

Modification Proposal – BSCP40/03	MP No: P342 <i>(mandatory by BSCCo)</i>
Title of Modification Proposal	
Change to Gate Closure for Energy Contract Volume Notifications	
Submission Date	
03 May 2016	
Description of Proposed Modification	
<p>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. This would permit energy trades to continue to be notified until the indicative imbalance price had been set.</p> <p>This modification would additionally amend references within the Balancing Settlement Code (BSC) from ‘Gate Closure’ to ‘Final ECVN Submission Time’ where those references are relevant to ECVN submissions, or trigger calculations which refer to the Account Bilateral Contract Volume (including, for the avoidance of doubt, Energy Indebtedness calculations within BSC Section M).</p>	
Description of Issue or Defect that Modification Proposal Seeks to Address	
<p>The post-Gate Closure period is designed to allow the System Operator (SO) sufficient time to carry out its balancing function for and during relevant Settlement Periods. At the moment of Gate Closure, all ECVN submissions for that Settlement Period become final, along with Balancing Mechanism (BM) Unit Data submitted in line with Balancing Code (BC) 1 of the Grid Code (e.g. Physical Notifications (PNs) and Bid-Offer Data). The interval between Gate Closure and the start of the Settlement Period to which it applies was reduced from 3.5 hours at NETA go-live to 1 hour in 2002, in order to permit bilateral contracting to continue as close to real time as possible.</p> <p>The 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. It also creates difficulty for future developments in intra-day trading using coupled European Union (EU) auctions, for which trading up to 1 hour before a traded period must be allowed, but results may not be known until after the current definition of Gate Closure.</p>	
Impact on Code <i>(optional by originator)</i>	
Changes to at least BSC Sections M, P, Q, V and X will be necessary	

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<p>Impact on Core Industry Documents or System Operator-Transmission Owner Code <i>(optional by originator)</i></p> <p>As a result of this modification, any references to Gate Closure across Core Industry Documents would be required to be amended to refer to ‘Final ECVN Submission Time’ if relevant to ECVNs</p>	
<p>Impact on BSC Systems and Other Relevant Systems and Processes Used by Parties <i>(optional by originator)</i></p> <p>Changes to central Energy Contract Volume Allocation Agent (ECVAA) systems would be required to support the change. Parties wishing to use the revised functionality would need to change their systems and processes for ECVN submission</p>	
<p>Impact on other Configurable Items <i>(optional by originator)</i></p> <p>None anticipated</p>	
<p>Justification for Proposed Modification with Reference to Applicable BSC Objectives <i>(mandatory by originator)</i></p> <p>With the introduction of a single, marginal cashout 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. Permitting energy trading to continue past the current definition of Gate Closure up until a point where an indicative cashout price has been published would allow a more efficient and effective transfer of risk (including the potential to increase prompt liquidity) than the current arrangements, promoting BSC Objective (c) concerning competition and the sale and purchase of electricity. This may also support BSC Objective (e) concerning compliance with European Regulations, if these require notification of intra-day market transactions after the current GB Gate Closure time in the future. There should be no direct impact on BSC Objective (b) concerning efficient, economic and co-ordinated development and dispatch of the Transmission System, since Gate Closure for PNs and Bid-Offer Data would be maintained.</p> <p>Under the pre-P305 ‘Electricity Balancing Significant Code Review Developments’ ‘dual cashout’ trading arrangements, in the prompt market a typical asset-backed energy trader would enter into transactions in order to reduce their Earnings at Risk. Post event, the effectiveness of these hedges could be assessed by looking at the price of the hedge versus the alternative of not hedging and cashing out; and the accuracy of the traders’ forecast of their positions. Nearly all factors affecting these points had reducing variance as delivery approached, with the exception of the reverse price. This is because the Market Index Price (MIP), used to set the reverse price, is ‘sticky’, starts to be set 12 hours prior to Gate Closure and is impacted by two and four hour products.</p>	

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<p>Under those arrangements, the main cashout price was a worse option than trading at the MIP, and once sufficient volume had been traded, the MIP was unlikely to vary significantly. This meant that a trade executed at or near MIP was unlikely to be loss-making. In effect, certainty could increase prior to delivery with relatively little risk from the direction of Net Imbalance Volume reversing, and the Main Price switching from System Buy Price (SBP) to System Sell Price (SSP) or vice versa.</p> <p>The P305 reforms have increased the need to accurately predict Net Imbalance Volume (NIV), and the marginal actions taken by the SO, thus the uncertainties of early hedging have resulted in wider bid/offer spreads and lower liquidity until just before closure of the market. As delivery approaches, greater certainty can be gained over the likely cashout price, which leads to a concentration of liquidity in the run up to market closure.</p> <p>This proposal originates as a result of Issue 61 'Changes to Gate Closure for Energy Contract Volume Notifications'. The Issue Group, by majority, concluded that the ECVN submission deadline should be extended from its current time of one hour before the Settlement Period begins.</p>	
Is there a likely material environmental impact?	
No	
Urgency Recommended: No	
Justification for Urgency Recommendation	
Not Applicable	
Self-Governance Recommended: No	
Justification for Self-Governance Recommendation	
Not applicable	
Fast Track Self-Governance Recommended: No	
Justification for Fast Track Self-Governance Recommendation	
Not applicable	
Should this Modification Proposal be considered exempt from any ongoing Significant Code Reviews?	
No relevant ongoing SCRs in progress	

Details of Proposer:

Name: Richard Devenport

Organisation: EDF Energy

Telephone Number: 020 3126 2370

Email Address richard.devenport@edfenergy.com

Details of Proposer's Representative:

Name: Richard Devenport

Organisation: EDF Energy

Telephone Number: 020 3126 2370

Email address: richard.devenport@edfenergy.com

Details of Representative's Alternate:

Name: Martin Mate

Organisation: EDF Energy

Telephone Number: 01456 654366

Email address: martin.mate@edf-energy.com

Attachments: No