



Direct Dial: 020-7901 7412

19 February 2002

The National Grid Company, BSC Signatories and
Other Interested Parties

Your Ref:
Our Ref: MP No: P38

Dear Colleague

Modification to the Balancing and Settlement Code (“BSC”) - Decision and Notice in relation to Modification Proposal P38: “Redefined Definition of CAD to Allow Prompt Price Reporting”

The Gas and Electricity Markets Authority (the “Authority”) has carefully considered the issues raised in Modification Proposal P38 “Redefined Definition of CAD to Allow Prompt Price Reporting”.

The BSC Panel (the “Panel”) recommended to the Authority that the Modification Proposal P38 should be rejected.

The Authority has decided not to direct a modification to the BSC. This letter explains the background to the Modification Proposal and sets out the Authority’s reasons for its decision.

Background to the proposal

On the 22 August 2001 the Authority directed that Urgent Modification Proposal P18A should be made and implemented. Modification Proposal P18A sought to remove/mitigate the effect of System Balancing actions in the Energy Imbalance Prices. Given that it was likely that an enduring solution for Modification Proposal P18A would take 6 months to implement an assessment of both an enduring solution and a workaround was progressed. Modification Proposal P18A was implemented using an interim solution via a Workaround until the NETA Central Systems could be modified.

The enduring solution for P18A is due to be implemented on 27 March 2002. Modification Proposal P18A will delay the calculation of Indicative Energy Imbalance Prices and their subsequent publication on the Balancing Mechanism Reporting System (“BMRS”) of up to 45 minutes after the end of the Settlement Period. The delay will be no more than the original 15

minute delay plus Continuous Acceptance Duration Limit¹ (“CADL”) which is currently 15 minutes. However, to allow the flexibility of increasing the value of CADL, up to its maximum of 30 minutes, it is necessary to agree a delay of up to 45 minutes to prevent further system changes being required should the Panel with the Authorities consent vary this parameter upwards.

On the 19 September 2001 Slough Energy Supplies Limited submitted Modification Proposal P38: “Redefined Definition of CAD to Allow Prompt Price Reporting”. The Proposer suggested that the implementation of enduring solution P18A prevents participants making their own timely estimates of prices based on published acceptances. The Proposer suggested that the timing of Indicative Price Reporting should be returned to the timescales preceding the implementation of P18A.

In addition the Proposer argued that the basis on which BOAs are excluded is distorted because Bids and Offers are priced separately for each Settlement Period and so should be treated separately for each Settlement Period.

The Modification Proposal

Modification Proposal P38 seeks to better facilitate the achievement of the relevant BSC Objectives² (a), (c) and (d) by altering the definition of the CAD, such that it is not necessary to delay the reporting of Indicative Energy Imbalance Prices on the BMRS by CADL minutes.

The Modification proposes CAD should be measured only within Settlement Periods. For a Settlement Period CAD calculation, the duration of any BOA that starts before the beginning of the settlement period and continues during the settlement period will be considered to have started only at the beginning of the Settlement Period for the purposes of measuring CAD. Similarly, acceptances only count towards a Settlement Period CAD up to the end of the Settlement Period.

In the Assessment phase it was confirmed that implementing the enduring Modification Proposal P18A solution with the current CADL definition in NETA Central Systems would

¹ If a single acceptance, or group of acceptances, which makes up a Continuous Acceptance Duration is less than the CADL, then the relevant Bids or Offers will not be included in calculating Energy Imbalance Prices.

² The relevant BSC Objectives are contained in Condition C3.3 of NGC’s Transmission Licence and are:

- (a) the efficient discharge by the licensee of the obligations imposed upon it by this licence;
- (b) the efficient, economic and co-ordinated operation by the licensee of the licensee’s 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.

only delay the reporting of Indicative Energy Imbalance Prices by a further 15 Minutes compared with the pre-P18A baseline. The majority view of the Modification Group (the "Group") was that this does not amount to an issue of delayed price reporting, when considered against a three and a half-hour Gate Closure.

The Group submitted an Interim Report to the Panel to be considered at their Meeting on the 13 December 2001. The Interim Report detailed the findings of the Group and the majority recommendation that the Modification Proposal be sent to the Report Phase with a recommendation to reject. The Panel Meeting endorsed this recommendation. ELEXON published a Draft Modification Report on 21 December 2001 which invited respondents' views.

Respondents' views

In total, ELEXON received 9 responses to the consultation on the Draft Modification Report. Of the responses, all 9 were opposed to the Modification Proposal.

One respondent considered that 15 minutes is a relatively short delay and that the rationale for rapid price reporting is not clear with a three and a half-hour Gate Closure. Some respondents believed that the Modification Proposal would distort the calculation of Energy Imbalance Prices and that the Modification Proposal P18A mechanism for differentiating between Electricity and System Balancing should not be compromised in order to gain prompter price reporting. One respondent suggested that the Modification Proposal P38 would lead to BOAs that have been accepted for the purpose of Electricity Balancing being excluded from Energy Imbalance Prices. One respondent was concerned with the amount of BOAs that would be removed from the calculation of Energy Imbalance Prices and suggest that this could lead to distortions in the market and erroneous price signals. It was also suggested that Modification Proposal P38 simply removes BOAs based upon where they arise within a Settlement Period, rather than if they are for Electricity or System Balancing.

Panel's Recommendation

The Panel met on 17 January 2002 and considered Modification Proposal P38, the Modification Report, the views of the Group and the consultation responses received.

The Panel recommended that the Authority should reject the Modification Proposal. The view of the Panel was that as the Group could not conclude that an issue of delayed price reporting existed therefore it could not be shown that Modification Proposal P38, or any potential Alternative Modification Proposal would better facilitate the achievement of the relevant BSC Objectives.

Ofgem's view

Ofgem³ considers, having had regard to its statutory duties, that Modification Proposal P38 does not better facilitate the achievement of the relevant BSC Objectives.

Ofgem believes that the costs of Electricity Balancing should be targeted to participants who are in electricity imbalance (i.e. where the BSC Parties' notified generation/demand does not equal their actual generation/demand) and should reflect the prices at which NGC buys and sells energy to keep the System in Electricity Balance during that period. Ofgem considers that, consistent with the relevant objective of facilitating competition (by preventing cross subsidies), it is important that Electricity Balancing costs are targeted back to those participants that cause them. Similarly, System Balancing costs should be targeted back to all Transmission System users.

Ofgem agrees with the view of some respondents that the Modification Proposal P38 arbitrarily takes BOAs out of the Energy Imbalance Price calculation. Therefore Ofgem considers that the Modification proposal will not improve on the demarcation between Electricity and System Balancing. Ofgem considers that the Modification Proposal would make Energy Imbalance Prices less reflective of the costs NGC has incurred in taking Electricity Balancing actions and therefore does not better facilitate the achievement of the BSC Objective, promoting effective competition in the generation and supply of electricity, and (so far as consistent therewith) such competition in the sale and purchase of electricity.

Ofgem agrees with the Group, the Panel and respondents that it is not possible to conclude that the effect of the enduring solution for P18A on the timing of Indicative Price Reporting would lead to insufficient market transparency. Ofgem considers that it would not be appropriate to compromise the accuracy of the derivation of Energy Imbalance Prices to achieve a marginal gain in the timing of Indicative Price Reporting.

The Authority's decision

The Authority has therefore decided not to direct that Modification Proposal P38 should be made and implemented.

Having regard to the above, the Authority, in accordance with Section F1.1.4 of the BSC, hereby notifies NGC that it does not intend to direct NGC to modify the BSC as set out in Modification Proposal P38.

Please do not hesitate to contact me on the above number if you have any queries in relation to the issues raised in this letter or alternatively contact Anthony Doherty on 020 7901 7159.

Yours sincerely,

³ Ofgem is the office of the Authority. The terms "Ofgem" and "the Authority" are used interchangeably in this letter.

A handwritten signature in black ink, appearing to read "Sonia Brown". The signature is written in a cursive style with a large initial 'S'.

Sonia Brown

Head of Electricity Trading Arrangements

Signed on behalf of the Authority and authorised for that purpose by the Authority