

Phase

Initial Written Assessment

Definition Procedure

Assessment Procedure

Report Phase

Implementation

P342 'Change to Gate Closure for Energy Contract Volume Notifications'

This modification would introduce the concept of a 'Final Energy Contract Volume Notification (ECVN) Submission Time' for each Settlement Period. This time would be decoupled from the current Gate Closure time and would be set to 30 minutes after the end of the relevant Settlement Period.



ELEXON recommends P342 is progressed to the Assessment Procedure for an assessment by a Workgroup

This Modification is expected to impact:

- Balancing Settlement Code (BSC) Parties
- Energy Contract Volume Notification Agents (ECVNAs)
- The Energy Contract Volume Allocation Agent (ECVAA)

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About This Document

This document is an Initial Written Assessment (IWA), which ELEXON will present to the Panel on 9 June 2016. The Panel will consider the recommendations and agree how to progress P342.

There are two parts to this document:

- This is the main document. It provides details of the Modification Proposal, an assessment of the potential impacts and a recommendation of how the Modification should progress, including the Workgroup's proposed membership and Terms of Reference.
- Attachment A contains the P342 Proposal Form.



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1 Why Change?

What is Gate Closure?

Gate Closure is the point of time one hour prior to a Settlement Period by which all notifications relating to that Settlement Period must be submitted. This deadline is the point by which participants, mainly generators, must notify their Physical Notifications (PNs) and Bids and Offers for that Settlement Period to National Grid, acting as the System Operator.

Following Gate Closure the System Operator will carry out its balancing responsibilities through the Balancing Mechanism (BM). It will use its forecast of demand for the Settlement Period and the physical data submitted by participants to determine whether there is likely to be a surplus or deficit of electricity in the Settlement Period. The System Operator will then accept Bids and Offers as necessary to ensure that generation matches demand throughout the Settlement Period.

After Gate Closure, Parties are expected to adhere to the physical data submitted to the System Operator, in line with the Grid Code obligations. They should only deviate from this position at the instruction of the System Operator.

What are Energy Contract Volume Notifications?

ECVNs are submitted by BSC Parties via their ECVNAs to the ECVA. ECVNs are used to notify the ECVA of the volumes of any bilateral trades between two Parties. BSC Agents will then use this information when determining a Party's imbalance position. This information is not received by the System Operator, or used by it in any way in balancing the system.

A Party is required to submit its ECVNs for a particular Settlement Period by Gate Closure. This was reduced from 3.5 hours at NETA go-live to one hour in 2002, in order to permit bilateral contracting to continue as close to real time as possible.

What is the issue?

The Proposer believes explicit coupling of the time at which PNs and other parameters relating to the dispatch of plant are locked in, and the time at which ECVNs are locked in is unnecessary, reduces competition, and requires Parties to trade in a manner which is less efficient than might otherwise be the case.

[P305 'Electricity Balancing Significant Code Review Developments'](#) introduced a single, marginal imbalance price with the potential to rise to very high values in the event of scarcity of supply and the potential to fall to low or negative values in the event of extreme oversupply. In light of this, the Proposer believes there is a need to be able to transfer risk between Parties, from willing buyers to willing sellers, at a fair market price. They believe that if trading could continue past the current definition of Gate Closure up until a point where an indicative imbalance price has been published, this would allow efficient and effective transfer of risk, promoting competition in the sale and purchase of electricity.

The P305 reforms will, in the Proposer's view, increase the need to accurately predict the Net Imbalance Volume (NIV) and the marginal actions taken by the System Operator. The uncertainties associated with early hedging will likely result in wider spreads between Bids

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and Offers and lead to lower liquidity. As delivery approaches, greater certainty can be gained over the likely imbalance price. This is likely to result in a concentration of liquidity in the run up to market closure. The Proposer believes a later deadline for ECVN submission would improve this liquidity.

Furthermore, the Proposer considers that the single imbalance price allows Parties to simulate trading post-Gate Closure via another route. A financial deal could be struck between two Parties where the difference between the strike price and the imbalance price is passed between the 'buyer' and the 'seller'. However, these deals would potentially be subject to more onerous regulation as a financial product, and more onerous BSC credit requirements due to increases in imbalance cash flows.

The Proposer also notes the explicit coupling of time between Gate Closure and ECVNs submission deadline may create difficulty for future developments in intra-day trading using coupled European Union (EU) auctions. Under these proposals, trading up to one hour before a traded period must be allowed, but results may not be known until after the current definition of Gate Closure.

[Issue 35 'Timing of Gate Closure and Related Matters'](#), raised in 2008, touched upon this area. The Issue 35 Group was, however, primarily focussed on modifying the timing of Gate Closure for PNs as well as ECVNs. While the Issue 35 Group expressed concern that ex-post trading might not provide the correct incentives on Parties to manage their trading/imbalance, the P342 Proposer notes that the subsequent implementation of P305 raises this possibility without a requirement to submit the relevant ECVNs.

This Modification has been raised following [Issue 61 'Changes to Gate Closure for Energy Contract Volume Notifications'](#). The Issue 61 Group, by majority, concluded that the ECVN submission deadline should be extended from its current time of one hour before the Settlement Period begins. However, the Group did not agree on by how much the ECVNs submission deadline should be extended.

Proposed solution

[P342 'Change to Gate Closure for Energy Contract Volume Notifications'](#) was raised by EDF Energy on 25 May 2016. It proposes to introduce the concept of a 'Final ECVN Submission Time' for each Settlement Period. This time would be separate from the current Gate Closure time and would be set to 30 minutes after the end of the relevant Settlement Period (two hours later than the current deadline). This would permit energy trades to continue to be notified until the indicative imbalance price had been published on the Balancing Mechanism Reporting Service (BMRS) shortly after the end of the Settlement Period.

This Modification would need to amend references within the BSC from 'Gate Closure' to 'Final ECVN Submission Time' where those references are relevant to ECVN submissions or to trigger calculations, which refer to the Account Bilateral Contract Volume.

Applicable BSC Objectives

The Proposer believes that P342 will better facilitate **Applicable BSC Objective (c)** by permitting energy trading to continue past the current definition of Gate Closure up until a point where an indicative imbalance price has been published. This would allow efficient and effective transfer of risk.

The Proposer believes that with the introduction of a single, marginal imbalance price – with increased potential to rise to very high values in the event of scarcity of supply and the potential to fall to low or negative values in the event of extreme oversupply – there is a clear need to be able to transfer risk between Parties, between willing buyers and willing sellers, at a fair market price.

In addition this may also support **Applicable BSC Objective (e)** concerning compliance with European Regulations, if these require notification of intraday market transactions after the current GB Gate Closure time in the future.



What are the Applicable BSC Objectives?

(a) The efficient discharge by the Transmission Company of the obligations imposed upon it by the Transmission Licence

(b) The efficient, economic and co-ordinated operation of the National Electricity Transmission System

(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

(d) Promoting efficiency in the implementation of the balancing and settlement arrangements

(e) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency [for the Co-operation of Energy Regulators]

(f) Implementing and administering the arrangements for the operation of contracts for difference and arrangements that facilitate the operation of a capacity market pursuant to EMR legislation

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3 Areas to Consider

In this section we highlight areas which we believe the Panel should consider when making its decision on how to progress this Modification Proposal, and which a Workgroup should consider as part of its assessment of P342. We recommend that the areas below form the basis of a Workgroup's Terms of Reference, supplemented with any further areas specified by the Panel.

What is the most appropriate deadline for ECVN submissions?

The Issue 61 Group by majority agreed that the ECVN submission deadline should be later than its current time of one hour before Gate Closure. However, those members in favour of extending the deadline were split as to what the most appropriate time would be. Some members supported the deadline put forward by the P342 Proposer of 30 minutes after the end of the Settlement Period, while others considered it should be later still. A minority of the Issue 61 Group believed that the deadline should not be moved at this time.

The Workgroup should consider the arguments of the Issue 61 Group and determine the most appropriate deadline for ECVN submissions.

How may P342 impact liquidity in the market?

The Proposer believes that by extending the deadline there is opportunity for Parties to obtain more information on their position closer to real time, and this can help to reduce their balancing exposure. In addition, Half-Hourly (HH) metering could provide benefit further down the line if Parties were able to obtain real time Meter reads. This could allow Parties to monitor their positions in real time and better enable them to act accordingly.

However, some Issue 61 Group members expressed doubts on whether there would be any increase in liquidity and on how much this increase might be. Members felt it was more likely that liquidity would simply move forward closer (or into) real time in response to the later deadline.

We believe the Workgroup should discuss the potential impact of P342 on liquidity.

What change should be made on the credit calculations?

Under the current arrangements, a Settlement Period is added to the Credit Cover Percentage calculation at Gate Closure, when all ECVN submissions are final. The proposed solution would move the deadline for ECVN submissions back by two hours, until just after the indicative imbalance price for the Settlement Period became known. The Workgroup will need to consider whether the Credit Cover Percentage calculation should also be initiated later in line with the later ECVN submission deadline. If the Workgroup believes this should be the case then it should also consider whether the indicative imbalance price could be used in the Credit Cover Percentage calculation in place of the Credit Assessment Price (CAP).

What impact may there be on different types of participant?

The Workgroup should also discuss the impact of P342 on different types of participant. The Issue 61 Group considered that smaller participants may prefer greater certainty in prices, and may prefer the certainty of a traded price to taking a risk on the imbalance price. Allowing trading closer to real time could also benefit Parties who were less able to forecast their positions, enabling them to react to more accurate information on their position. As part of this, the Workgroup should consider any potential changes in behaviour that may arise from P342.

Should P342 be progressed as a Self-Governance Modification?

The Proposer has not suggested that P342 should be progressed as a Self-Governance Modification. However, we consider that P342 may meet the Self-Governance Criteria, should competition not be deemed to be materially impacted. Therefore we believe the Workgroup should discuss whether to progress P342 as a Self-Governance Modification, and provide a recommendation to the Panel in its Assessment Report.

Areas to consider

The table below summarises the areas we believe a Modification Workgroup should consider as part of its assessment of P342:

Areas to Consider
What is the most appropriate deadline for ECVN submissions?
How may P342 impact liquidity in the market?
Should any changes be made to the credit calculations? <ul style="list-style-type: none">Should the Credit Cover Percentage calculation be moved in line with the new ECVN submission deadline?Should indicative imbalance prices be used in the Credit Cover Percentage calculation if these are available?
What impact may there be on different types of participant?
What potential changes in participants' behaviour may arise as a result of P342?
Should P342 be progressed as a Self-Governance Modification?
What changes are needed to BSC documents, systems and processes to support P342 and what are the related costs and lead times?
Are there any Alternative Modifications?
Does P342 better facilitate the Applicable BSC Objectives than the current baseline?



What are the Self-Governance Criteria?

A Modification that, if implemented:

(a) is unlikely to have a material effect on:
(i) existing or future electricity consumers; and
(ii) competition in the generation, distribution, or supply of electricity or any commercial activities connected with the generation, distribution, or supply of electricity; and
(iii) the operation of the national electricity transmission system; and
(iv) matters relating to sustainable development, safety or security of supply, or the management of market or network emergencies; and
(v) the Code's governance procedures or modification procedures; and

(b) is unlikely to discriminate between different classes of Parties.

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4 Proposed Progression

Next steps

We recommend that the Modification is progressed to a six month Assessment Procedure for consideration by a Workgroup.

Workgroup membership

We recommend that the P342 Workgroup should comprise of any participants who are involved with the submission of contract notifications along with any other interested parties.

Timetable

We recommend that P342 undergoes a six month Assessment Procedure, meaning the Workgroup will submit the Assessment Report to the Panel at its meeting on 8 December 2016.

As part of the Assessment Procedure, the Workgroup will need to develop and consider the merits of the Proposed Modification (and any Alternative Modification it may wish to raise). We will issue the solution for industry consultation (15 Working Days duration) for industry to comment on the Proposed (and any Alternative) solution.

Proposed Progression Timetable for P342	
Event	Date
Present Initial Written Assessment to Panel	09 Jun 16
Workgroup Meeting	W/B 27 Jun 16
Industry Impact Assessment	18 Jul 16 – 05 Aug 16
Workgroup Meeting	W/B 30 Aug 16
Assessment Procedure Consultation	19 Sep 16 – 07 Oct 16
Workgroup Meeting	W/B 17 Oct 16
Present Assessment Report to Panel	08 Dec 16
Report Phase Consultation	09 Dec 16 – 30 Dec 16
Present Draft Modification Report to Panel	12 Jan 17
Issue Final Modification Report to Authority	13 Jan 17

5 Likely Impacts

Impact on BSC Parties and Party Agents

Party/Party Agent	Potential Impact
BSC Parties	Participants will be able to submit ECVNs up to 30 minutes after the end of a Settlement Period.
ECVNAs	

Impact on Transmission Company

None anticipated

Impact on BSCCo

None anticipated

Impact on BSC Systems and processes

BSC System/Process	Potential Impact
ECVAA	The ECVAA will receive ECVNs for a Settlement Period up to 30 minutes after the end of the Settlement Period.

Impact on Code

Code Section	Potential Impact
Section M	Changes will be required to implement this Modification.
Section P	
Section Q	
Section V	
Section X Annex X-1	

Impact on Code Subsidiary Documents

CSD	Potential Impact
ECVAA Service Description	Changes may be required to implement this Modification.
ECVAA User Requirements Specification	

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6 Recommendations

We invite the Panel to:

- **AGREE** that P342 progresses to the Assessment Procedure;
- **AGREE** the proposed Assessment Procedure timetable;
- **AGREE** the proposed membership for the P342 Workgroup; and
- **AGREE** the Workgroup's Terms of Reference.

Appendix 1: Glossary & References

Acronyms

Acronyms used in this document are listed in the table below.

Acronym	
BM	Balancing Mechanism
BMRS	Balancing Mechanism Reporting Service
BSC	Balancing Settlement Code (<i>industry Code</i>)
CAP	Credit Assessment Price (<i>parameter</i>)
ECVAA	Energy Contract Volume Allocation Agent (<i>BSC Agent</i>)
ECVN	Energy Contract Volume Notification (<i>contract notification</i>)
ECVNA	Energy Contract Volume Notification Agent (<i>Party Agent</i>)
EU	European Union
HH	Half-Hourly
IWA	Initial Written Assessment
NIV	Net Imbalance Volume
PN	Physical Notification

External links

A summary of all hyperlinks used in this document are listed in the table below.

All external documents and URL links listed are correct as of the date of this document.

External Links		
Page(s)	Description	URL
3	P305 page on the ELEXON website	https://www.elexon.co.uk/mod-proposal/p305/
4	Issue 35 page on the ELEXON website	https://www.elexon.co.uk/smg-issue/issue-35-timing-of-gate-closure-and-related-matters/
4	Issue 61 page on the ELEXON website	https://www.elexon.co.uk/smg-issue/issue-61/
5	P342 page on the ELEXON website	https://www.elexon.co.uk/mod-proposal/p342/