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DRAFT MODIFICATION REPORT
MODIFICATION PROPOSAL P80 - Deemed Bid
Offer Acceptance for Transmission System faults

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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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

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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 during the Modification Procedures, 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 P80 Modification Group ("the Group") developed an Alternative Modification. The Alternative Modification is similar to the Proposed Modification in that it covers the full duration of the fault¹, 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;

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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.

- **Extra Cashflow** – an extra Panel determined cashflow to provide additional compensation over and above compensation (if any) delivered through “Settlement Correction”.

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 dependent² 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 dependent² 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.

The majority of respondents to the Report Phase consultation expressed support for the Panel's recommendation.

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.

1.1.1.1

² This statement relates to the trading of electricity by BSC Parties and in particular Settlement under the Code.

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 (BMWWP). 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.

A draft Modification Report was prepared and sent to Parties on 22 November 2002 for consultation by 04 July 2002. Subsequently the draft Modification Report has been

amended in the light of the representations received, together with a summary of those representations.

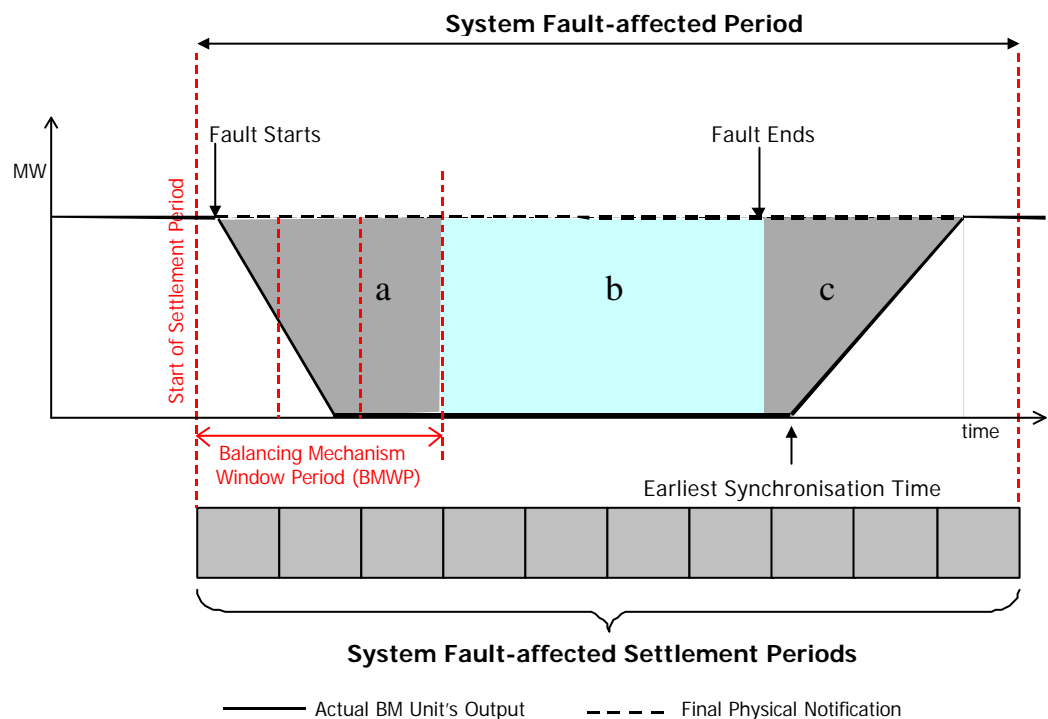
4 DESCRIPTION OF MODIFICATION PROPOSAL

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
<ul style="list-style-type: none"> • Compensation under P80 is limited to “Eligible BM Units”, i.e. BM Units that: <ul style="list-style-type: none"> • 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”.
<ul style="list-style-type: none"> • 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 Code, after taking into account the BM Unit's prevailing Dynamic Data Set, will be used³. 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.
- 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;

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³ 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 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)⁴.

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 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

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⁴ This would need to be specified outside the BSC and is not part of this Modification.

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 unmanageable 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

15 responses (on behalf of 48 BSC Parties and 3 non-BSC Parties) were received in respect of the draft Modification Report for Modification Proposal P80. In summary:

- 9 responses (45 BSC Parties) supported the provisional recommendations contained within the draft Modification Report that the Alternative Modification should be made;
- 5 responses (2 BSC Parties and 3 non-BSC Parties) did not support the provisional recommendations and believed that neither the Proposed nor the Alternative Modification should be made; and
- 1 response (1 BSC Party) made no comment in respect of the draft Modification Report.

Some respondents, who supported the Alternative Modification, registered concern that the Alternative Modification did not cover Consumption BM Units. However, these respondents also recognised the difficult issues the Group had considered, and believed that the Alternative Modification was a pragmatic solution and, if necessary, could be enhanced by future Modifications.

A further response believed that further Modification Group discussions (possibly utilising a Standing Modification Group) might be of benefit. It should be noted that the Panel, in its consideration of the P80 Assessment Report highlighted the possibility that further Modification Proposals may be forthcoming.

One of the responses in support did further suggest that the Transmission Company should offer alternative arrangements (presumed to be contractual in nature) to those not covered by the Modification Proposal (and in similar timescales to any associated approval of P80).

Of those responses that did not support the Panel's recommendations, two responses (including the Transmission Company) believed a solution should be defined outside the

BSC. This issue had been considered by the Group and the majority of the Group believed that the solution was appropriate as it addressed imbalance exposure under the BSC (see section 4).

3 responses (from non-BSC Parties) believed that the recommendation was discriminatory and that equal access to compensation was required for Consumption BM Units. These respondents were concerned about any consequential impact on themselves, and that the economic consequences of disruption are generally more than the total value of the lost energy.

These respondents did not believe that providing the Supplier with SSP was sufficient, noting that SSP can be small, or indeed negative, and that in many cases the energy rates in the original bilateral contracts would be higher. They believed this would ultimately be reflected in the charges to themselves. However, no alternative solutions were suggested. Specific comments included:

- the importance of continuing to receive supplies of power;
- the idea that unreliability on the supply side is more acceptable because it is expected, is unfair and unprogressive;
- customers with Half Hourly metering could be identified as having suffered an interruption and that compensation could be calculated for them;
- a suggestion that the Authority may have fettered its discretion, as regards Modification Proposal P80, by not asking for legal drafting;
- that it is misleading to suggest that compensation for suppliers would not enhance competition. Under the rules which seemed likely from the Proposed Modification, Suppliers could compete on the types of scheme they could offer customers for the disruption suffered.

The Group had discussed these concerns in general and the issue of application to consumption had been one of the reasons why the Group had requested an extension to the Assessment Procedure. The Group had initially attempted to create an Alternative Modification that included Consumption BM Units. However, as described in Section 8 of Assessment Report [RD/1], drafting of the solution and legal text had proved problematic. The main difficulty had been demonstrating a causal link between a Transmission System fault and the impact on a Supplier, based on the data available within the central BSC Systems⁵. Consideration of this issue had led to the Group to agreeing that, by proposing a solution which addresses CVA Production BM Units, it still better facilitates the achievement of the Applicable BSC Objectives.

The Transmission Company in their response raised two new concerns about the legal text. These related to cases where Transmission System faults may be declared due to over-sensitive protection systems, or due to Force Majeure. It should be noted that the drafting gives the Transmission Company the sole right to raise a "Settlement Correction" and that subsequently if a Party makes a claim for an "Extra Cashflow", then that Party must demonstrate the costs were caused by a Transmission System fault, and the Transmission Company is consulted on any such claim. Though the drafting does not directly address

1.1.1.1

⁵ Within SVAA individual metering readings are not available and have been aggregated at the previous stage by a Supplier's Agent. In addition there is no reliable forecast at GSP Group level for what the Supplier had intended prior to the fault.

over-sensitive protection or Force Majeure⁶, it does provide the means for the issues to be considered. Therefore it is proposed that no amendments are made.

1.1.1.1 _____

⁶ It should be noted there are no explicit System Force Majeure arrangements in the Code, but the Alternative Modification excludes instances of Black Start, which are covered by separate arrangements in Section G.3 of the Code.

ANNEX A – PROPOSED TEXT TO MODIFY THE CODE

Attached as separate document

ANNEX B – REPRESENTATIONS

Responses from P80 Draft Report Consultation

Consultation issued 22 November 2002

Representations were received from the following parties:

No	Company	File Number	Number of BSC Parties Represented	Number of Non-BSC Parties represented
1.	EdF Trading and EdF Generation	P80_DR_001	2	
2.	Scottish and Southern	P80_DR_002	4	
3.	BOC Gasses	P80_DR_003		1
4.	British Gas Trading	P80_DR_004	1	
5.	Corus Group	P80_DR_005		1
6.	Aquila Networks	P80_DR_006	1	
7.	Utility Consumers Consortium	P80_DR_007		1
8.	British Energy	P80_DR_008	3	
9.	Immingham CHP LLP	P80_DR_009	1	
10.	SEEBOARD Energy	P80_DR_010	1	
11.	Scottish Power	P80_DR_011	6	
12.	Powergen	P80_DR_012	15	
13.	Innogy	P80_DR_013	9	
14.	NGC	P80_DR_014	1	
15.	LE Group	P80_DR_015	4	

P80_DR_001 – EdF Trading and EdF Generation

On behalf of EdF Trading Ltd and EdF (Generation) please note that we believe the Alternative Modification meets the relevant BSC Objectives better than the current arrangements, for the reasons laid out in the report. Furthermore, in giving our support for the Alternative P80, we believe that P80 should be rejected.

However we are concerned that there are categories of User who will still not benefit from this Modification and that, as such, there is now an issue of undue discrimination which needs addressing before the modification should be approved.

We acknowledge that this issue was recognised by the Panel. As the report states

'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.'

However, we find such a statement as unacceptable and that it should not be up to these disaffected Parties to find one or more other solutions to this common problem, especially as a solution may well not be possible through the BSC directly.

The report though highlights that compensation under P80 is limited to "Eligible BM Units", i.e. BM Units that:

- are Production BM Units
- are registered with CVA Metering System
- 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".

We believe that the latter bullet point illustrates a potential solution. Those Users not covered by P80 should have such alternative (presumably contractual) arrangements offered to them by National Grid in timescales commensurate with the introduction of P80, should P80 be approved for implementation. Furthermore the terms should be compatible with compensation that might otherwise have been reasonably expected had it been possible to cover them with P80. This would in our view avoid claims of undue discrimination and we suggest that any recommendation for approval should include such a provision.

Regards
Steve Drummond
UK Market Adviser to EdFT

P80_DR_002 – Scottish and Southern

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 22nd November 2002, and the associated Draft Modification Report for P80, we agree with the proposed BSC Panel recommendation to the Authority that the Original Modification Proposal P80 should not be made.

We do agree with the proposed BSC Panel recommendation that the Alternative Modification Proposal P80 should be made.

Regards
Garth Graham
Scottish & Southern Energy plc

P80_DR_003 – BOC Gasses

BOC welcomes the opportunity to respond to the above report.

BOC does not support the report as drafted.

BOC believes that the report is not even handed and favours CVA generators at the expenses of other generators and the demand customers.

BOC has a directly connected site at it is just a important for us (as for CVA Generators to be able to transmit power) to continue to receive supplies of power to support our air separation process and for BOC to support our customers many of whom operate continuos processes for which a reliable and economic source of industrial gases is vital.

Of course outages effecting BOC sites connected to the distribution system caused by transmission faults are no more acceptable to us.

The idea that unreliability on the supplier (demand side) is more acceptable than because it is more frequent is unfair and unprogressive.

Costs involved in imbalances for suppliers will be passed on to customers.

I feel that the Mod. group should really try to be a bit more customer focused!

I hope you find these comments helpful.

With best wishes

Hugh Mortimer
Commercial Manager
BOC Gases

P80_DR_004 – British Gas Trading

Thank you for the opportunity of responding to this draft modification report considering Modification Proposal P80 (P80). British Gas Trading (BGT) do not support the original or alternative Modification Proposal. Whilst recognising this is a very complex area BGT are disappointed that the Modification Proposal only provides a solution for generation. The proposed solution delivered by P80 is moving the issue forward and we realise the difficulties associated with the demand side but we would welcome further analysis of this issue. We would recommend that, at least, one of the standing modification groups could take forward this issue.

BGT still do not believe that the BSC is the correct place to be addressing issues related to compensation for the lack of access to the transmission system. Whilst realising the need for an appropriate compensation methodology we believe mechanisms outside the BSC should deliver the redress. When P80 was being considered by the Modification Group Modification Proposal P71 was not within the BSC baseline. However in view of the Authority's recent decision to direct this Modification to the BSC the intent of which is to transfer imbalance exposure from a BSC Party to the System Operator, in our view this route maybe a more appropriate solution. This would then allow the BSC Party to pursue any compensation claims it may have via a more appropriate arena, CUSC.

Yours faithfully
Mark Manley
Contracts Manager

P80_DR_005 – Corus Group

Corus has read the draft report with considerable dismay. What started out as a perfectly reasonable proposal, P80, has been replaced by an alternative which discriminates blatantly between generation and demand.

The proposed alternative would not better facilitate competition in supply for the same reasons that are advanced for making the modification for generation, namely, that a fault on the transmission system represents an unmanageable risk for those participants dependent on a connection to the system. As the mod group seems to recognise, suppliers are also exposed to the same generic risk of imbalance. Exposure to this constitutes a barrier to entry and increases costs to end-users as it is they who ultimately pay for risk. Also the group says "there is naturally less certainty for suppliers [and] that they typically face risks of greater magnitude...."

Bearing in mind the incidence of lost supply in the past 5 years has been much greater than disconnection of generation, what the group seems to be saying in essence is that supply is so inherently risky that it not worth bothering worrying about this particular risk and it is all too difficult anyway. If the issue were not so serious, it would be laughable. The group tries to console demand by saying they will continue to receive SSP for any spill. Given that SSP can be very small or indeed negative, it is almost certain that the energy rates in the suppliers' bi-lateral contracts with generators will be higher and they will suffer a loss as a result.

Having dismissed SVA BM units, the group proceeds to recommend restricting compensation to CVA registered Production BM units who they say are "those most dependent on a connection to the transmission system." What is the basis for independent group of experts making such an assertion? Along with a few other large users, we have a number of sites which are directly connected to the transmission system (and in CVA) that are just as dependent on a connection. It is particularly galling for us not to receive electricity and as a result our suppliers suffer imbalance charges, which are ultimately reflected in the cost of doing business with us.

It is also surprising that the group proceeded with consideration of the alternative as exclusion of half the market seems a considerable deviation from the original proposal.

We therefore do not agree with the Panel's recommendations. We believe in principle that Modification P80 should be made, although in practice OFGEM may have no choice but to reject it because the group did not develop the Modification. Indeed OFGEM may have fettered its discretion in considering P80 by indicating that legal drafting was not required. We also firmly believe that the Alternative Modification P80 should be rejected.

P80_DR_006 – Aquila Networks

Please find that Aquila Networks Plc response to P80 Consultation on draft Modification Report is 'No Comment'.

Regards

Rachael Gardener

Deregulation Control Group &

Distribution Support Office

AQUILA NETWORKS

P80_DR_007 – UCC

The Utility Consumers Consortium is grateful for the opportunity to comment on the above Consultation Paper and Recommendations on behalf of its members and offers the following comments.

Compensation for Consumption BM Units is variously described as arbitrary, unable to facilitate competition in supply and potentially discriminatory.

Taking the last first, the UCC recognises the difficulties between a failure at one GSP Point and the coverage of a GSP Group. However, half-hourly customers if not others (whether classified in CVA or SVA) can be identified as suffering interruption: compensation can be hypothecated to them and their suppliers fairly readily. To exclude them from compensation on the grounds of potential discrimination seems extraordinary when the proposed compensation is excluding half the market, namely the demand side.

It is noted that a good proportion of respondents to the first consultation appeared to be advocating equal treatment for both sides of the market. What is being proposed is even less equal than first appears: to suggest that for suppliers the continued receipt of SSP following an NGC 'interruption' is some form of 'benefit' is misleading: SSP is most unlikely to match the contract prices that virtually all suppliers will have to pay. Under these circumstances the supplier loses and the customer suffers the economic consequences of disruption, generally far more than the total value of the electricity they would have otherwise received.

It is also misleading to suggest that compensation for suppliers would not enhance competition: under the rules which seemed likely from the original Modification, suppliers could compete on the types of scheme they could offer customers for the disruption suffered. At one end of the spectrum, some suppliers might pass through the full benefit received to each HH customer, say; at the other end, some form of blanket allowance akin to payments currently made for interruption by distribution businesses might be made.

Bearing in mind some of the historical analogies which spring to mind when considering these proposals, I could say more but will refrain from doing so.

Yours sincerely,
Bob Spears

Chairman,
UCC

P80_DR_008 – British Energy

British Energy strongly supports the recommendations set out in the report as regards the implementation of P80 alternative which will result in Production BMU's being held harmless to imbalance charges in the event of a transmission system failure for the 'system fault affected period'. Such a change will better facilitate BSC objectives (b) and (c). However, we continue to believe that the scheme should be introduced on the same timescale as P87 alternative given that the practices and processes involved are almost identical.

Regards
Rachel Ace

On behalf of

British Energy Generation
British Energy Power and Energy Trading
Eggborough Power Ltd

P80_DR_009 – Immingham CHP LLP

Thank you for the opportunity of commenting.

Immingham CHP LLP strongly support the proposed modification P80 Alternative to deem offer/bid acceptances in the event of transmission failure, which in our view better meets the applicable objectives than either the status quo or P80 Original. Individual market participants have no protection against system failures, and NGC is best placed to manage the risk associated with these.

We note that the proposed solution is limited to Production CVA registered BM Units, but would hope to see a solution developed before too long that provides equivalent safeguards for demand.

Please contact me on 020 7408 6075 or Rekha Patel on 020 7408 6233 should you wish for clarification or further comment on our views.

Andrew Murray

P80_DR_010 – SEEBOARD Energy

With reference to draft modification report, dated 22nd November 2002, regarding proposal P080 (Deemed Bid/Offer Acceptance For Transmission System Faults). We agree with recommendations within section 1.1 of that report and implementation dates detailed.

Our only concern is that this recommendation to accept alternative is linked to proposed alternative modification to P087 (Removal of Market Risk Associated with Operation of a Generator Inter-Trip Scheme). This modification is still being assessed by Ofgem and no decision on this has been made prior to our comments being sought on modification P080. If alternative solution to modification P087 is rejected will recommendations in draft modification report for P080 need to be re-examined as from details within this report it is suggested that P087 alternative is a requirements for P080 alternative to be effective.

Dave Morton
SEEBOARD Energy Limited

P80_DR_011 – Scottish Power

With reference to the above, we wish to reiterate the view which we have previously expressed in support of P80 Alternative. We believe that this option provides BM Units with some form of compensation for incidents over which they have no control and which would pose an unmanageable risk, and ensure that NGC's requirement to manage the Transmission system efficiently and economically is brought into sharp focus. It also ensures that the affected BMU is compensated for the duration of the system fault and not just for the BMWP.

We agree that P80 Alternative would better facilitate the achievement of the Applicable BSC Objectives (b) and (c), and therefore confirm our support of the Panel's recommendation to approve P80 Alternative and to reject P80 Original.

We have also considered the legal drafting (including the slight amendment to one of the sub-paras in Q5.6A highlighted in the Mod Report), and found them to be appropriate.

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: - *Scottish Power plc; ScottishPower Energy Trading Ltd.; Scottish Power Generation plc; ScottishPower Energy Retail Ltd.; SP Transmission plc; SP Manweb plc*

P80_DR_012 – Powergen

I am writing in response to the consultation on the above draft modification report. This response is made on behalf of 15 BSC Parties* in the Powergen group.

Powergen supports the recommendation of the Panel that the alternative modification proposal for P80 should be implemented. This we believe provides a pragmatic solution to a somewhat complex issue. We believe that a solution involving the original principle of accepting a bid or offer would have been the most pure approach. However, due to the existence of similar issues to those which arose during the assessment of P87, we believe that the removal of the imbalance for generation BMUs with the ability to make a claim for compensation was an acceptable alternative solution. It also has the benefit of being entirely consistent with the solution devised for P87.

Yours sincerely,
Paul Jones
Trading Arrangements

* Powergen UK plc, Powergen Retail Limited, Diamond Power Generation Limited, Cottam Development Centre Limited, TXU Europe Drakelow Limited, TXU Europe Ironbridge Limited, TXU Europe High Marnham Limited, Midlands Gas Limited, Western Gas Limited, TXU Europe (AHG) Limited, TXU Europe (AH Online) Limited, Citigen (London) Limited, Severn Trent Energy Limited (known as TXU Europe (AHST) Limited), TXU Europe (AHGD) Limited and Ownlabel Energy Limited

P80_DR_013 – Innogy

The following comments are made on behalf of Innogy plc, Npower Limited, Innogy Cogen Trading Limited, Innogy Cogen Limited, Npower Direct Limited, Npower Northern Limited, Npower Yorkshire Limited, Npower Northern Supply Limited, Npower Yorkshire Supply Limited.

We note that the BSC Panel is recommending that Modification Proposal P80 is rejected by the Authority and that Alternative Modification P80A (P80A) is approved by the Authority.

We have previously supported P80 since we believe this Modification Proposal correctly values the costs imposed on a Party as the result of transmission failures. It would appear that the Panel is recommending rejection of P80 because of fears concerning the prospect of large negative bids being lodged by Parties. Our view is that this fear is unfounded since NGC could enter into commercial arrangements to preclude it, or if the Party's bid followed a transmission event Competition Law would apply. An alternative approach may be to collar bids under defined circumstances. However, if the Authority is minded to reject P80, then we would see P80A as a "second best" option since it provides for a route to compensation where currently there is none.

P80_DR_014 – NGC

Whilst we have no specific comments on the draft report we would like to reiterate the views that we have raised earlier on the following issues:

1. As we have stated in the past we do not believe that it is appropriate for the BSC to be considering the periods outside the Balancing Mechanism as we consider this to be Ultra Vires.
2. We believe that the only clear way to define a System fault is as the de-energisation of National Grid owned equipment so as to sever all connections to a directly connected BM Unit.
3. It is unclear how the legal drafting captures instances of over sensitive protection systems that result in an Eligible BM Unit being disconnected (or to have forced deviation from FPN) due to a loss of a connection which would not normally cause a disconnection.
4. In addition the legal drafting does not address Force Majeure. It would be usual in cases of Force Majeure to ensure that a parties position was made neutral however in terms of this modification it is our belief that in the case of Force Majeure the 'Extra Cashflow' should not apply.

If you require any further clarification of these points please do not hesitate to contact us.

P80_DR_015 – LE Group

Please note the following comments in response to the P80 Modification Report on behalf of LE Group (representing London Electricity Plc, Jade Power Generation Ltd, Sutton Bridge Power, West Burton Ltd).

We agree with the recommendation of the Modification Report that P80 Alternative better meets the applicable BSC objectives (b) and (c) and should therefore be approved. We believe that the solution offered by P80 Alternative effectively removes the risk associated with faults on the transmission network from those participants that face the greatest level of unmanageable risk.

We do not believe that P80 Original adequately addresses this issue as it does not take into account the full duration of the effects of transmission faults on participants and we therefore agree with the recommendation that P80 Original be rejected.

We recognise that the proposed modification does not extend to all classes of participant. However, we agree with the assessment of the modification group that the proposed solution was not appropriate for all classes of participant due to the difficulty in establishing a causal link between a Transmission system fault and certain types of BM Unit. Nevertheless, we believe there is scope for further developments, not necessarily within the BSC, to address the risk of transmission network failure to those participants not covered by this modification.

Best regards
Rupert Judson on behalf of Liz Anderson
LE Group Plc