

Issues Report

Meeting name	SETTLEMENT STANDING MODIFICATION GROUP (SSMG)
Meeting no.	4
Date of last meeting	16 July 2003

This note reports on progress made in relation to issues discussed at the most recent meeting of the Settlement Standing Modification Group (SSMG).

ISSUE 3: CREDIT COVER FOR INTERCONNECTOR USERS

Brief Description:

Interconnector BM Units are less likely to act in accordance with their historical patterns than other kinds of BMUs due to volatility caused by pricing differences between England & Wales and the neighbouring system(s) and, in the case of the Anglo-French Interconnector, the ongoing auctioning of interconnector capacity. This means that traditional CALF methodologies - which look at historical patterns - are often irrelevant to an Interconnector Users current position.

Proposer: Steve Drummond

Organisation: EDF Trading

Date Submitted: 25 February 2003

Meeting Notes:

25 March 2003

The proposer presented a paper to the SSMG and explained the problems for interconnectors in relation to the calculation of CALF values and expressed concern over the amount of credit cover EDF has had to provide over the past six months. The issue has already been raised through an appeal at the February Imbalance Settlement Group (ISG).

ISG also considered a paper at the January meeting (ISG/24/276) with outlines potential changes to the CALF methodology as applied to Interconnector BM Units. The relative merits of these changes were discussed by the SSMG.

There does not appear to be a flawless solution to the issue. There are two possible routes to addressing the problem. Firstly, as a temporary solution, the ISG could be requested to make alterations to the CALF Methodology Guidelines and, secondly, the proposer could raise a Modification Proposal.

Given the work being done at Ofgem in reviewing the Credit Arrangements as a whole and the time it would take to progress a Code Modification it would be preferable to find a solution through changes to the CALF Methodology Guidelines.

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Discussions of the issue within SSMG were postponed while the Imbalance Settlement Group (ISG) considered a related paper (ISG/27/309) that modelled the effects of a number of alternative CALF methodologies. The ISG concluded that it would not be possible to find a solution through changes to the CALF Methodology Guidelines and requested that SSMG consider what options might be open to resolve this situation via a BSC Modification.

The SSMG agreed that Interconnector Users are different to other Parties as their Final Physical Notification (FPN) is considered to be their deemed metered volume. The group agreed that there may be merit a Modification Proposal whereby the FPN, for Interconnectors only, is used as the Credit Assessment Credit Energy Volume (CAQCE_{iaj}) in credit calculations.

The SSMG stressed that this should not be extended to other Parties as CALF had been developed as an independently calculated variable because, in most cases, if FPNs were used, it would be easy to game.

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This could be regarded as discriminatory but the SSMG agreed that the discrimination was not undue.

The SSMG were concerned that the system changes required to make the solution work could make it unviable. The group was also concerned that, while the credit calculations would be more realistic, they could also be less predictable.

Next Steps:

The Proposer will draft a Modification Proposal based on the proposed solution and the draft Modification will be circulated to the SSMG for comments. If the group have significant concerns about the Modification Proposal as drafted, the SSMG will meet again to assist the Proposer in developing the Modification Proposal.