

TERMS OF REFERENCE
(Version 1.0)

ANNEX FOR ISSUE 30 – CASH OUT ISSUES

1. ISSUE 30

1.1 The Issue 30 Group will consider Issue 30 pursuant to section F2.4 of the Balancing and Settlement Code.

1.2 The Issue 30 Group will aim to produce a Report for consideration at the BSC Panel Meeting on 10 April 2008.

1.3 The Group shall consider and/or include in its Report an accurate record of the:

Discussions on establishing a separate Balancing Market for half-hourly energy balancing¹

- **Consider** the model presented by Stephen Littlechild at the September 2007 Cash Out Review, and any others offered for discussion within the first three Issue 30 meetings;
- **List** the merits and potential issues of the models offered for discussion;
- Where the merit and issues cannot be identified, **identify** and **list** analysis that might assist this; and
- **Ascertain** the Group's view on whether such model(s) has merit for further development.

Discussions on dual cash out versus single cash out

- **Consider** previous discussions on dual vs single cash out pricing (e.g. NETA principles or previous modifications);
- **List** the pros and cons for each of:
 - Dual cashout pricing;
 - Single cashout pricing; and
 - Single cashout pricing with a small symmetric spread;
- Where pros and cons cannot be identified, **identify** and **list** analysis that might assist this;
- **Ascertain** the Group's view on whether anything has changed since the decision to have dual pricing that warrants change; and
- **Ascertain** the Group's view on whether single cashout pricing (or single cashout pricing with a small symmetric spread), has merit for further development.

Discussions on Spread

- **Consider** previous discussions and analysis on spread between main and reverse price (e.g. from previous Modifications);
- **List** what is undesirable about a spread that is too large and one that is too small;
- **Ascertain** the Group's view on what creates an incentive to balance, and the role of spread in achieving this. Does spread provide any other market signals?

¹ Note that this was originally raised as an issue of whether the Balancing Mechanism should be restricted to energy providers. However, it was agreed that establishing a separate Balancing Market for half-hourly energy balancing better captured the intention of the Proposer.

- **Ascertain** the Group's view on whether the current spread can be considered large and who is most impacted by it;
 - If so, **ascertain** a Group view on whether current spread is due to the main price being too severe, reverse price too benign, or a combination (and weighting) of both;
- **Ascertain** the Group's view on whether there is value in further consideration of spread; and
- Where analysis is required to ascertain views, **identify** and **list** what analysis this would be;

Discussions on Spread in Relation to RCRC and the Impact on Small Players

- **Consider** previous discussions and analysis on RCRC (e.g. from previous Modifications);
- **List** the reasons for how the structure of the current arrangements can result in RCRC disproportionately impacting different sized Parties;
- **List** what are the key elements to achieve the 'right level' of RCRC;
- Where analysis is required to ascertain views, **identify** and **list** what analysis this would be;
- **Ascertain** the Group's view on whether RCRC might have a materially detrimental impact on smaller Parties.

Discussions on BSAD

- **Consider** rationale for separate governance of cash out and BSAD (as is the case currently);
- **List** the benefits and issues with the current separate governance;
- Where benefits and issues cannot be identified, **identify** and **list** what analysis would assist this; and
- **Ascertain** the Group's view on whether there is a case for BSAD and cash out to be integrated and brought under single governance.

Discussions on Gate Closure

- **Consider** previous factors that determined the use of a 1 hour Gate Closure (e.g. from previous Modifications);
- **Identify** how changing Gate Closure would impact the cash out arrangements;
- **List** the benefits of reducing Gate Closure (and consider if this may be more beneficial in other market designs considered above);
- **List** the factors that would hinder reducing the timing of Gate Closure;
- Where benefits and issues cannot be identified, **identify** and **list** what analysis would assist this;
- **Consider** other markets with less than 1 hour Gate Closure to establish how security of supply is maintained; and
- **Ascertain** the Group's view on whether Gate Closure is an issue that would merit further development.

1.4 Whilst the Group may wish to consider each individual issue above on its own merits, consideration should also be given to the context of the other issues and the wider cash out arrangements.

1.5 The Group shall provide the Panel with a list of those issues that it believes warrant further consideration.