

November 2001

## **Modification Proposal P45 Consultation**

**Modification Proposal P45, Introduction of Price Adjusters  
for Settlement Days 5 April 2001 to 24 September 2001**

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## I DOCUMENT CONTROL

### a Authorities

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Version	Date	Reviewer	Signature	Responsibility
0.2	14/11/01	Pricing Issues Modification Group		For Review

Version	Date	Approver	Signature	Responsibility
1.0	20/11/01	Trading Strategy		For consultation

Version	Date	Authorisation	Signature	Responsibility
1.0	20/11/01	Justin Andrews		Modification Group Chairman

### b Distribution

Name	Organisation
Pricing Issues Modification Group	
Parties	
BSC Parties	
Party Agents	

### c Change History

- 0.1 for ELEXON review
- 0.2 for Pricing Issues Modification Group review
- 1.0 for Consultation

### d Changes Forecast

None

### e Related Documents

### f Intellectual Property Rights and Copyright

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## 1 INTRODUCTION

At its meeting on 31 October 2001, the BSC Panel reviewed the Initial Written Assessment of Modification Proposal P45, "Introduction of Price Adjusters for Settlement Days 5 April 2001 to 24 September 2001". The BSC Panel agreed that this proposal should be submitted to the Pricing Issues Modification Group under the Assessment Procedure as described in section F2.6 of the Balancing and Settlement Code. A copy of the Initial Written Assessment of Modification Proposal P45, which includes a copy of Modification Proposal P45 in Annex 1, can be found on the BSC website at [www.elexon.co.uk](http://www.elexon.co.uk).

The Panel agreed that the Modification Group should: -

- Consider the issues raised by the Modification Proposal;
- Consult explicitly on the retrospective application of the changes that were introduced for Modification Proposal P08;
- Consider any possible Alternative Modifications;
- Recommend whether the Modification Proposal or an Alternative Modification should be implemented.

The Pricing Issues Modification Group must prepare a written report for the Panel that includes the following matters (see BSC Annex F-1):

- (a) an analysis of whether the Proposed Modification or any Alternative Modification would better facilitate achievement of the Applicable BSC Objectives;
- (b) an assessment or estimate (as the case may be) of the impact of the Proposed Modification and any Alternative Modification on BSC Systems, processes and costs;
- (c) an assessment of the impact of the Proposed Modification and any Alternative Modification on Core Industry Documents;
- (d) an assessment of the impact of the Proposed Modification and any Alternative Modification on Parties in general (or classes of Parties in general) and Party Agents in general, including the changes which are likely to be required to their internal systems and processes and an estimate of the development, capital and operating costs associated with implementing the changes to the Code and to Core Industry Documents;
- (e) an assessment of the Proposed Modification and any Alternative Modification in the context of the statutory, regulatory and contractual framework within which the Code sits (taking account of relevant utilities, competition and financial services legislation);
- (f) the Modification Group's proposed Implementation Date(s) for implementation (subject to consent of the Authority) of the Proposed Modification and any Alternative Modification.

## 2 MODIFICATION GROUP DETAILS

This Consultation Paper has been prepared by ELEXON for the Pricing Issues Modification Group following a meeting of the group on 6 November 2001. The Membership of the Modification Group that considered Modification Proposal P45 was as follows:

Justin Andrews	ELEXON (Chairman)
Tony Doherty	Ofgem
Daniella Lane	British Gas
Maurice Smith	Campbell Carr
Martin Mate	British Energy
Nick Sillito	NGC
Richard Ford	St Clements Services
Chris Price	PowerGen
Raoul Thulin	Innogy
Richard Clarke	ELEXON (Secretary)

In Attendance:

Wayne Mullins	St Clements Services
Richard Grimsey	ELEXON (P45 Lead Analyst)

### **3 MODIFICATION PROPOSAL P45**

#### **3.1 Background to Modification Proposal P45**

Modification Proposal P45 was submitted by the Panel on 31 October 2001. The Modification Proposal seeks to implement the Price Adjusters for System Sell Price (SSP) and System Buy Price (SBP) into the BSC Systems and to replace Workaround W024 for Settlement Days 5 April 2001 to 24 September 2001.

The setting of SSP and SBP was originally described in the Balancing and Settlement Code (BSC) and calculated using the audited central systems. Modification Proposal P03 proposed the removal of price spikes caused by the treatment of option fees associated with Standing Reserve contracts that NGC enters into. The Authority decided that Modification Proposal P03 should not be implemented. Instead the Authority directed NGC to amend the BSAD Methodology Statement to include a price adjuster for SSP and SBP and to include a methodology to recalculate Buy Price Cost Adjustment (BCA) and Sell Price Cost Adjustment (SCA) to include the effect of the additional data items. This was implemented quickly as an interim solution via Workaround W024 that is described in the BSAD Methodology Statement of 10 April 2001. In ruling on Modification Proposal P03, the Authority recommended that a full solution within the BSC should be developed as a matter of urgency.

On 20 April 2001, NGC proposed Modification Proposal P08 to provide an enduring solution that calculated imbalance prices within BSC Systems and would replace Workaround W024. The Assessment Report prepared by the Modification Group for Modification Proposal P08 recommended an Implementation Date of 5 April 2001. However, the Implementation Date was revised during the Report Phase (following consultation) to 25 September 2001. The Authority subsequently agreed that Modification Proposal P08 should be implemented in the BSC with effect from Settlement Day 25 September 2001. This means that Workaround W024 continues to apply for Settlement Days 5 April 2001 to 24 September 2001.

The Panel raised Modification Proposal P45 as it considered that it would better facilitate Condition 7A(3)(d) of the Transmission Licence as it would "promote efficiency in the implementation and administration of the balancing and settlement arrangements" through removing a temporary workaround which has high risks, is prone to error and had additional operational costs. Modification Proposal P45 seeks to replace Workaround W024 by the BSC changes implemented for Modification Proposal P08 for Settlement Days 5 April to 24 September 2001. This will ensure that Settlement Days 5 April 2001 and 24 September 2001 are settled on system prices that include the Price Adjusters using the audited central systems.

#### **3.2 The Modification Group's Views on Modification Proposal P45**

The Pricing Issues Modification Group considered Modification Proposal P45 at a meeting on 6 November 2001. In particular the Modification Group considered whether the Modification Proposal would better facilitate the Applicable BSC Objectives. The Applicable BSC Objectives are set out in paragraph 3 of Condition 7A of the Transmission Licence and are as follows:

- (a) The efficient discharge by the Transmission Company of the obligations imposed under the Transmission Licence;
- (b) The efficient, economic and co-ordinated operation by the Transmission Company of the 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 and administration of the balancing and settlement arrangements.

The Modification Group felt that implementation of the Modification Proposal would remove the need for Workaround W024 to operate for Settlement Days 5 April 2001 to 24 September 2001. This would reduce operational costs, increase the accuracy of imbalance price calculations, reduce the risks of imbalance price errors and, in particular, correct any errors in imbalance price calculations carried out under Workaround W024<sup>1</sup>. In the Modification Group's view, these improvements would better facilitate the Applicable BSC Objectives in that it met the objective of "Promoting efficiency in the implementation and administration of the Balancing and Settlement arrangements".

The Modification Group agreed that the Modification Proposal would also require modification of NGC's Balancing Services Adjustment Data (BSAD) Methodology Statement. The consultation process required for changes to the BSAD Methodology Statement would have to be authorised by the Authority and would need to be carried out separately from, but in parallel with, the consultation process for the Modification Proposal.

If the Modification Proposal were to be implemented, it would mean that the changes implemented for Modification Proposal P08 would be implemented retrospectively for any Settlement Runs for Settlement Days 5 April 2001 to 24 September 2001 that are after the Implementation Date. The Authority has provided its indicative views in the Decision Letter for Modification Proposal P19 on the issue of retrospective changes to the BSC. In relation to Modification Proposal P19 Ofgem took the view that BSC Parties would generally prefer the assurance of rules that are not changed retrospectively. However, Ofgem also recognised that there are particular circumstances that could give rise to the need for a retrospective Modification including: -

- A situation where the fault or error occasioning the loss was directly attributable to central arrangements;
- Combinations of circumstances that could not have been reasonably foreseen; or
- Where the possibility of a retrospective action had been flagged to the participants in advance, allowing the detail and process of the change to be finalised with retrospective effect.

In any event the loss sustained would have to be material.

The Modification Group felt that Modification Proposal P45 itself, together with the Assessment Procedure, would make the retrospective nature of the Modification Proposal clear to all participants. The Modification Group also took the view that the operational

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<sup>1</sup> The Assessment Report for Modification Proposal P08 provides details of the operational costs and inaccuracies involved in using Workaround W024. A copy of the Assessment Report can be found on the BSC website at [www.elexon.co.uk](http://www.elexon.co.uk).

loss sustained by continuing the use of Workaround W024 at a monthly cost of about £10k together with the resulting risk of inaccuracy and error in imbalance prices did constitute a material loss. In addition, any resulting change in prices from implementing the Modification Proposal should be due to the removal of an incorrect application of Workaround W024.

It is not clear at this stage what additional steps would be required by ELEXON or the Central Service Provider to ensure that prices for Final Reconciliation for Settlement Days 5 April to 24 September 2001 are auditable should the Modification Proposal not be approved but any such steps could be costly. In addition, if the Modification Proposal fails to be approved a further consultation on the BSAD Methodology Statement would probably be needed.

#### **4 ALTERNATIVES IDENTIFIED BY MODIFICATION GROUP**

The Modification Group considered whether there were any Alternative Modifications and agreed that there were none.

## 5 CONSULTATION AND HIGH LEVEL IMPACT ASSESSMENT

As required by its terms of reference, the Pricing Issues Modification Group is carrying out a consultation and high level impact assessment on the Modification Proposal. Attachment 1 provides the consultation questions. Attachment 2 provides the high level impact assessment questions.

Please send your response **by 5pm on Tuesday 4 December 2001** to the following e-mail address: [modifications@elexon.co.uk](mailto:modifications@elexon.co.uk). Please entitle your e-mail 'P45 Consultation Response'.

## ATTACHMENT 1: - MODIFICATION PROPOSAL P45 CONSULTATION QUESTIONS

Name:

Organisation:

Response provided on behalf of the following Parties:

Question	Response
<b>Q1</b> To what extent do you believe the Modification Proposal better facilitates the Applicable BSC Objectives.	
<b>Q2</b> Do you believe that the BSC be changed to require Price Adjusters to be applied retrospectively for Settlement Days 5 April 2001 to 24 September 2001.	

## **ATTACHMENT 2: - MODIFICATION PROPOSAL P45 HIGH LEVEL IMPACT ASSESSMENT**

When responding would you describe the impact on your processes and systems of implementing Modification Proposal P45, in particular the timescales for implementation of the proposed changes in your organisation, using the forms overleaf.

The implementation of Modification Proposal P45 will / will not impact on our systems and processes.

We would require \_\_\_days notice to implement the necessary changes.

Comments:

Name: \_\_\_\_\_

Organisation: \_\_\_\_\_

Response provided on behalf of: \_\_\_\_\_

Date: \_\_\_\_\_