

February 2002

**MODIFICATION REPORT**  
**MODIFICATION PROPOSAL P45**  
**Introduction of Price Adjusters for**  
**Settlement Days 5 April 2001 to 24**  
**September 2001**

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

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### b Distribution

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Each BSC Panel Member	Various
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## 1 SUMMARY AND RECOMMENDATIONS

### 1.1 Recommendation

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

**Modification Proposal P45 should be approved and should be implemented on 27 March 2002 or 5 days after the date of the Authority's determination, whichever is the later, and be effective for Settlement Days 5 April 2001 to 24 September 2001 inclusive.**

It should be noted that, were an Authority determination not be forthcoming in time to implement the solution on 27 March 2002, it is anticipated that preparatory work will have to be initiated to make Workaround W024 more robust. It is likely that this preparation will incur costs that prove to be nugatory should a decision be forthcoming after 27 March 2002.

### 1.2 Background

Modification Proposal P3: "Correction of Price Spikes Generated by De-Minimus NGC Purchases" was raised by Electricity Direct on 27 March 2001. Modification Proposal P03 proposed changes to the Balancing and Settlement Code (BSC) that would cap the maximum contribution that the option fees were permitted to make to System Buy Price (SBP) at 25%. In April 2001 the Authority issued a determination that no modification to the BSC was required, on the basis that the issue would be addressed by amending NGC's Balancing Services Adjustment Data (BSAD) Methodology.

The Authority directed NGC to amend the BSAD Methodology to include price adjusters for System Sell Price (SSP) and SBP, the Buy Price Price Adjuster (BPA) and the Sell Price Price Adjuster (SPA). In addition, a mechanism was included to recalculate the Buy Price Cost Adjustment (BCA) and Sell Price Cost Adjustment (SCA) to include the effect of the additional data items. This mechanism was implemented via Workaround W024. Workaround W024 was only intended to be temporary measure and involves operational costs and inaccuracies<sup>1</sup>.

On 20 April 2001, NGC raised Modification Proposal P8 to provide an enduring solution that proposed to include the Price Adjusters, BPA and SPA within the BSC and the BSC Systems. It was the proposer's intention that Modification Proposal P8 have an Implementation Date of Settlement Day 5 April 2001. However, the Authority subsequently agreed that Modification Proposal P8 should be implemented in the BSC with effect from the Settlement Day of 25 September 2001<sup>2</sup>. This means that Workaround W024 continues to apply to reconciliation runs for Settlement Days 5 April 2001 to 24 September 2001 inclusive.

Modification Proposal P45, which was raised by the Panel because of the concerns raised about Workaround W024, proposes replacing the Workaround by the BSC changes implemented for Modification Proposal P8 for these Settlement Days. The change is also necessary because paragraph U2.1.3 of the BSC means that settlement is run on a Settlement Day (not a calendar day) basis unless the particular Code Modification says otherwise. Both Workaround W024 and Modification Proposal P8

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<sup>1</sup> The Initial Written Assessment for Modification Proposal P8 provides details of the operational costs and inaccuracies involved in using Workaround W024. A copy of the Initial Written Assessment can be found on the BSC website at [www.elexon.co.uk](http://www.elexon.co.uk).

<sup>2</sup> The Modification Report and the Authority's decision letter for Modification Proposal P8 describe the background to the decision to implement P8 on 25 September 2001 and can be found on the BSC website at [www.elexon.co.uk](http://www.elexon.co.uk).

attempt to achieve the same imbalance prices. Modification Proposal P45 is aimed at achieving accuracy of imbalance price calculations and the avoidance or rectification of erroneous calculations for the Settlement Days concerned. The net effect of introducing the Modification Proposal is intended to be zero, when taking into account the parallel changes to NGC's Balancing Services Adjustment Data (BSAD) Methodology statement.

### **1.3 Rationale for Recommendations**

Implementation of the Modification Proposal would remove the need for Workaround W024 and 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>3</sup> for Settlement Days 5 April 2001 to 24 September 2001 inclusive. Implementation of the Modification Proposal would also improve the transparency of the calculation of SSP and SBP for Settlement Days 5 April 2001 to 24 September 2001 inclusive, move the process into the BSC Systems for these Settlement Days and ensure that these Settlement Days are reconciled on system prices that include the BPA and SPA.

The Panel agreed that, in the light of the considerations above, the Modification Proposal would better facilitate achievement of the Applicable BSC Objectives defined in Condition C3 of the Transmission Licence, particularly Condition C3(3)(d), as it would "promote efficiency in the implementation and administration of the balancing and settlement arrangements".

The Panel noted that the enduring solution for Modification Proposal P08 would be implemented in the BSC Systems with effect from 27 March 2002. It was BSCCo's view that it would be most appropriate and cost effective for Modification Proposal P45 to be implemented within the software at the same time as the changes for Modification Proposal P8 on 27 March 2002. BSCCo recognised that it was not essential for Modification Proposal P45 to be implemented by 27 March 2002. However, it was essential that Modification Proposal P45 was implemented before the Final Reconciliation Run for Settlement Day 5 April 2001 which would be carried out in late May 2002. In addition, should the Modification Proposal not be agreed by the Authority, time would be needed to put in place the necessary changes to allow the Final Reconciliation Run on Workaround W024. In view of these concerns the Panel agreed that Modification Proposal P45 should be implemented on 27 March 2002.

The Panel noted that the Modification, if approved, would be retrospective but it felt that the retrospective nature of the Modification Proposal fell within the guidelines outlined in the Authority's decision document for Modification Proposal P19. It was also satisfied that this had been made clear to Parties during the Assessment Procedure and in the consultation and impact assessment carried out by the Modification Group. The Panel also

The Panel also noted that if the Authority did not approve the Modification, ELEXON would need to carry out additional work to develop a robust mechanism to replace Workaround W024. This work would need to start no later than 27 March 2002 if the robust mechanism is to be in place by final reconciliation for Settlement Day 5 April 2001 that will be on 28 May 2002. The Panel noted that the parallel modifications being carried out by NGC on changes to the BSAD Methodology Statement had an equal and opposite effect to the changes proposed by Modification Proposal P45.

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<sup>3</sup> The Initial Written Assessment for Modification Proposal P8 provides details of the operational costs and inaccuracies involved in using Workaround W024. A copy of the Initial Written Assessment can be found on the BSC website at [www.elexon.co.uk](http://www.elexon.co.uk).

## 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 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](http://www.elexon.co.uk)

## 3 HISTORY OF PROPOSED MODIFICATION

Modification Proposal P45 was submitted by the Panel on 18 October 2001. The Panel meeting on 31 October 2001 submitted the Modification Proposal to the Assessment Procedure for consideration by the Pricing Issues Modification Group. The Modification Group held meetings on 6 November and 6 December 2001 to consider the Modification Proposal and prepared an Assessment Report that recommended that the Modification Proposal be approved. The Modification Group noted the retrospective implementation date of the Modification Proposal and this was brought to the attention of interested parties by the Modification Group during the consultation carried as part of the assessment Procedure. The Panel meeting on 17 January 2002 considered the Assessment Report and agreed that a draft Modification Report be prepared for consultation containing a recommendation to the Authority that the Modification Proposal should be approved and should be implemented on 27 March 2002 and effective for Settlement Days 5 April 2001 to 24 September 2001 inclusive.

## 4 DESCRIPTION OF PROPOSED MODIFICATION

The Modification Proposal seeks to implement retrospectively the Price Adjusters for SSP and SBP into the BSC Systems and to replace Workaround W024 for Settlement Days 5 April 2001 to 24 September 2001 inclusive.

The setting of SSP and SBP was originally described in the BSC and calculated using the audited BSC Systems. Modification Proposal P3 proposed the removal of price spikes caused by the treatment of option fees associated with Reserve contracts that the Transmission Company enters into. The Authority decided that Modification Proposal P3 should not be implemented. Instead the Authority directed the Transmission Company to amend the BSAD Methodology Statement to include a price adjuster for SSP and SBP and to include a methodology to recalculate BCA and SCA to include the effect of the additional data items. This was implemented quickly as an interim solution via Workaround W024 that is described within the BSAD Methodology Statement of 10 April 2001.

Modification Proposal P8 proposed that imbalance prices should be calculated within BSC Systems and was intended to replace Workaround W024. Modification Proposal P8 was originally intended to be implemented for Settlement Day 5 April 2001 onwards. However, the Implementation Date was revised during the Report Phase (following consultation) to 25 September 2001 so as to avoid objection about the retrospective application of the Modification Proposal<sup>4</sup>.

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<sup>4</sup> The Modification Report and the Authority's decision letter for Modification Proposal P8 describe the background to the decision to implement P8 on 25 September 2001 and can be found on the BSC website at [www.elexon.co.uk](http://www.elexon.co.uk).

Modification Proposal P45 seeks to replace Workaround W024 by the BSC changes implemented for Modification Proposal P8 for Settlement Days 5 April to 24 September 2001 inclusive. This will ensure that Settlement Days 5 April 2001 and 24 September 2001 inclusive are reconciled on system prices that include the Price Adjusters using the audited central systems. Both Workaround W024 and Modification Proposal P8 attempt to achieve the same imbalance prices. Modification Proposal P45 is aimed at achieving accuracy of imbalance price calculations and the avoidance or rectification of erroneous calculations for the Settlement Days concerned. The net effect of introducing the Modification Proposal is intended to be zero, when taking into account the parallel changes to NGC's Balancing Services Adjustment Data (BSAD) Methodology statement.

## 5 RATIONALE FOR PANEL RECOMMENDATIONS

The Panel agreed with the Modification Group's view that retrospective implementation of the Modification Proposal would remove the need for Workaround W024 to operate for Settlement Days 5 April 2001 to 24 September 2001 inclusive. 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. In the Panel's view, these improvements would better facilitate achievement of the Applicable BSC Objectives defined in Condition C3 of the Transmission Licence, particularly Condition C3(3)(d), in that it met the objective of "Promoting efficiency in the implementation and administration of the Balancing and Settlement arrangements".

If the Modification Proposal were to be implemented, it would mean that the changes implemented for Modification Proposal P8 would be implemented retrospectively for any Settlement Runs for Settlement Days 5 April 2001 to 24 September 2001 inclusive 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 the Authority 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 Panel agreed with the Modification Group that the Modification Proposal P45 itself, together with the Assessment Procedure, had made the retrospective nature of the Modification Proposal clear to all participants. The Panel also noted that the retrospective element of the Modification Proposal had been considered during the consultation process carried out by the Modification Group and was accepted in the majority of consultation responses during the Assessment Procedure. The Panel agreed with the Modification Group's view that the operational 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.

It was not clear what the implications would be if the Modification Proposal were to be rejected. As Modification Proposal P3 was not approved by the Authority, there is no reference to Workaround

W024 within the BSC and its existence is entirely linked to the revised BSAD Methodology (dated 10 April 01 and applicable from Settlement Day 05 April 01). However, the BSAD Methodology does not recognise that data may change after the original II Settlement Run and cause unexpected changes in the resulting imbalance prices. The section concerned with data re-submission does not extend to include correcting the effects of such changes, and does not recognise that it may be used to calculate the imbalance prices for the final RF Settlement Run.

Should this modification be rejected a new version (retrospective) of the revised BSAD Methodology may be required to include any additional procedures related to the RF Settlement Runs, and the accepted level of error. This change to the BSAD Methodology would also need to recognise the additional steps already incorporated into Workaround W024 to handle changes in the underlying data.

The Panel also noted that if the Authority did not approve the Modification, ELEXON would need to carry out additional work to develop a robust mechanism to replace Workaround W024. This work would need to start no later than 27 March 2002 if the robust mechanism is to be in place by final reconciliation for Settlement Day 5 April 2001 that will be on 28 May 2002. The Panel noted that the parallel modification being carried out by NGC on changes to the BSAD methodology Statement had an equal and opposite effect to the changes proposed by Modification Proposal P45.

## **6 LEGAL TEXT TO GIVE EFFECT TO THE PROPOSED MODIFICATION**

### **Conformed Version**

The following new paragraph 6.3.5 will be inserted in Section Q:

*"6.3.5 For the purposes of any Settlement Run to be carried out on or after the date with effect from which this paragraph 6.3.5 takes effect in respect of each Settlement Day between the period 5 April 2001 to 24 September 2001 (both dates inclusive):*

- (a) the provisions of the Code as modified with effect from 25 September 2001 to include Buy Price Price Adjustment and Sell Price Price Adjustment in the Balancing Services Adjustment Data and to take such Price Adjustments into account in the determination of Energy Imbalance Prices under Section T4.4 shall apply;*
- (b) the Transmission Company shall submit or resubmit the Balancing Services Adjustment Data to the SAA and to BSCCo for each Settlement Period of such Settlement Days as soon as reasonably practicable in order to give effect to paragraph 6.3.5(a); and*
- (c) BSCCo shall arrange for such data to be published in accordance with Section V4.2.*

*6.3.6 For the avoidance of doubt, paragraph 6.3.5 is without prejudice to Settlement Runs carried or to be carried out at any time in respect of Settlement Days commencing with the Settlement Day of 25 September 2001, which have been and shall continue to be carried out in accordance with the provisions of the Code as modified with effect from 25 September 2001."*

### **Clean Version**

The following new paragraph 6.3.5 will be inserted in Section Q:

- "6.3.5 For the purposes of any Settlement Run to be carried out on or after the date with effect from which this paragraph 6.3.5 takes effect in respect of each Settlement Day between the period 5 April 2001 to 24 September 2001 (both dates inclusive):
- (a) the provisions of the Code as modified with effect from 25 September 2001 to include Buy Price Price Adjustment and Sell Price Price Adjustment in the Balancing Services Adjustment Data and to take such Price Adjustments into account in the determination of Energy Imbalance Prices under Section T4.4 shall apply;
  - (b) the Transmission Company shall submit or resubmit the Balancing Services Adjustment Data to the SAA and to BSCCo for each Settlement Period of such Settlement Days as soon as reasonably practicable in order to give effect to paragraph 6.3.5(a); and
  - (c) BSCCo shall arrange for such data to be published in accordance with Section V4.2.
- 6.3.6 For the avoidance of doubt, paragraph 6.3.5 is without prejudice to Settlement Runs carried or to be carried out at any time in respect of Settlement Days commencing with the Settlement Day of 25 September 2001, which have been and shall continue to be carried out in accordance with the provisions of the Code as modified with effect from 25 September 2001."

## **7 ASSESSMENT**

This section of the report summarises the assessment carried out by the Pricing Issues Modification Group during the Assessment Procedure. Full details are contained in the P45 Assessment Report, which may be found on the BSC website at [www.elexon.co.uk](http://www.elexon.co.uk).

The Pricing Issues Modification Group considered Modification Proposal P45 at meetings on 6 November 2001 and 6 December 2001. In particular the Modification Group considered whether the Modification Proposal would better facilitate the Applicable BSC Objectives.

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 inclusive. 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. In the Modification Group's view, these improvements would better facilitate the Applicable BSC Objectives defined in Condition C3 of the Transmission Licence, particularly Condition C3(3)(d), in that it met the objective of "Promoting efficiency in the implementation and administration of the Balancing and Settlement arrangements". The Modification Group also agreed that the Modification Proposal would also require modification of NGC's BSAD Methodology Statement.

If the Modification Proposal were to be implemented, it would mean that the changes implemented for Modification Proposal P8 would be implemented retrospectively for any Settlement Runs for Settlement Days 5 April 2001 to 24 September 2001 inclusive that occur after the Implementation Date. The Modification Group felt that Modification Proposal P45 itself, together with the Assessment Procedure, made the retrospective nature of the Modification Proposal clear to all participants and that the

Modification Proposal addressed an issue that had been signalled under Modification Proposal P8, and was always intended to have been implemented. The retrospective element of the Modification Proposal was explicitly considered during the consultation process carried out by the Modification Group and was accepted in the majority of consultation responses. The Modification Group had also taken the view that the operational 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 constituted a material loss.

The Modification Group took the view that should this modification be rejected a new version (retrospective) of the revised BSAD Methodology may be required to include any additional procedures related to the Final Reconciliation Run, and the accepted level of error. This change to the BSAD Methodology would also need to recognise the additional steps already incorporated into Workaround W024 to handle changes in the underlying data.

## **8 SUMMARY OF REPRESENTATIONS**

Seven responses representing forty Parties were received to the consultation on the draft Modification Report. No new substantive issues were raised (over and above those already discussed in the Assessment Report and draft Modification Report). All the responses supported the recommendations in the draft Modification Report.

## ANNEX 1 – REPRESENTATIONS

### Responses from P45 Draft Modification Report Consultation

Consultation issued 28 January 2002

Representations were received from the following parties:

No	Company	File Number	No. Parties Represented
1.	InterGen (UK) Ltd	P45_MR_001	4
2.	TXU Europe	P45_MR_002	14
3.	British Gas Trading	P45_MR_003	4
4.	SEEBOARD	P45_MR_004	2
5.	Scottish & Southern Energy plc	P45_MR_005	4
6.	ScottishPower UK plc	P45_MR_006	7
7.	LE Group	P45_MR_007	5

**P45\_MR\_001 – InterGen (UK) Ltd**

On behalf of its BSC Parties (Coryton Energy Company Ltd, InterGen Energy Trading and Shipping Ltd, Rocksavage Power Company Ltd and Spalding Energy Company Ltd), InterGen (UK) Ltd would like to register its support for Modification Proposal 45, effecting the retrospective inclusion of the Price Adjusters BPA and SPA within the BSC. InterGen (UK) Ltd is fully supportive of any measures that will correct errors in imbalance calculations and hence apply the rules of the BSC in a consistent and fair manner.

Yours faithfully  
DEREK SIMPSON  
InterGen (UK) Commercial Operations

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**P45\_MR\_002 – TXU Europe**

Thank you for the opportunity to comment on the P45 Modification Report. TXU Europe Energy Trading Ltd, on behalf of all 14 TXU Europe companies, would like to express support for the recommendation that the modification be approved and implemented on 27th March.

Regards  
Nicola Lea  
Market Development Analyst  
TXU Europe Energy Trading Ltd

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**P45\_MR\_003 – British Gas Trading**

Modification Proposal 45: Introduction of Price Adjusters for Settlement Days 5 April 2001 to 24 September 2001

Thank you for the opportunity of responding to this modification. This response is on behalf of British Gas Trading, Accord Energy, Centrica King's Lynn and Centrica Peterborough

We maintain our support for the implementation of this modification as discussed in our response of 3 December 2001.

Yours faithfully  
Danielle Lane  
Transportation Analyst

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**P45\_MR\_004 – SEEBOARD**

We agree with recommendations within daft modification report dated 28<sup>th</sup> January 2002.

Dave Morton  
SEEBOARD Energy Limited, SEEBOARD Power Networks plc  
0190 328 3465

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**P45\_MR\_005 – Scottish & Southern Energy plc**

This response is sent on behalf of Scottish and Southern Energy, Southern Electric, Keadby Generation Ltd. and SSE Energy Supply Ltd.

Further to your note of 28th January 2002, and the associated Modification Report, concerning Modification Proposal P45; we believe that recommendation from the Panel that the Authority approve P45 for implementation on 27th March 2002, is correct.

Regards  
Garth Graham  
Scottish & Southern Energy plc

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#### **P45\_MR\_006 – ScottishPower UK plc**

##### **Modification Proposal P45 - DMR Consultation Response**

With reference to the above, I would refer you to our previous comments on the proposal.

In this consultation response, we wish to reiterate the view, which we have previously provided in support of Mod P45. We believe that this proposal will better fulfil the Applicable BSC Objective in respect of promoting efficiency in the trading arrangements. We have considered the legal drafting changes required to implement Mod P45 and agree with these changes.

I trust that you will find these comments helpful. Nonetheless, should you require further clarification of any of the above, please do not hesitate to contact me.

Yours Sincerely,  
Man Kwong Liu  
Calanais Ltd.

For and on behalf of: - *ScottishPower UK Plc.; SP Manweb Plc.; ScottishPower Energy Trading Ltd.; ScottishPower Generation Ltd.; Scottish Power Energy Retail Ltd.; Emerald Power Generation Ltd. ; SP Transmission Ltd.*

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#### **P45\_MR\_007 – LE Group**

Thank you for the opportunity to comment on draft Modification Report on Modification Proposal P45.

We would like to reiterate our continuing support for this straightforward modification, and our agreement with the draft Modification Report. If it were not implemented, the known occasional errors that are present in modification P3, which have been corrected from 25<sup>th</sup> September onwards in modification P8, would remain in place. Although these errors are minor in nature and are not systematic in their effect, to have settlement errors in place could (in a very small way) reduce confidence in the market and therefore could impede BSC Objective (c) "To promote effective competition in the generation and supply of electricity and (so far as is consistent therewith) to promote such competition in the sale and purchase of electricity" and (d) "To promote efficiency in the implementation and administration of the balancing and settlement arrangements".

We consider the proposed implementation date of 27<sup>th</sup> March appropriate and reasonable, effect being retrospective from 5<sup>th</sup> April to 24<sup>th</sup> September.

We therefore support retrospective implementation of P8 back to 5<sup>th</sup> April, i.e. we support P45 and approve of the contents of the draft Report.

Yours sincerely  
Liz Anderson  
(London Electricity, South Western Electricity, Jade Power, Sutton Bridge Power and  
TXU West Burton Power Limited)