

<b>Modification Proposal – BSCP40/03</b>	MP No:314 <i>(mandatory by BSCCo)</i>
<b>Title of Modification Proposal:</b> Reduction in PAR from 500MWh to 350MWh	
<b>Submission Date:</b> 4 <sup>th</sup> September 2014	
<p><b>Description of Proposed Modification</b></p> <p>This Modification Proposal is submitted in order to assist National Grid in fulfilling the requirement of the direction to National Grid Electricity Transmission plc (NGET) by the Authority to raise modifications arising from the Electricity Balancing Significant Code Review (EBSCR) process.</p> <p>This modification proposes a slightly different implementation approach to the EBSCR than P304. It proposes to amend the main energy imbalance price calculation by reducing the PAR volume from 500MWh to 350MWh with an Implementation date of 2<sup>nd</sup> January 2015 and that PAR reverts to PAR 500 on 5<sup>th</sup> November 2015.</p> <p>The EBSCR identified that, and the P304 workgroup confirmed that reduced PAR values under a dual cashout regime does have adverse distribution effects especially at times of scarcity and the potential consequent effect on competition in the market. As a consequence many disadvantaged BSC Parties need time to alter their strategies and commercial positions and prepare for such a change, thus the proposed date of 2<sup>nd</sup> January 2015. The reduction to PAR350 is a modest step to ensure that any adverse distributional effects are fully understood by parties before further substantive reductions in PAR values are made.</p> <p>The EBSCR premised lower PAR values commensurate with single cashout, implementing lower PAR values with Dual cashout with the potential adverse distributional impacts among BSC players would lead to an inefficient market. The proposal therefore suggests that the proposal to move to PAR 350 is time limited in a manner that would allow single cashout to be introduced, or revert to PAR 500.</p> <p>This modification is broadly similar to P304 and allows the objectives of the EBSCR to be achieved but at a reduced risk for market participants.</p> <p>For the avoidance of doubt, this modification does not propose to make any changes to the Replacement PAR (RPAR), which is currently set at 100MWh.</p>	
<p><b>Description of Issue or Defect that Modification Proposal Seeks to Address</b></p> <p>The existing cash-out arrangements, which may have the effect of dampening cash-out price signals, may not provide sufficient signals to the market of the value of flexible capacity when margins are tight. As a result, cash-out price signals may have failed to create appropriate incentives for investment in flexible capacity (such as flexible generation, Demand Side Response (DSR) services and storage).</p> <p>A possible factor in this price dampening is the level of PAR. PAR is the maximum volume over which the weighted average of the most expensive energy actions (to the SO) are taken. This is currently set at 500MWh. Deriving a weighted average from a volume of 500MWh creates an imbalance price which does not reflect the marginal cost of balancing energy for a given Settlement Period. This is especially true at times of system stress when differences between the costs of accepted balancing actions are greatest.</p>	

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<p><b>Impact on Code</b></p> <p>BSC Section T.1.10.1 specifies the level of PAR, currently set to 500MWh; this figure would require amending to 350MWh on January 2<sup>nd</sup> 2015 and then back to 500MWh on November 5<sup>th</sup> 2015.</p>	
<p><b>Impact on Core Industry Documents or System Operator-Transmission Owner Code</b></p> <p>None identified</p>	
<p><b>Impact on BSC Systems and Other Relevant Systems and Processes Used by Parties</b></p> <p><i>None anticipated</i></p>	
<p><b>Impact on other Configurable Items</b></p> <p><i>None anticipated</i></p>	
<p><b>Justification for Proposed Modification with Reference to Applicable BSC Objectives</b></p> <p>The proposed modification would better facilitate Applicable BSC Objectives (b) and (c):</p> <p><i>(b) The efficient, economic and co-ordinated operation of the National Electricity Transmission System</i>  Making the main cash-out price signal more cost reflective strengthens the incentive on market participants to balance their positions ahead of Gate Closure, particularly during times of system stress. This should reduce the buy balancing actions required to be taken by the System Operator, but possibly increase the sell actions.</p> <p>Making cash-out prices sharper signals the commencement of reforms designed to better reflect the value of flexible plant in the balancing arrangements. It may therefore contribute to deferring the mothballing of flexible plant and help counteract potential tightening of margins.  Making cash-out sharper in steps starting with PAR350 this mid-winter, provides parties with the time required to get used to lower PAR values and to change behaviours accordingly.</p> <p><i>(c) 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</i>  Strengthening the energy imbalance price signal should incentivise market participants to trade to balance their positions ahead of Gate Closure, increasing liquidity in the forward market and benefitting competition by encouraging investment in flexible capacity (flexible generation, demand participation and other technologies). This needs to be offset against the adverse distributional impacts experienced by smaller participants and technologies in the market.</p>	
<p><b>Is there a likely material environmental impact?</b></p> <p><i>No</i></p>	

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<b>Urgency Recommended:</b>	
Yes	
<b>Justification for Urgency Recommendation</b>	
This modification is also proposed as Urgent to allow OFGEM to make a decision alongside modification P304 and provide additional certainty for market participants for the early part of the winter.	
<b>Self-Governance Recommended:</b>	
No	
<b>Justification for Self-Governance Recommendation:</b>	
N/A	
<b>Should this Modification Proposal be considered exempt from any ongoing Significant Code Reviews?</b>	
No ongoing SCRs (this proposed modification is consequential to the EBSCR).	
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<b>Attachments: No</b>	