

Modification Group Meeting Notes

Meeting name SSMG ISSUE 7: Potential anomaly in respect of Bid Offer Acceptance (BOA) volume

Meeting no. Meeting 1

Date of meeting 23 April 2004

Time 10 am

Venue ELEXON Ltd Orange Room, 4th Floor, 350 Euston Road, London, NW1 3AW

This note records the Settlement Standing Modification Group ('the SSMG') meeting held on 23 April 2004 in respect of ISSUE 7: Potential anomaly in respect of Bid Offer Acceptance (BOA) volume, highlighting the key discussions, conclusions and next steps agreed.

1. Background to Issue

British Gas Trading (BGT) provided some background on a perceived anomaly in respect of Bid Offer Acceptance (BOA) volumes which had been identified operationally.

The issue, which has existed since Go-Live, arises where a Party re-declares its Maximum Export Limit (MEL) below its Final Physical Notification (FPN) after Gate Closure (i.e. cannot amend the FPN), and has a Bid Acceptance made. The Transmission Company accept the Bid with reference to the MEL at the time the Bid was taken. However, the Acceptance Volume is calculated by the Settlement systems, (in accordance with the Code), with reference to the FPN prevailing at Gate Closure for the Settlement Period.

This has the effect of overstating the Accepted Bid Volume for the BM Unit, which has consequential effects on the Credited Energy for the Party (by removing some, or all, of the imbalance between FPN and MEL). Furthermore, the overstating of the Accepted Bid Volume has implications on the Net Imbalance Volume (NIV) calculation, and therefore on the resulting Energy Imbalance Price.

There is also a converse issue, in terms of re-declarations of Maximum Import Limit (MIL) (i.e. the maximum demand limit in the Settlement Period), where the MIL is re-declared above the FPN (i.e. the MIL is less negative than the FPN).

It was noted that, the Transmission Company is operating in line with its obligations and the Code, and the Settlement Calculations are being run in accordance with the Code. As the Transmission Company takes Bid – Offer Acceptances in line with the physical attributes of the BM Unit at the point of making the Acceptance, the anomaly is considered to be a Settlement issue in respect of the way Bid – Offer Acceptance volumes are calculated, rather than an issue with the way in which Bid – Offer Acceptances are taken and reported.

BGT indicated that they were considering raising a Modification Proposal in order to rectify the perceived defect and sought initial views of the SSMG on the issue. In particular whether the extent of the issue could potentially warrant the cost of implementing a solution.

It was confirmed by BGT that there was no intention to suggest a retrospective change addressing previous occurrences of the anomaly.

2. Group Discussions

The SSMG covered the following areas at the meeting:

- General discussion of the issue;
- Analysis of live occurrences;
- Potential for exploitation of the issue;

- Potential Solutions.

3. Points raised during general discussion of the issue

The SSMG agreed that there is a discrepancy in the way in which Bid Acceptance volumes are calculated where there has been a MEL re-declaration below the FPN before the Bid is instructed by the Transmission Company. However, the SSMG noted that the cost of amending the BSC Systems to correct this discrepancy may be material, and therefore an issue was raised as to the cost benefit of making such an amendment. Furthermore, it was noted that the costs of amending the central systems to address the defect identified would be a key factor in a Parties decision whether or not Modification Proposal should be raised in this area. It was noted that if Parties had this information prior to raising a Modification Proposal it would allow a more informed judgment to be made and potentially avoid the expenditure of taking any such Modification Proposal through the Modification Procedure when the implementation costs were restrictive.

It was agreed that an initial impact assessment (and therefore costing) should be obtained from the BSC Central Service Agent in order that the cost benefit aspect could be explored further. It was also agreed that the requirements specification and the impact assessment obtained thereon, should be consistent with those that would be necessary in the Modification Procedures, such that were a Modification Proposal to be raised, this effort would not be lost and could be used to inform the assessment of any such proposal.

It was noted that addressing the anomaly would have a consequential impact on the calculation of prices as it would affect the tagging of Bids within the NIV. It was the view of the SSMG that members of the Pricing Modification Group should be involved in the Modification Procedures for any Modification Proposal raised in this area.

It was noted by the SSMG that MEL is currently defined with the Grid Code and there is no commercial driver on MEL submissions. In order to address the issue it would be necessary to include MEL submissions within the Settlement calculation, this could place a commercial driver on, and affect Parties' approach to, such submissions. As a consequence, the SSMG noted there would be a potential impact on the use of MEL submissions by the Transmission Company.

The SSMG noted that Parties could be significantly impacted by the incorporation of MEL submissions into the Settlement calculation as their systems and process would require amendment in order to take into account MEL submissions when verifying Settlement calculations.

4. Analysis of live occurrences

In order to understand the materiality of the issue the SSMG considered initial analysis of live occurrences of the anomaly in 2003 provided by BGT and ELEXON.

It was noted that initial analysis indicated a number of occurrences over the 12 month period considered, (estimated of the order of 7,000). It was also noted that ELEXON's initial analysis had indicated that, over this period, affected Parties would have realised an estimated net benefit (comprising avoided imbalance charges and increased Bid Volumes) of the order of £1,500,000.

It was acknowledged by the SSMG that it was not possible to calculate the precise and that a number of assumptions had been made when producing these estimates. Furthermore, it was noted that, as a result of the assumptions made, the materiality would tend to be overestimated. As a result, it should be assumed that the actual materiality is at least 25% less than the estimates provided.

5. Potential exploitation of the issue

The SSMG considered the potential for exploiting the issue. It was the view of the SSMG that the

opportunity for a Party to gain a commercial advantage by targeting the anomaly would be limited for the following reasons:

- (1) It cannot be predicted whether the Transmission Company is going to take the Bid on that BM Unit;
- (2) The Bid Price would have to be favourable to the Transmission Company to make the Bid attractive and increase the possibility of it being called (potentially reducing the 'profit' for the BM Unit when the Bid is called outside of the circumstances when this issue arises);
- (3) The Bid Price would have to be below the SBP for there to be any advantage from re-declaring MEL below FPN; and
- (4) Even if a Bid is accepted, the overstated Bid Acceptance volume may not 'cover' the imbalance volume (i.e. FPN minus MEL), still exposing the Party to imbalance for the 'uncovered' volume;

It was also noted that the Transmission Company is aware of the issue and monitor MEL re-declarations and has procedures in place to check any such exploitation. Furthermore, the SSMG noted that ELEXON analysis of live occurrences did not show any indication of Parties exploiting the anomaly.

6. Potential Solutions

The SSMG discussed potential solutions and agree that, although the requirements were fairly clear at a high a level, the system and process changes required to implement any solution would be fairly extensive.

It was noted that there would be a significant impact associated with the inclusion of MEL into the Settlement Calculation. Furthermore, Central Systems would need amending in order to take into account the timings of MEL submissions. The SSMG also noted that the inclusion of MEL information within the Settlement calculation would impact Parties, as they would be required to take this information into account when verifying their individual positions.

7. Conclusions and way forward

The SSMG concluded that the complexities of addressing the issue could potentially outweigh the benefits. Therefore, it was agreed further analysis should be performed in order to determine whether or not a potential cost benefit existed which would support detailed consideration under the scope of a Modification Proposal. The following approach was agreed:

- ELEXON would provide an indicative estimation of the central cost of implementing a solution to the issue;
- ELEXON would provide further analysis of live occurrences, in particular an estimate of the impact on System Prices for a selection of affected Settlement Period;
- SSMG Members would provide a indicative view of the potential impact to individual Party systems of implementing a solution to the issue; and
- SSMG Members provide views on whether or not a potential cost benefit existed which would support detailed consideration under the scope of a Modification Proposal.

In conclusion BGT indicated that they would await the results of further analysis prior to determine whether or not to raise a Modification Proposal in this area.