

May 2002

MODIFICATION REPORT
MODIFICATION PROPOSAL P72-
Correction of a Minor Inconsistency
in the BSC Arbitrage and Trade
Tagging Methodology

Prepared by ELEXON on behalf of the Balancing
and Settlement Code Panel

Document Reference	020MMU
Version no.	1.0
Issue	FINAL
Date of Issue	10 May 2002
Reason for Issue	Authority Decision
Author	ELEXON

I DOCUMENT CONTROL

a Authorities

Version	Date	Author	Signature	Change Reference
0.1	18/03/02	Emrah Cevik		
1.0	17/05/02	Change Delivery		

Version	Date	Reviewer	Signature	Responsibility
0.2	25/03/02	Change Delivery		
0.4	10/05/02	BSC Panel		

b Distribution

Name	Organisation
Each BSC Party	Various
Each BSC Agent	Various
The Gas and Electricity Markets Authority	Ofgem
Each BSC Panel Member	Various
energywatch	Energywatch
Core Industry Document Owners	Various

c Related Documentation

Reference	Document
Reference 1	Settlement Administration Agent (SAA) System Specification
Reference 2	Initial Written Assessment for Modification Proposal P72 'Half Hourly Receipt and Publication of BSAD'

d Intellectual Property Rights and Copyright

This document contains materials the copyright and other intellectual property rights in which are vested in ELEXON Limited or which appear with the consent of the copyright owner. These materials are made available for you to review and to copy for the purposes of the establishment, operation or participation in electricity trading arrangements in Great Britain under the BSC. All other commercial use is prohibited. Unless you are a person having an interest in electricity trading in Great Britain under the BSC you are not permitted to view, download, modify, copy, distribute, transmit, store, reproduce or otherwise use, publish, licence, transfer, sell or create derivative works (in whatever format) from this document or any information obtained from this document otherwise than for personal academic or other non-commercial purposes. All copyright and other proprietary notices contained in the original material must be retained on any copy that you make. All other rights of the copyright owner not expressly dealt with above are reserved.

II CONTENTS TABLE

I	Document Control	2
a	Authorities	2
b	Distribution	2
c	Related Documentation.....	2
d	Intellectual Property Rights and Copyright.....	2
II	Contents Table	3
1	Summary and Recommendations	4
1.1	Recommendation.....	4
1.2	Background.....	4
1.3	Rationale for Recommendations	5
2	Introduction	5
3	Purpose and Scope of the Report	5
4	History of Proposed Modification	6
5	Description of Proposed Modification	7
6	Legal Text to Give Effect to the Proposed Modification	7
6.1	Conformed Version	7
6.2	Clean Version	7
7	Assessment	7
8	Summary of Representations	7

1 SUMMARY AND RECOMMENDATIONS

1.1 Recommendation

On the basis of the analysis and consultation undertaken in respect of this Modification Proposal and the resultant findings of this report, the BSC Panel recommends:

That the Proposed Modification, as set out in Section 6 of this Modification Report, be approved with an Implementation Date that is five Business Days after the Authority's decision.

1.2 Background

Modification Proposal P72 was raised by the BSC Panel on 14 March 2002, following a recommendation from ELEXON. It seeks to rectify a minor inconsistency in the BSC Arbitrage and Trade Tagging Methodology.

As endorsed by the Imbalance Settlement Group (ISG) on 26 February 2002, ELEXON recommended to the Panel and the Panel agreed, that this Modification Proposal meets the conditions set out in Section F2.1.1 paragraphs (i) and (iv) of the BSC, and in particular that it facilitates Applicable Code Objective C3(d) of the Transmission License, as it would be useful in "promoting efficiency in the implementation and administration of the balancing and settlement arrangements."

P72 seeks to address a minor issue that was first noted during the final stages of the NETA Programme. Clarification was given by the NETA Programme to the Central Service Provider that the tagging methodology should be implemented in BSC Central Systems as described in this Modification Proposal. As a result, the Settlement Administration Agent (SAA) System Specification is already consistent with Modification Proposal P72¹. However, the BSC itself was not changed at the time to reflect this clarification. Modification Proposal P72 seeks to incorporate the clarification within Annex T-1 of the BSC.

The issue concerns the current wording of Annex T-1, which provides a high-level specification of the algorithms to be performed during arbitrage and trade tagging. Annex T-1 requires the contents of certain sets of Accepted Offers (or Bids) to be ranked in decreasing or increasing price order, depending on the calculation being performed. If several of these Offers (or Bids) have the same price as each other, the BSC states that the ranking of such Offers (or Bids) will be random.

Under the current wording of the BSC, any arbitrage or trade tagging would take place sequentially, based on the relevant ranking. If several accepted Offers (or Bids) had the same price as each other and if the Transmission Loss Multipliers (TLMs) assigned to the Balancing Mechanism Units (BMUs) submitting these Offers (or Bids) were different, then Energy Imbalance Prices would in general be sensitive to the random ranking of such Offers (or Bids.) As a consequence, Energy Imbalance Prices could change randomly and spuriously between settlement runs.

Modification Proposal P72 proposes that if several Offers (or Bids) have the same price as each other and if any one of them is in line for arbitrage or trade tagging according to the

¹ The SAA System Specification states (Section 4.3.10): "If a number of BM units have the same price and only some of the associated volume is removed by arbitrage or notional reserve, all bid/offer volumes at that price are reduced by the same proportion."

relevant price ranking as described in Annex T-1, then each equally priced Offer (or Bid) will be tagged in proportion to its accepted volume. In other words, when the ranking of several Offers (or Bids) is random, the tagging algorithms will not respect this random ranking. Instead, they will tag each equally priced Offer (or Bid) in proportion to its accepted volume.

Given that the SAA System Specification is already consistent with Modification Proposal P72, it is not expected that any changes to BSC Central Systems or associated documentation (beyond the change to the BSC itself) will be required to implement this modification.

1.3 Rationale for Recommendations

During their meeting on 18 April 2002, the Panel concluded that Modification Proposal P72 is of a minor and inconsequential nature, and that the Panel's recommendation for acceptance should be considered as self-evident. The Panel therefore decided that P72 should be submitted directly to the Report Phase, in accordance with Section F2.2.4 of the BSC. The Panel also noted that BSC Central Systems had been consistent with Modification Proposal P72 since NETA Go-Live and expressed their view that an Implementation Date of Authority Decision + 5WD would be a pragmatic way forward for P72.

As a result, the Panel directed ELEXON to produce and consult on a draft Modification Report containing the recommendation that this Modification be made with an Implementation Date of Authority Decision + 5 WD.

On 16 May 2002, the Panel noted that seven out of the eight consultation responses supported Modification Proposal P72 whilst the remaining one response was 'No comment.' On this basis, the Panel reconfirmed their view that Modification Proposal P72 would better facilitate the achievement of Applicable BSC Objective C3(d).

2 INTRODUCTION

This Report has been prepared by ELEXON Ltd., on behalf of the Balancing and Settlement Code Panel ('the Panel'), in accordance with the terms of the Balancing and Settlement Code ('BSC'). The BSC is the legal document containing the rules of the balancing mechanism and imbalance settlement process and related governance provisions. ELEXON is the company that performs the role and functions of the BSCCo, as defined in the BSC.

This Modification Report is addressed and furnished to the Gas and Electricity Markets Authority ('the Authority') and none of the facts, opinions or statements contained herein may be relied upon by any other person.

An electronic copy of this document can be found on the BSC website, at www.elexon.co.uk

3 PURPOSE AND SCOPE OF THE REPORT

BSC Section F sets out the procedures for progressing proposals to amend the BSC (known as 'Modification Proposals'.) These include procedures for proposing, consulting on, developing, evaluating and reporting to the Authority on potential modifications. This report has been drafted in accordance with the obligations set out in Section F of the Code.

4 HISTORY OF PROPOSED MODIFICATION

Modification Proposal P72 was raised by the BSC Panel on 14 March 2002, following a recommendation from ELEXON. As endorsed by the Imbalance Settlement Group (ISG) on 26 February 2002, ELEXON recommended to the Panel and the Panel agreed, that this Modification Proposal met the conditions set out in Section F2.1.1 paragraphs (i) and (iv) of the BSC, and in particular that it facilitated Applicable Code Objective C3(d) of the Transmission License, as it would be useful in “promoting efficiency in the implementation and administration of the balancing and settlement arrangements.”

Modification Proposal P72 proposes that if several Offers (or Bids) have the same price as each other and if any one of them qualifies for arbitrage or trade tagging according to the relevant price ranking as described in Annex T-1, then each equally priced Offer (or Bid) will be tagged in proportion to its accepted volume. In other words, when the ranking of several Offers (or Bids) is random, the tagging algorithms will not respect this random ranking. Instead, they will tag each equally priced Offer (or Bid) in proportion to its accepted volume.

The Panel considered the Initial Written Assessment for Modification Proposal P72 (Reference 2) on 18 April 2002 and concluded that P72 is of a minor and inconsequential nature. The Panel also agreed that given the nature and history of this proposal the Panel's recommendation for acceptance should be considered as self-evident. The Panel therefore decided that P72 should be submitted directly to the Report Phase in accordance with Section F2.2.4 of the BSC².

The Panel also noted that BSC Central Systems had been consistent with Modification Proposal P72 since NETA Go-Live and expressed their view that an Implementation Date of Authority Decision + 5WD would be a pragmatic way forward for P72.

On 25 April 2002, ELEXON issued a draft Modification Report, containing the recommendation that Modification Proposal P72 should be approved with the Implementation Date of Authority Decision + 5WD. This was issued for consultation allowing 10 Working Days for responses. As part of the consultation process, ELEXON explicitly asked BSC Parties to express any views that they might have about the proposed Implementation Date.

Eight responses (on behalf of twenty-four parties) were received in response to the consultation on the draft Modification Report. In summary, seven responses supported the proposed Modification and the Panel's recommendations, whilst one response was 'No comment'. The responses contained no new substantive arguments. The proposed Implementation Date was seen as the most pragmatic option by all BSC Parties that supported the modification.

During their meeting on 16 May 2002, the Panel considered the draft Modification Report for P72, including all consultation responses received from BSC Parties. On this basis, the Panel reconfirmed their view that Modification Proposal P72 would better facilitate the

² Whilst it was recognised that there might be alternative ways of amending the BSC, the Panel felt that the aim of Modification Proposal P72 is to rectify a minor problem in Annex T-1 and to ensure consistency with the current software implementation within BSC Central Systems. If any Party would like to propose an alternative tagging methodology, such a Party could raise a new modification proposal and this could then be assessed against Applicable BSC Objectives. However, so far as Modification Proposal P72 itself is concerned, the Panel believed that their recommendation for acceptance should be considered as self-evident.

achievement of Applicable BSC Objective C3(d), which concerns “promoting efficiency in the implementation and administration of the balancing and settlement arrangements.”

The Panel decided to endorse the recommendations of the draft report and the proposed legal text. The Panel also reiterated that the issue addressed by Modification Proposal P72 was inconsequential and that the Panel’s recommendation for approval should be considered self-evident.

In the interests of transparency, the Panel asked that the Modification Report should note the fact that P72 (if approved by the Authority) would only apply prospectively and that a minor inconsistency between BSC Central Systems and the BSC itself would remain for the period between Go-Live and the Implementation Date for this modification. However, the Panel also wished to note that, given the results of the consultation process and the inconsequential nature of the inconsistency addressed by this modification, they did not expect any material errors to arise as a result of the prospective implementation of P72.

5 DESCRIPTION OF PROPOSED MODIFICATION

Modification Proposal P72 proposes that if several Offers (or Bids) have the same price as each other and if any one of them qualifies for arbitrage or trade tagging according to the relevant price ranking as described in Annex T-1, then each equally priced Offer (or Bid) will be tagged in the same proportion. In other words, when the ranking of several Offers (or Bids) is random, the tagging algorithms will not respect this random ranking. Instead, they will tag each equally priced Offer (or Bid) in proportion to its accepted volume.

6 LEGAL TEXT TO GIVE EFFECT TO THE PROPOSED MODIFICATION

6.1 Conformed Version

See Annex A.

6.2 Clean Version

See Annex B.

7 ASSESSMENT

The implementation of Modification Proposal P72 would impact the following:

- BSC Annex T-1; and
- ELEXON’s Trading Operations Monitoring and Analysis System (TOMAS).

As noted in Section 1.2 of this document, the SAA System Specification has been consistent with Modification Proposal P72 since NETA Go-Live. Therefore, it is not expected that any changes to BSC Central Systems or associated documentation (beyond the change to the BSC itself) will be required to implement Modification Proposal P72.

8 SUMMARY OF REPRESENTATIONS

Eight responses (on behalf of twenty-four parties) were received in response to the consultation on the draft Modification Report. In summary, seven responses supported the

proposed Modification and one response was 'no comment'. The responses contained no new substantive arguments.

The complete text of the responses may be found in Annex C of this document.