modification Proposal P104 seeks to address the issues, such that Proposed Modification P78 can be implemented on 25 February 2003, with a 'correct' solution, in line with the intent of Proposed Modification P78.

Given the interdependency with Proposed Modification P78, the same Implementation Date is proposed for Urgent Modification Proposal P104.

An expert group for Modification Proposal P78, which consisted of members and attendees of the Modification Group that undertook the Assessment Procedure for Modification Proposal P78, were involved in the drafting of the Modification Proposal as they were requested to provide views on the solutions to the two issues, with the main aim of ensuring consistency with the intent of the solution to Proposed Modification P78. The expert group agreed, by correspondence, the solutions to be set out in the Modification Proposal P104.

Following the Authority's agreement that Modification Proposal P104 should be treated as urgent, the final legal drafting for Urgent Modification Proposal P104 was completed. The P104 Modification Group considered the legal drafting by correspondence, and at a meeting on Thursday 24 October 2002 and agreed the legal drafting in accordance with the Urgent Modification Proposal timetable.

This Urgent Modification Report was submitted for industry consultation on Friday 25 October 2002, with responses due by 08:00 on Tuesday 5 November 2002.

*[The consultation responses indicated that ... pending receipt.]*

### **1.3 Rationale for Recommendations**

*Pending Panel discussion of Modification Proposal P104*

*The issues set out in the Modification Proposal result from minor inconsistencies in the legal drafting which gives effect to Proposed Modification P78. However, if these inconsistencies are not addressed in the implementation and development of Proposed Modification P78 in the BSC Systems, they may lead to material errors in the implementation of Proposed Modification P78. This may result in circumstances where no Energy Imbalance Price can be calculated. Therefore, it is paramount to ensure that the Energy Imbalance Price calculations are sufficiently robust to enable a price to be calculated under all potential circumstances.*

*Modification Proposal P104 better facilitates achievement of the Applicable BSC Objective 3(d) 'Promoting efficiency in the implementation and administration of the balancing and settlement arrangements'. The rationale is that a swift resolution of the issues would prevent further expenditure by BSCCo in the development and implementation of Proposed Modification P78, as the solution can be incorporated at this stage of development with little additional burden, and enabling the development and implementation timetable to be adhered to.*

*It is also more efficient for BSCCo and the BSC Central Systems to implement a robust solution to Proposed Modification P78 on the scheduled Implementation Date (25 February 2003), rather than delaying the Implementation Date, or 'going live' with an inconsistent and insufficiently robust solution, requiring further change.*

## **2 INTRODUCTION**

This Report has been prepared by ELEXON Ltd., on behalf of the Balancing and Settlement Code Panel ('the Panel'), in accordance with the terms of the Balancing and Settlement Code ('BSC'). The BSC is the legal document containing the rules of the balancing mechanism and imbalance settlement process and related governance provisions. ELEXON is the company that performs the role and functions of the BSCCo, as defined in the BSC.

This Modification Report is addressed and furnished to the Gas and Electricity Markets Authority ('the Authority') and none of the facts, opinions or statements contained herein may be relied upon by any other person.

An electronic copy of this document can be found on the BSC website, at [www.elexon.co.uk](http://www.elexon.co.uk)

### 3 DESCRIPTION OF PROPOSED MODIFICATION

#### Issue 1

The defect identified in P104 is related to the equation for calculating the Net Imbalance Volume (Section T 4.4.4A). The equation is as follows:

4.4.4A In respect of each Settlement Period, the Net Imbalance Volume will be determined as follows:

$$NIV_j = \{\sum_i \sum^n QAPO_{ij}^n + EBVA_j + SBVA_j + TQUAO_j\} - \{\sum_i \sum^n (-QAPB_{ij}^n) + (-ESVA_j) + (-SSVA_j) + (-TQUAB_j)\}$$

where  $\sum_i$  is the sum over all BM Units and  $\sum^n$  is the sum over all Bid-Offer Pair Numbers for the BM Unit.

However, the  $\sum_i \sum^n QAPO_{ij}^n$  and  $\sum_i \sum^n (-QAPB_{ij}^n)$  variables include De Minimis Acceptance volumes, as these have not excluded by limiting the ' $\sum^n$ ' to those Acceptances that are not De Minimis Acceptances.

In order for the Energy Imbalance Price rules to work as intended, the Net Imbalance Volume must equal the difference in size between the Bid and Offer stacks in the NIV Tagging process. However, this is not currently the case, because De Minimis Acceptances are included in the Net Imbalance Volume, but excluded from the Bid and Offer stacks. This may have the effect of meaning that under certain circumstances no Energy Imbalance Price can be calculated.

The description of Proposed Modification P78 (Assessment Report, Requirements Specification and Modification Report) is clear that the Net Imbalance Volume is calculated following the application of CADL, DMAT and Arbitrage, (and following the re-inclusion of the CADL'ed volume into the stacks). Therefore this issue is an inconsistency in the legal drafting of T 4.4.4A, which requires amendment to remove De Minimis (and Arbitrage, for consistency) volumes from the Net Imbalance Volume calculation, as set out in section 5.

#### Issue 2

During the detailed implementation and development work on Proposed Modification P78, it was noted that the proposed Energy Imbalance Price mechanism is silent on the circumstances where there are no balancing actions (and therefore volume) eligible for use in the (main) Energy Imbalance Price calculation.

During the Assessment of Modification Proposal P78, the formulation of the Energy Imbalance Price calculations were considered, in particular, how to address untagged system volumes (i.e. 'known' system (CADL / SBSAD) contributing to the Net Imbalance Volume). The principle behind Modification Proposal P78 is the exclusion of system balancing actions from setting the Energy Imbalance Prices, and therefore system balancing actions reflected in the Net Imbalance Volume (i.e. system volumes (CADL'ed Acceptances and System BSAD) were excluded from going forward to set the Energy Imbalance Price.

The Modification Group considered incorporating the current default rules (or a variation of them, recognising the concerns raised by P79), but agreed that this would not be in keeping with the principle

of the Modification, as the key feature of P78 is the differentiation between system and energy balancing and the subsequent targeting of the costs of energy balancing at those in imbalance in the same direction as the NIV.

Therefore, where there is a zero volume of balancing actions in the Energy Imbalance Price calculation, the most appropriate course of action is to default to the Energy Imbalance Price calculated from the Market Index Data. It is believed that this is consistent with the principle and intent of the Modification.

In addition, it should be noted that under these sorts of circumstances, the current mechanisms for differentiating between system and energy balancing (CADL and Transmission Company assessment of the BSAD) could be considered to have not identified system balancing actions (as the Net Imbalance Volume Tagging has left system volumes in the Net Imbalance Volume). Therefore, the NIV Tagged system volumes are reported, so that the volumes could be monitored to determine whether there were consistently 'system' volumes (i.e. CADL and SBSAD) remaining untagged, and therefore contributing to the Net Imbalance Volume, such that the mechanisms for setting these volumes could be reviewed and amended where relevant.

The calculation (Section T 4.4.5, 4.4.6 and 4.4.6A) requires amendment to reflect the required course of action. Under the circumstances detailed, this will be to default to the market based reverse price, i.e. the Energy Imbalance Price set from the Market Index Data, as set out in section 5.

#### **4 IMPACT FROM IMPLEMENTATION OF MODIFICATION PROPOSAL P104**

Amendments are required to the BSC Systems (the Settlement Administration Agent (SAA) and the Balancing Mechanism Reporting Agent (BMRA)) for calculating the Net Imbalance Volume and Energy Imbalance Price. However, it should be noted that as Proposed Modification P78 is currently being developed and implemented, it is expected that the amendments for Modification Proposal P104 could be incorporated into the solution under development, such that there is little additional development and implementation effort required.

However, if the solution for Modification Proposal P104 cannot be agreed and made as part of the P78 development, then there will be a material impact on the BSC Systems, in terms of 'backing out' the solution that incorporates the inconsistencies in the legal drafting, and amending the solution to correct the inconsistencies.

Under the circumstances where the solution set out in this Modification Proposal is required to be implemented after a material amount of development on P78, there is a material impact on the BSC Systems which may endanger the current Implementation for Proposed Modification P78, namely 25 February 2003, and incur significant additional development and implementation costs.

If the solution can be approved expeditiously, then it is expected that there will be no impact on BSC Parties development and implementation of their solution to Proposed Modification P78. However, if the solution set out in this Modification Proposal is required to be implemented after a material amount of development on P78, there is the potential for this to have a material impact on BSC Parties development to support Proposed Modification P78.

## 5 LEGAL TEXT TO GIVE EFFECT TO PROPOSED MODIFICATION P104

### 5.1 Proposed Modification P104: Conformed Version

**Section T** (v7.0 incorporating approved but not implemented amendments to Section T)

#### Section T 4.4.4A

Paragraph 4.4.4A of Section T shall be amended as follows:

4.4.4A In respect of each Settlement Period, the Net Imbalance Volume will be determined as follows:

$$NIV_j = \{\sum_i \sum^n QAPO_{ij}^n + EBVA_j + SBVA_j + TQUAO_j\} - \{\sum_i \sum^n (-QAPB_{ij}^n) + (-ESVA_j) + (-SSVA_j) + (-TQUAB_j)\}$$

where  $\sum_i$  is the sum over all BM Units and  $\sum^n$  is either the sum over all Accepted Bid Offers Pair Numbers for the BM Unit that are not De Minimis Accepted Offers and not Arbitrage Accepted Offers, or the sum over all Accepted Bids that are not De Minimis Accepted Bids and not Arbitrage Accepted Bids, as the case may be.

#### Section T 4.4.5

Paragraph 4.4.5 of Section T shall be amended as follows:

4.4.5 In respect of each Settlement Period:

- (a) if the Net Imbalance Volume is not equal to zero, and is a positive number, and  $\{\sum_i \sum^n \{QAPO_{ij}^n * TLM_{ij}\} + UEBVA_j\}$  is not equal to zero, then the System Buy Price will be determined as follows:

$$SBP_j = \{\{\sum_i \sum^n \{QAPO_{ij}^n * PO_{ij}^n * TLM_{ij}\} + UEBVA_j\} / \{\sum_i \sum^n \{QAPO_{ij}^n * TLM_{ij}\} + UEBVA_j\} + \{BPA_j\}$$

where  $\sum_i$  represents the sum over all BM Units and  $\sum^n$  represents the sum over those accepted Offers that are not De Minimis Accepted Offers and not Arbitrage Accepted Offers and not NIV Tagged Offers;

- (b) if the Net Imbalance Volume is equal to zero, or is a negative number, and / or  $\{\sum_i \sum^n \{QAPO_{ij}^n * TLM_{ij}\} + UEBVA_j\}$  is equal to zero, then the System Buy Price will (subject to paragraph 4.4.6A) be determined as follows:

$$SBP_j = \sum_s \{PXP_{sj} * QXP_{sj}\} / \sum_s \{QXP_{sj}\}$$

where  $\sum_s$  represents the sum over all Market Index Data Providers;

provided that, if the Net Imbalance Volume is a negative number and  $SSP_j$  as determined in accordance with paragraph 4.4.6(a) would exceed  $SBP_j$  as determined in this paragraph (b), then  $SBP_j$  shall instead be equal to  $SSP_j$  as determined in accordance with paragraph 4.4.6(a).

## Section T 4.4.6

Paragraph 4.4.6 of Section T shall be amended as follows:

4.4.6 In respect of each Settlement Period:

- (a) if the Net Imbalance Volume is not equal to zero, and is a negative number, and  $\{\sum_i \sum^n \{QAPB_{ij}^n * TLM_{ij}\} + UESVA_j\}$  is not equal to zero, then the System Sell Price will be determined as follows:

$$SSP_j = \{ \{ \sum_i \sum^n \{ QAPB_{ij}^n * PB_{ij}^n * TLM_{ij} \} + UESCA_j \} / \{ \sum_i \sum^n \{ QAPB_{ij}^n * TLM_{ij} \} + UESVA_j \} \} + \{ SPA_j \}$$

where  $\sum_i$  represents the sum over all BM Units and  $\sum^n$  represents the sum over those accepted Bids that are not De Minimis Accepted Bids and not Arbitrage Accepted Bids and not NIV Tagged Bids;

- (b) if the Net Imbalance Volume is equal to zero, or is a positive number, and / or  $\{\sum_i \sum^n \{QAPB_{ij}^n * TLM_{ij}\} + UESVA_j\}$  is equal to zero, then the System Sell Price will (subject to paragraph 4.4.6A) be determined as follows:

$$SSP_j = \sum_s \{ PXP_{sj} * QXP_{sj} \} / \sum_s \{ QXP_{sj} \}$$

where  $\sum_s$  represents the sum over all Market Index Data Providers;

provided that, if the Net Imbalance Volume is a positive number and  $SSP_j$  as so determined would exceed  $SBP_j$  as determined in accordance with paragraph 4.4.5(a), then  $SSP_j$  shall instead be equal to  $SBP_j$  as determined in accordance with paragraph 4.4.5(a).

## Section T 4.4.6A

Paragraph 4.4.6A of Section T shall be amended as follows:

4.4.6A Without prejudice to paragraph 1.5A.4(b) and 1.5A.6(b), if for whatever reason (including the submission or deemed submission of zero values or the absence of Market Index Data) in respect of a Settlement Period:

$$\sum_s QXP_{sj} = 0$$

where  $\sum_s$  represents the sum over all Market Index Data Providers,

then (notwithstanding paragraphs 4.4.5(b) and 4.4.6(b)):

- (a) if the Net Imbalance Volume is a positive number, and  $\{\sum_i \sum^n \{QAPO_{ij}^n * TLM_{ij}\} + UEBVA_j\}$  is not equal to zero,  $SSP_j$  shall be equal to  $SBP_j$  as determined in accordance with paragraph 4.4.5(a);
- (b) if the Net Imbalance Volume is a positive number, and  $\{\sum_i \sum^n \{QAPO_{ij}^n * TLM_{ij}\} + UEBVA_j\}$  is equal to zero, each of  $SBP_j$  and  $SSP_j$  shall be zero;

- ~~(b)~~ (c) if the Net Imbalance Volume is a negative number, and  $\{\sum_i \sum^n \{QAPB_{ij}^n * TLM_{ij}\} + UESVA_j\}$  is not equal to zero,  $SBP_j$  shall be equal to  $SSP_j$  as determined in accordance with paragraph 4.4.6(a); ~~and~~
- ~~(d)~~ if the Net Imbalance Volume is a negative number, and  $\{\sum_i \sum^n \{QAPB_{ij}^n * TLM_{ij}\} + UESVA_j\}$  is equal to zero, each of  $SBP_j$  and  $SSP_j$  shall be zero; and
- ~~(e)~~ (e) if the Net Imbalance Volume is zero, each of  $SBP_j$  and  $SSP_j$  shall be zero.

## 5.2 Proposed Modification P104: Clean Version

**Section T** (v7.0 incorporating approved but not implemented amendments to Section T)

### Section T 4.4.4A

Paragraph 4.4.4A of Section T shall be replaced with the followings:

4.4.4A In respect of each Settlement Period, the Net Imbalance Volume will be determined as follows:

$$NIV_j = \{\sum_i \sum^n QAPO_{ij}^n + EBVA_j + SBVA_j + TQUAO_j\} - \{\sum_i \sum^n (-QAPB_{ij}^n) + (-ESVA_j) + (-SSVA_j) + (-TQUAB_j)\}$$

where  $\sum_i$  is the sum over all BM Units and  $\sum^n$  is either the sum over all Accepted Offers that are not De Minimis Accepted Offers and not Arbitrage Accepted Offers, or the sum over all Accepted Bids that are not De Minimis Accepted Bids and not Arbitrage Accepted Bids, as the case may be.

### Section T 4.4.5

Paragraph 4.4.5 of Section T shall be replaced with the following:

4.4.5 In respect of each Settlement Period:

- (a) if the Net Imbalance Volume is not equal to zero, and is a positive number, and  $\{\sum_i \sum^n \{QAPO_{ij}^n * TLM_{ij}\} + UEBVA_j\}$  is not equal to zero, then the System Buy Price will be determined as follows:

$$SBP_j = \{\{\sum_i \sum^n \{QAPO_{ij}^n * PO_{ij}^n * TLM_{ij}\} + UEBVA_j\} / \{\sum_i \sum^n \{QAPO_{ij}^n * TLM_{ij}\} + UEBVA_j\} + \{BPA_j\}$$

where  $\sum_i$  represents the sum over all BM Units and  $\sum^n$  represents the sum over those accepted Offers that are not De Minimis Accepted Offers and not Arbitrage Accepted Offers and not NIV Tagged Offers;

- (b) if the Net Imbalance Volume is equal to zero, or is a negative number, and / or  $\{\sum_i \sum^n \{QAPO_{ij}^n * TLM_{ij}\} + UEBVA_j\}$  is equal to zero, then the System Buy Price will (subject to paragraph 4.4.6A) be determined as follows:

$$SBP_j = \sum_s \{PXP_{sj} * QXP_{sj}\} / \sum_s \{QXP_{sj}\}$$

where  $\sum_s$  represents the sum over all Market Index Data Providers;

provided that, if the Net Imbalance Volume is a negative number and  $SSP_j$  as determined in accordance with paragraph 4.4.6(a) would exceed  $SBP_j$  as determined in this paragraph (b), then  $SBP_j$  shall instead be equal to  $SSP_j$  as determined in accordance with paragraph 4.4.6(a).

### Section T 4.4.6

*Paragraph 4.4.6 of Section T shall be amended as follows:*

4.4.6 In respect of each Settlement Period:

- (a) if the Net Imbalance Volume is not equal to zero, and is a negative number, and  $\{\sum_i \sum^n \{QAPB_{ij}^n * TLM_{ij}\} + UESVA_j\}$  is not equal to zero, then the System Sell Price will be determined as follows:

$$SSP_j = \{ \{ \sum_i \sum^n \{ QAPB_{ij}^n * PB_{ij}^n * TLM_{ij} \} + UESCA_j \} / \{ \sum_i \sum^n \{ QAPB_{ij}^n * TLM_{ij} \} + UESVA_j \} \} + \{ SPA_j \}$$

where  $\sum_i$  represents the sum over all BM Units and  $\sum^n$  represents the sum over those accepted Bids that are not De Minimis Accepted Bids and not Arbitrage Accepted Bids and not NIV Tagged Bids;

- (b) if the Net Imbalance Volume is equal to zero, or is a positive number, and / or  $\{\sum_i \sum^n \{QAPB_{ij}^n * TLM_{ij}\} + UESVA_j\}$  is equal to zero, then the System Sell Price will (subject to paragraph 4.4.6A) be determined as follows:

$$SSP_j = \sum_s \{ PXP_{sj} * QXP_{sj} \} / \sum_s \{ QXP_{sj} \}$$

where  $\sum_s$  represents the sum over all Market Index Data Providers;

provided that, if the Net Imbalance Volume is a positive number and  $SSP_j$  as so determined would exceed  $SBP_j$  as determined in accordance with paragraph 4.4.5(a), then  $SSP_j$  shall instead be equal to  $SBP_j$  as determined in accordance with paragraph 4.4.5(a).

### Section T 4.4.6A

*Paragraph 4.4.6A of Section T shall be amended as follows:*

4.4.6A Without prejudice to paragraph 1.5A.4(b) and 1.5A.6(b), if for whatever reason (including the submission or deemed submission of zero values or the absence of Market Index Data) in respect of a Settlement Period:

$$\sum_s QXP_{sj} = 0$$

where  $\sum_s$  represents the sum over all Market Index Data Providers,

then (notwithstanding paragraphs 4.4.5(b) and 4.4.6(b)):

- (a) if the Net Imbalance Volume is a positive number, and  $\{\sum_i \sum^n \{QAPO_{ij}^n * TLM_{ij}\} + UEBVA_j\}$  is not equal to zero,  $SSP_j$  shall be equal to  $SBP_j$  as determined in accordance with paragraph 4.4.5(a);

- (b) if the Net Imbalance Volume is a positive number, and  $\{\sum_i \sum^n \{QAPO_{ij}^n * TLM_{ij}\} + UEBVA_j\}$  is equal to zero, each of  $SBP_j$  and  $SSP_j$  shall be zero;
- (c) if the Net Imbalance Volume is a negative number, and  $\{\sum_i \sum^n \{QAPB_{ij}^n * TLM_{ij}\} + UESVA_j\}$  is not equal to zero,  $SBP_j$  shall be equal to  $SSP_j$  as determined in accordance with paragraph 4.4.6(a);
- (d) if the Net Imbalance Volume is a negative number, and  $\{\sum_i \sum^n \{QAPB_{ij}^n * TLM_{ij}\} + UESVA_j\}$  is equal to zero, each of  $SBP_j$  and  $SSP_j$  shall be zero; and
- (e) if the Net Imbalance Volume is zero, each of  $SBP_j$  and  $SSP_j$  shall be zero.

## 6 SUMMARY OF REPRESENTATIONS

*[Pending receipt ... ]*

### ANNEX 1 – REPRESENTATIONS

*[Pending receipt ... ]*

### ANNEX 2 – AUTHORITY LETTER GRANTING URGENT STATUS

See attached document:

'P104UR Annex 2'