November 2002

DRAFT MODIFICATION REPORT

MODIFICATION PROPOSAL P080 - Deemed Bid Offer Acceptance for Transmission System faults

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

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a Authorities

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Version	Date	Reviewer	Signature	Responsibility
0.1	18/11/02	Change Delivery		
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b Distribution

Name	Organisation
Each BSC Party	Various
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The Gas and Electricity Markets Authority	Ofgem
Each BSC Panel Member	Various
energywatch	energywatch
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c Intellectual Property Rights and Copyright

d Related Documents

The following documents are referenced from within this document using the following convention [RD/*x*]:

1 Modification Proposal P80 – Assessment Report – Version 1.0, 08 November 2002

II CONTENTS TABLE

1 SUMMARY AND RECOMMENDATIONS

1.1 Recommendation

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

Alternative Modification P80 should be made with an Implementation Date of 24 June 2003, if an Authority decision is received by 24 February 2003, and an Implementation Date of 04 November 2003 if an Authority decision is received after 24 February 2003 and before 04 July 2003.

Proposed Modification P80 should not be made. However, if the Authority determine that the Proposed Modification should be made, the Implementation Date should be 24 June 2003, if an Authority decision is received by 24 February 2003, and an Implementation Date of 04 November 2003 if an Authority decision is received after 24 February 2003 and before 04 July 2003.

1.2 Background

Modification Proposal P80 'Deemed Bid-Offer Acceptance for Transmission System Faults' (P80) was submitted on 01 May 2002 by British Energy.

P80 proposes to obligate the Transmission Company to issue deemed Bid-Offer Acceptances (BOA) when a Balancing Mechanism Unit (BM Unit) is forced to deviate from its Final Physical Notification (FPN) due to faults on the Transmission System outside its control. A Transmission System fault could lead to a participant being left out of balance and exposed to Energy Imbalance Prices, by preventing a BM Unit from exporting or importing notified contracted energy. Under P80, the Transmission Company would be obliged to issue deemed BOA for the full duration of the fault, including any time required to respect a BM Unit's dynamics.

During the assessment of P80, the Group developed an Alternative Modification. The Alternative Modification is similar to the Proposed Modification in that it covers the full duration of the fault[1], but it is based on the proposed Alternative Modification for P87, and is also restricted to Central Volume Allocation (CVA) registered Production BM Units.

The Group recognised two mechanisms capable of delivering compensation to a Party:

- **Settlement Correction** – an ex-post amendment to Settlement data to allow compensation (or removal of a liability) to be automatically delivered as part of a Settlement Run. The correction could be applied by either a deemed BOA, or a contract notification with a Transmission Company account. A contract notification is equivalent to a BOA with Bid or Offer Price of £0/MWh;
- **Extra Cashflow** – an extra Panel determined cashflow to provide additional compensation over and above compensation (if any) delivered through "Settlement Correction".

[1] Both within the initial Balancing Mechanism Window Period (BMWP) and for subsequent Settlement Periods, until the fault is clear, and the Party has been given sufficient time to return to their prevailing FPN.

How these relate to the Proposed and Alternative Modifications is shown in the Table 1.1

Table 1.1 – Overview of Proposed and Alternative Modifications

Description		Proposed Modification	Alternative Modification
Settlement Correction (Ex-post)	Eligibility	All BM Units	Only CVA Registered Production BM Units
	Mechanism	Deemed BOA	Contract Notification
	Duration	Full Duration of Fault	Full Duration of Fault
Extra Cashflow (Manual)	Eligibility	Not Available	Only CVA Registered Production BM Units
	Mechanism		Panel Determined
	Duration		Full Duration of Fault

In developing the Alternative Modification, the Group recognised a number of difficulties in determining compensation for Consumption BM Units and also Supplier Volume Allocation (SVA) registered BM Units (See [RD/1] Annex G). As a result, the Group believed that determining explicit compensation for such BM Units would, in most circumstances, deliver compensation that was arbitrary. The Group noted that these BM Units would continue to receive System Sell Price (SSP) for the resulting spill and believed that any extra compensation could not be correctly determined.

The Group recognised that Exempt Export BM Units, which elect to be registered as Consumption BM Units, would also not be eligible for compensation. However, the Group also believed that BM Units registered in this manner implies non-usage of the Transmission System, and hence they should be regarded as being out of scope for the purposes of compensation.

1.3 Rationale for Recommendations

The majority view of the Panel was to support the Group's recommendation that the Alternative Modification would better facilitate the achievement of the following Applicable BSC Objectives:

(b) **the efficient, economic and co-ordinated operation by the Transmission Company of the Transmission System** - would be satisfied by compensating for the full period of the Transmission System fault, since it would not only expose the Transmission Company to the economic consequences of Transmission System failures, but it would also recognise that the Transmission Company was in the best place to manage the event and determine the correct trades to both balance the Transmission System, and also take the Party out of imbalance;

(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** - would be satisfied because a fault on the Transmission System represents an unmanageable risk for

those participants dependent on a connection to the Transmission System. The degree of exposure to imbalance, and the difficulty and financial impact a Party may face in having to quickly trade out of imbalance, would vary depending on the Party and the type of Plant. For some combinations this would reduce their ability to compete.

The Group had recognised there would be an administrative overhead to operate these procedures, and that this was made more complex by operating at the boundary of the BSC. However, the Group also believed that the potential consequences to the affected Party were sufficient to ensure that the Alternative Modification would better facilitate the achievement of the Applicable BSC Objectives.

Under the Alternative Modification Consumption BM Units do not receive any further compensation, beyond retention of SSP for any spill. The majority of the Group believed that it could not be shown that BSC Objective (c) would be better achieved by providing further compensation. The majority of demand is registered within SVA and hence the associated risk is shared amongst other Suppliers within the GSP Group, it would therefore be difficult to show that further compensation would improve competition amongst Suppliers. In addition the difficulty that BSCCo and the Panel would face in determining an equitable level of compensation would be significant and this would have a detrimental effect on the achievement of Applicable BSC Objective (d) 'promoting efficiency in the implementation and administration of the balancing and settlement Arrangements'.

In so far as the issue of discrimination was concerned, the Group had concluded that the preferred approach enabled the most appropriate level of compensation to be paid to CVA registered Production BM Units (i.e. those most dependent on a connection to the Transmission System), in all cases, at the lowest overall cost, as compared to the status quo and the other approaches considered. Hence, Applicable BSC Objectives (b) and (c) are better achieved under Alternative Modification P80.

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 ('the Code'). The Code 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 Code.

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 HISTORY OF MODIFICATION PROPOSAL

During the drafting of the New Electricity Trading Arrangements (NETA) no compensation for Transmission System faults was incorporated into the BSC, however, compensation for system constraints and intertrips was set at submitted Bid and Offer Prices. P80 was raised to gain equal consideration for Transmission System faults and to ensure that a Party

would not be left out of balance and exposed to Energy Imbalance Prices due to a fault on the Transmission System.

P80 was raised by British Energy on 01 May 2002 and was submitted to a two-month Definition Procedure. The Definition Report was considered at the Panel meeting on 18 July 2002 and P80 was submitted to a three-month Assessment Procedure.

In parallel to the Assessment Procedure for P80:

- The Group also assessed Modification Proposal P87 'Removal of market risk associated with the operation of a generator intertrip scheme'. P87 seeks to change the compensation arrangements for intertrips away from deemed BOA at submitted Bid Prices, to issuing contract notifications to cancel the consequential imbalance. As an intertrip is a particular type of Transmission System fault, the Group believed that it was important to reach a consistent rationale for why P80 and P87 may better facilitate achievement of the Applicable BSC Objectives. As a result of their assessment the Group developed an Alternative Modification for P87. This was similar to the Proposed Modification, but provided compensation for the full duration of the intertrip, and was not restricted to the Balancing Mechanism Window Period (BMWP). The Group recommended that the Alternative Modification should be made and this was endorsed by the Panel. The P87 Modification Report was sent to the Authority after the 17 October 2002 Panel meeting;
- The Group also noted the work being carried out by the Transmission Access Standing Group (TASG) set up under the governance of the Connection Use of System Code (CUSC). The Group noted that at the time of the Assessment Procedure the CUSC Amendment Proposal CAP043 'Transmission Access Definition' had been raised. CAP043 does not include any provisions relating to compensation for Transmission System faults.

The P80 Assessment Report was due to be presented to the 17 October 2002 Panel meeting. However, the Group requested, and were granted, a one month extension to complete the legal text and resolve a number of issues arising from the legal text. The completed Assessment Report was presented to the 14 November 2002 Panel meeting.

The Panel considered P80 at their meeting 14 November 2002 and agreed with the Group's recommendation that the Alternative Modification P80 should be made, as it would better facilitate achievement of the Applicable BSC Objectives. The Panel also determined that P80 should be submitted to the Report Phase, with the completed draft Modification Report to be presented to the Panel meeting on 12 December 2002.

4 DESCRIPTION OF MODIFICATION PROPOSAL

A key factor in P80 is that a disconnection (or other forced deviation) due to a Transmission System fault (termed a "System Fault" in the draft legal text) may last for a number of Settlement Periods. Figure 4.1 shows the three identifiable periods:

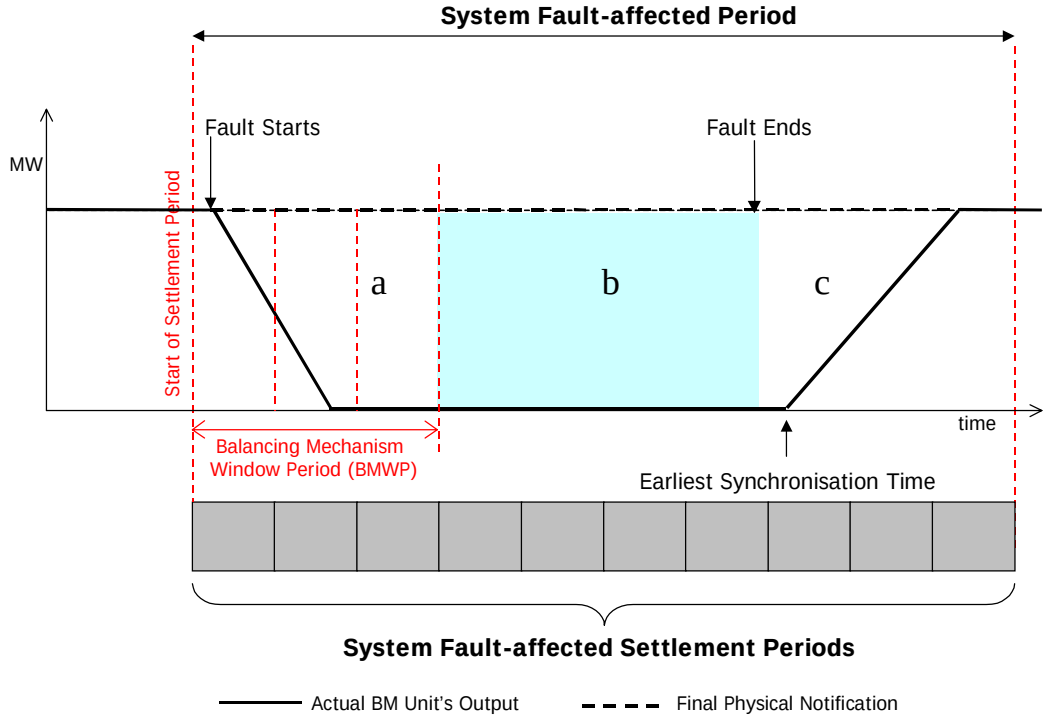
(a) the BMWP consisting of between two and three Settlement Periods for which Gate Closure has already occurred;

(b) a time after the initial BMWP, which continues until the fault is physically cleared (this represents the moment when full capacity is technically available to the Party);

(c) a further period of time before the BM Unit can realistically revert to its prevailing Physical Notification (i.e. its expected position if the fault had not occurred), within any limitations imposed by its dynamic parameters (i.e. Dynamic Data Set).

Both the Proposed Modification and Alternative Modification aim to compensate a "System Fault-affected BM Unit" for the full duration of any disconnection from the Transmission System (i.e. for periods (a), (b) and (c)).

Figure 4.1 – Duration of Transmission System Fault



The majority of the Group felt that considering compensation in relation to *all* the affected Settlement Periods, would more correctly attribute the costs over the full timeframe and reduce the market risk of these costs being recovered over a shorter timeframe, and being commensurately higher as a result. The Group noted that compensation for system constraints can already stretch beyond the initial BMWP and that BSC Black Start provisions (Section G3 of the Code) also cover the entire Black Start Period, without any limitation or regard to the initial BMWP. The Group recognised that consideration of the full duration of the Transmission System fault was also an inherent part of the Proposed Modification. Furthermore, if compensation were not entirely dealt with under the BSC, the affected BM Unit would need to reflect its actual position after the initial BMWP (rather than its theoretical position, assuming that the fault had not occurred) and, as a result, any return to pre-fault circumstances in terms of both the commercial and physical position for the BM Unit would necessarily involve a delay of at least one BMWP. This may cause inefficiency in the market.

Both the Proposed Modification and Alternative Modification are considered to be default arrangements within the BSC. It was recognised that each would impose an administrative overhead on both the affected Party and also the Transmission Company. Should both Parties come to a commercial bilateral agreement regarding the treatment of Transmission System faults, then there would be no need for recourse to arrangements within the BSC.

In such circumstances it would be a matter for the Transmission Company and Lead Party not to claim this was a "System Fault-affected BM Unit", and for the arrangements within the BSC to be seen as providing the baseline against which to negotiate the level of compensation.

4.1 Proposed Modification

The Group believed the Proposed Modification involved three key elements:

- a deemed BOA should be issued for the full duration of the disconnection;
- the pricing of the applicable Bids and Offers may need to be controlled;
- the solution should be applicable to Production and Consumption BM Units.

In expanding these into a solution the Group believed that it should be the level of the ex-ante Bid and Offer prices used in "Settlement Correction" (See Table 1.1) that should be responsible for determining the appropriate level of compensation. The Group recognised that an ex-post "Extra Cashflow" was inconsistent with ex-ante Bid and Offer prices and should not be considered to be part of the Proposed Modification. In addition the Group recognised the concerns expressed in the original Modification Proposal about freely submitted Bid and Offer Prices, and decided that a separate set of ex-ante disconnection Bid and Offer Prices should be used.

Although the Group developed the solution further (see [RD/1] Table 5.1) they believed it would be a difficult solution to operate. The Group recognised the difficulty in pre-determining an appropriate set of disconnection prices for each Production BM Unit, without knowing the output level (full or half load), the duration of the fault (short, medium or long), the season (winter, summer) or the underlying fuel type or prices. This would be further complicated for Consumption BM Units, especially those associated with Supplier Volume Allocation (SVA), or Exempt Export BM Units. The administration would be made more complex as disconnection prices would need to be agreed and maintained for all BM Units prior to any fault, and hence would represent a significant level of overhead for what are rare occurrences.

As a result of these difficulties the Group did not further develop the Proposed Modification and concentrated on the development of an Alternative Modification.

4.2 Alternative Modification

As a result of their experience with the Proposed Modification, the Group developed an Alternative Modification, which was based on the Alternative Modification for P87 and contained the following features:

- a "Settlement Correction", based on contract notifications, to cancel out the expected imbalance caused by the BM Unit;
- an ex-post "Extra Cashflow" for any Party that believed additional compensation was required;
- a solution restricted to CVA registered Production BM Units that submit FPNs into the Balancing Mechanism.

The difference between the Alternative Modification and the Proposed Modification are summarised in Table 1.1.

Table 4.1 describes the Alternative Modification and groups the requirements into the following four categories:

- **Pre-Fault Administration** – actions that need to take place when P80 is first implemented and before any fault occurs;
- **Transmission System Fault Notification** – actions that are taken when a fault initially occurs;
- **Settlement Correction** – actions that take place to correct Settlement data and ensure that the affected Party is not subject to imbalance caused by the disconnected BM Unit;
- **Extra Cashflow Compensation** – optional actions that take place to determine an extra cashflow for the affected Party, to supplement any correction that may have already been made in Settlement.

Table 4.1 – Alternative Modification

Pre-Fault Administration

• Compensation under P80 is limited to "Eligible BM Units", i.e. BM Units that:
  • are Production BM Units;
  • are registered with CVA Metering Systems;
  • submit FPNs in accordance with Section Q3 of the Code;
  • do not have alternative arrangements for providing compensation in the case of a "System Fault".

• There are no formal pre-fault administration procedures within the BSC. This is based on a presumption that severing one or more connections can be interpreted as meaning breaking or tripping connection assets (as defined in the relevant Connection Agreements) and therefore no mapping of Transmission System assets to BM Units is required.
Transmission System Fault Notification
• The Transmission Company will be responsible for notifying BSCCo of the details of any incident, which in their reasonable opinion is to be classified as a "System Fault", including the "System Fault-affected BM Units" and the "System Fault-affected Settlement Periods". This is to occur as soon as reasonable practical after commencement of a disconnection. • The definition of a "System Fault" will be based on the following description: *The de-energisation of Transmission Company owned equipment so as to sever one or more connections to a directly connected BM Unit, or to a Distribution System containing a BM Unit, which brings about a forced deviation from FPN (as amended by previous BOA), not due to any action that is already covered by the issuing of BOAs or by any action within a Black Start Period.*

- For the avoidance of doubt this definition does not include the operation of an intertrip, which are currently compensated using BOA and also subject to Modification Proposal P87.
- The level of any compensation will be limited to the energy lost due to the failed connection to the Transmission System and will not include energy that was not exported, nor imported, on other connections as a direct, or indirect, consequence of the initial failure. In the case of the Alternative Modification this will only affect which "Eligible BM Units" are considered to be "System Fault-affected BM Units".
- The disconnection will be considered to continue until the Transmission Company has notified BSCCo and the Party that the fault is clear and sufficient time has been allowed for the BM Unit to resume service at its prevailing FPN. The time to resume service will be based on an earliest synchronisation time and a Run-Up Rate profile, based on the Dynamic Data Set in force at the time the fault is cleared. This defines the end of the "System Fault-affected Period", as shown in Figure 4.1.
- BSCCo shall, if appropriate, consider the existence of a "System Fault" to represent material doubt, should the fault cause the affected Party to enter Credit Default. Nevertheless, as the Party will not be expected to trade out of imbalance, a Party should note that a long term failure may require them to increase their Credit Cover.

Settlement Correction

- The correction will be applied to the next scheduled Settlement Run after the fault has been cleared and details of the incident agreed. The target for this will be the Initial Settlement Run (SF).
- The correction will be applied using a series of contract notifications submitted by the Transmission Company. They will involve a Transmission Company account and account(s) notified by the Lead Party of the "System Fault-affected BM Unit". This will cover the whole period of disconnection (i.e. all "System Fault-affected Settlement Periods" , as shown in Figure 4.1)
- The MWh values of the notifications will be the difference between the FPN (as adjusted by any issued BOA) and the metered volume. Should the metered volume be less than the level permitted by the capability of the Transmission System at that time (i.e. after the fault has cleared), then the value permitted under the Grid Cod, after taking into account the BM Unit's prevailing Dynamic Data Set, will be used[2]. In all cases the calculated value will be capped at zero to stop it going negative.
- The MWh values of the notifications will not include any correction for Transmission Loss Multipliers. This may result in the BM Unit having a small amount of imbalance after correction.

[2] This is a change to the solution made as a result of refining the legal text during the Report Phase and allows the "Settlement Correction" to more accurately track the return to service profile after the fault has cleared, even if the Party decides not to return the BM Unit to service at that time.

- The Party will be responsible for continuing to submit FPN for Settlement Periods within the "System Fault-affected Period", these will be expected to be compliant with the Grid Code, represent the Parties best estimate of the expected import or export of Active Power assuming the "System Fault" had not occurred, and also the defined run-up profile at the end of the fault. The policing of this will be a matter for the Transmission Company and is outside the BSC.

Extra Cashflow Compensation

- If after taking into account the results of the corrected Settlement Runs, the Lead Party for an "System Fault-affected BM Unit" believes additional compensation is required, then they can raise a claim to the Panel for an "Extra Cashflow". A claim must be raised within 20 Working Days of the corrected Settlement Runs and the facility is not open to the Transmission Company. There will be no charge associated with raising a claim.
- This facility is also available should the Lead Party believe that, in their reasonable opinion, an "Eligible BM Unit" had been affected by a "System Fault", even though the Transmission Company had not previously identified it as a "System Fault-affected BM Unit". In such circumstances the affected Party will be required to provide technical evidence to support their claim of there being a "System Fault" that affected their BM Unit.
- The affected Party will be required to provide supporting evidence to support the level of their claim, including details on
  - "Avoidable Costs" as described in Section G2 of the Code;
  - lost revenue from any potential actions for balancing services and BM activity;
  - any Trading Charges incurred, for example Non-Delivery Offer, or Bid Charges, and any outstanding imbalance.
- The Transmission Company, and any relevant Distribution System Operator, will provide additional evidence to either support, or refute the claim, such as historical information on the potential lost opportunity associated with Balancing Services.
- The Panel will determine if an "Extra Cashflow" is payable and its value. The cashflow, if any, will also be in the direction of the Lead Party, and will not result in a payment from the Lead Party to the Transmission Company;
- The decision of the Panel will be final and binding;
- The "Extra Cashflow" will be recovered as part of Daily System Operator BM Cashflow (CSOBM), with an expectation that the cost might eventually be recouped through Balancing Services Use of System (BSUoS)[3].

5 RATIONALE FOR PANEL RECOMMENDATIONS

The Panel noted the difficulty the Group had previously reported with solving some of the issues arising from the drafting of legal text. The Panel asked whether the recent progress

[3] This would need to be specified outside the BSC and is not part of this Modification.

was made possible by confining compensation to CVA registered Production BM Units. It was explained that it was the difficulty in establishing a legally robust definition of the cause and effect of a Transmission System fault for Consumption BM Units, that had led the Group to identify and resolve the different issues faced by generation and demand. As a result, the Group recognised that a solution confined to CVA registered Production BM Units would better facilitate the achievement of the Applicable BSC Objectives.

One Panel member noted that according to Annex D of [RD/1] there have been 26 incidents of lost supply in the last five years and 8 incidents concerning disconnection of generation. However, the Panel noted the Group's recommendation that generation and demand should be treated differently.

It was explained that for CVA registered Production BM Units, which submit FPNs, a causal link can be established between the failure of a Transmission Company asset and an impact on the BM Unit (i.e. there is normally a direct link). In addition the Transmission Company can ensure such BM Units follow their predicted FPN, and that the severing of connections to the Transmission System will in most circumstances cause such a BM Unit to trip. Therefore the effect on the BM Unit can be quantified.

In contrast, the majority of demand is attributed to SVA registered Consumption BM Units, where the metered volume is calculated by Supplier Volume Allocation (SVA) and represents the results of a complex aggregation and profiling process for half hourly and non-half hourly demand within Distribution Systems. Annex G of [RD/1] describes the difficulty in establishing the causal link, given that a failure will be in one of many Grid Supply Points (GSP) for that Distribution System, and a failure will have a different effect on each of the Supplier BM Units. The annex also considers the problems of quantifying the impact given: the variable nature of demand; GSP Group correction; resilience in the Distribution System; and that other co-incidental faults may be attributable to the Distribution System. Therefore the Group believed that any calculated impact for a Transmission System fault would be arbitrary (i.e. the wrong level of compensation for the wrong reasons) and noted that the BM Unit would continue to receive SSP for any spill.

The Group also recognised there is naturally less certainty for Suppliers, that they typically face risks of a greater magnitude, such that for a Transmission System fault there would be no perceived additional, and hence unhedgeable, risk. This perception was further enhanced when it was considered that Suppliers normally operate in a number of GSP Groups, spreading their risk further. As a result the majority of the Group did not believe that in the case of Consumption BM Units it could be shown that BSC Objective (c) would be better achieved by providing additional compensation.

A Panel member commented on the general handling of unhedgeable risks, noting that mutual insurance would in some cases be appropriate, and that care should be taken in deciding whether the risk should be shared or not.

As a result of discussions the Panel accepted that the Alternative Modification represented a good balance, providing a solution for the majority of BM Units that faced the greatest level of unmanagable risk.

The Panel noted that there were other categories of BM Unit, such as: Exempt Export BM Units, or Interconnectors, which were not covered by P80. However, the Panel did not believe P80 was setting a precedent and that a Party could raise a future Modification Proposal to cover these circumstances.

The Panel also noted that the proposed Implementation Date of 24 June 2003 was after the proposed date for the introduction of transmission access under CUSC (1 April 2003). It was explained that the Group had considered this interaction and had agreed to assess P80 against the current BSC baseline (in line with the Code).

6 LEGAL TEXT TO GIVE EFFECT TO THE ALTERNATIVE MODIFICATION

It should be noted that the Authority have indicated that legal drafting for the Proposed Modification P80 is not required, therefore no text is provided as part of this report.

The changes to the legal text of the Code for the Alternative Modification are contained in Annex A and are made against the versions identified in table 6.1.

These are the changes necessary to implement the Alternative Modification only. If the baseline of the Code changes prior to implementation of the Alternative Modification, or if other Modification Proposals such as P87 are to be implemented at the same time, then the legal text may need to be amended.

Table 6.1 – P80 Legal Text – Alternative Modification

Section	Version
Q	8.0
X-1	9.0

The legal text in Annex A of [RD/1] was reviewed by the Group during the Assessment Procedure. The text has been subsequently updated to reflect further review comments and it is this updated version that is included as Annex A to this report.

A number of minor changes were included to improve the readability of the text without changing the intent, however, the Group did decide that the following noteworthy change would make the text more robust:

- the new section Q5.6A.3.(c).(i).(2) contains a new clause so that the level of compensation is based on the greater of the metered volume *and also the level the BM Unit is allowed to operate at under the Grid Code (taking into account the prevailing Dynamic Data Set for the BM Unit)*. This second clause was added to cater for the scenario where the BM Unit does not return to service after the fault is cleared. As a result table 4.1 was updated to remove statement that were this to occur, it would be a matter for the Transmission Company.

7 ASSESSMENT

The Assessment Procedure for P80 lasted for four months and full details of the assessment can be found in the P80 Assessment Report [RD/1].

P80 was initially assessed in parallel with P87 as the Group believed that it was important to reach a consistent rationale for why P80 and P87 may better facilitate achievement of the Applicable BSC Objectives.

P80 was a more complex Modification Proposal than P87, as it needed to consider a wider range of fault types than an intertrip operating, and also consider more BM Units types

than simply directly connected Production BM Units. However, in both cases the resulting Alternative Modifications were based on the same principles.

The impact assessments for both P80 and P87 established that to document the necessary CVA processes would cost £30,000. Furthermore, these would cost approximately £2,000 per incident to operate. In addition it was established that it would take a minimum of 13 weeks to develop the processes and that the work should be performed as a part of a planned release within the CVA Release Programme. It was this that determined the earliest Implementation Date as the 24 June 2003, should an Authority determination be received before 24 February 2003.

The Group did not believe the Proposed Modification would better facilitate the achievement of the Applicable BSC Objectives (See Section 5.1.2 of [RD/1]), however the majority of the Group did believe that the Alternative Modification would better facilitate the achievement of the following Applicable BSC Objectives:

(b) **the efficient, economic and co-ordinated operation by the Transmission Company of the Transmission System** - would be satisfied by compensating for the full period of the Transmission System fault, since it would not only expose the Transmission Company to the economic consequences of Transmission System failures, but it would also recognise that the Transmission Company was in the best place to manage the event and determine the correct trades to both balance the Transmission System, and also take the Party out of imbalance;

(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** - would be satisfied because a fault on the Transmission System represents an unmanageable risk for those participants dependent on a connection to the Transmission System. The degree of exposure to imbalance, and the difficulty and financial impact a Party may face in having to quickly trade out of imbalance, would vary depending on the Party and the type of Plant. For some combinations this would reduce their ability to compete.

The Group recognised there would be an administrative overhead to operate these procedures, and that this was made more complex by operating at the boundary of the BSC. However, the Group believed that the potential consequences to the affected Party were sufficient to ensure that the Alternative Modification would better facilitate the achievement of the Applicable BSC Objectives.

Under the Alternative Modification Consumption BM Units do not receive any further compensation, beyond retention of SSP for any spill. The majority of the Group believed that it could not be shown that BSC Objective (c) would be better achieved by providing further compensation. The majority of demand is registered within SVA and hence the associated risk is shared amongst other Suppliers within the GSP Group, it would therefore be difficult to show that further compensation would improve competition amongst Suppliers. In addition the difficulty that BSCCo and the Panel would face in determining an equitable level of compensation would be significant and this would have a detrimental effect on the achievement of Applicable BSC Objective (d) 'promoting efficiency in the implementation and administration of the balancing and settlement Arrangements'.

In so far as the issue of discrimination was concerned, the Group concluded that the preferred approach enabled the most appropriate level of compensation to be paid to CVA registered Production BM Units (i.e. those most dependent on a connection to the Transmission System), in all cases, at the lowest overall cost, as compared to the status quo and the other approaches considered. Hence, Applicable BSC Objectives (b) and (c) are better achieved under Alternative Modification P80.

8 SUMMARY OF REPRESENTATIONS

The responses received to the draft Modification Report issued for consultation on 22 November 2002 are attached as Annex B. XX responses, representing a total of XX Parties, were received.

[TO BE COMPLETED]

ANNEX A – PROPOSED TEXT TO MODIFY BSC

Attached as separate document

ANNEX B – REPRESENTATIONS

Responses from P80 Draft Modification Report Consultation
(Consultation issued 22 November 2002)

Representations were received from the following parties:

No	Company	File Number	No. Parties Represented
1.			

[TO BE COMPLETED]