August 2001

DEFINITION REPORT

MODIFICATION PROPOSAL P25 – Commissioning Status in NETA

Prepared by the P25 Modification Group on behalf of the Balancing and Settlement Code Panel

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b Distribution

Name	Organisation
Panel	
Modification Group	
BSC Parties	

c Intellectual Property Rights and Copyright

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1 SUMMARY AND RECOMMENDATIONS

See separate document

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 ('BSC'). The BSC is the legal document containing the rules of the balancing mechanism and imbalance settlement process and related governance provisions. ELEXON is the company that performs the role and functions of the BSCCo, as defined in the BSC.

Modification Proposal P25, "Commissioning Status in NETA", (the "Proposal") was submitted by BP Gas Marketing Limited (the "Proposer") on 25 June 2001. An Initial Written Assessment of the Proposal was considered by the Panel meeting on 12 July 2001, and the Panel recommended that the Proposal be progressed through the Definition phase, for report back to the Panel on 23 August 2001.

An electronic copy of Initial Written Assessment can be found on the BSC website, at www.elexon.co.uk

3 PURPOSE AND SCOPE OF THE REPORT

BSC Section F sets out the procedures for progressing proposals to amend the BSC (known as 'Modification Proposals'. These include procedures for proposing, consulting on, developing, evaluating and reporting to the Authority on potential modifications.

The BSC Panel is charged with supervising and implementing the modification procedures. ELEXON provides the secretariat and other advice, support and resource required by the Panel for this purpose. In addition, if a modification to the Code is approved or directed by the Authority, ELEXON is responsible for overseeing the implementation of that amendment (including any consequential changes to systems, procedures and documentation).

The Panel may decide to submit a Modification Proposal to the 'Definition Procedure'[1]. In such cases, the Panel commissions a Modification Group to define the issues raised by a Modification Proposal in sufficient detail to enable the Panel to determine whether to: refer the proposal back to the Modification Group for further analysis; submit the proposal to the Assessment Procedure[2]; or proceed directly to the Report Phase[3].

The Modification Group is therefore tasked with reviewing the Modification Proposal with a view to providing clarification and definition where there is insufficient detail in the proposal to allow the Panel to decide whether to proceed with a detailed evaluation. The Modification Group must prepare a written report for the Panel that sets out the following matters[4]:

a) An assessment of the issues raised by the Modification Proposal with supporting information and data to explain the effect of such issues by reference to the Applicable BSC Objective(s)[5] and a summary of such assessment;

b) An analysis of and the views and rationale of the Modification Group as to whether (and, if so, to what extent) the issues raised by the Modification Proposal warrant further assessment and evaluation under the Assessment Procedure;

c) A detailed summary of the representations made by Parties and interested third parties during any consultation undertaken by the Modification Group and the comments and views of the Modification Group in respect thereof;

d) A summary of any analysis prepared by the Transmission Company and the comments and views of the Modification Group in respect thereof;

e) A summary of the analysis prepared by relevant BSC Agents and the comments and views of the Modification Group in respect thereof;

f) Where applicable, a copy of the terms of reference and a summary of any report or analysis of external consultants or advisers; and

g) Such other matters as the Panel may require in the terms of reference of the relevant Modification Group.

This Definition Report therefore addresses all of the above items to the extent relevant to the Modification Proposal in question.

[1] See BSC F2.5
[2] See BSC F2.6
[3] See BSC F2.7
[4] See BSC F2.5.4
[5] As defined in the Transmission Licence

4 MODIFICATION GROUP DETAILS

This Definition Report has been prepared by a Modification Group convened specially for the purposes of considering this Proposal, the "P25 Modification Group". The Membership of the Modification Group was as follows:

Mark Simons, BP (Proposer)

Justin Andrews, ELEXON (Chairman)

Rob Barnett, Campbell Carr for AES Fifoot Ltd.

Chris Price, PowerGen

Richard Lavender, NGC

Hannah McKinney, Conoco for Immingham CHP Limited

Ben Willis, Npower Yorkshire Ltd.

Richard Ford, St Clements

Adam Higginson, Ofgem

Peter Wibberley, ELEXON

The terms of reference for the Group, set by the Panel, are attached as Annex 3.

5 DESCRIPTION OF PROPOSAL

Having discussed the Proposal, the Modifications Group has developed the definition of P25 that follows in this section. The Proposal has been broken down into two main elements:

(i) the definition of that plant to which imbalance price relief is to be provided; and

(ii) the nature of the imbalance price relief.

5.1 Eligibility for Imbalance Price Relief

5.1.1 Granting of Commissioning Status

Imbalance Price Relief will be accorded to Parties in respect of any BM Unit that has been accorded "Commissioning Status" and has thereby become a "Commissioning BM Unit". Commissioning Status is granted by the Panel following an application by the Lead Party of the relevant BM Unit. To qualify, any Plant or Apparatus which the BM Unit comprises must have been the subject of a Commissioning Qualifying Event, with the list of such Events being:

(i) consent under Section 36 of the Electricity Act (1989), which requires that "a generating station shall not be constructed, extended or operate except in accordance with a consent granted by the Secretary of State"

(ii) consent under Section 14 of the Energy Act (1976), which requires that "a person who proposes to carry out works for the establishment of an electricity generating station to be fuelled by crude liquid petroleum, any petroleum product or natural gas; or for the conversion of an electricity generating station with a view to its being so fuelled" must notify the Secretary of State, who may direct that the proposal is not carried out; or

(iii) any other event that the Panel may designate from time to time as being a Commissioning Qualifying Event.

Note that commissioning Status may only be granted to a BM Unit comprising Plant and Apparatus on a single site, such that a Supplier BM Unit covering a whole Grid Supply Point Group could not be granted Commissioning Status, say as a consequence of the addition of Plant or Apparatus within that GSP Group requiring Section 14 consent[6].

Once Commissioning Status for a BM Unit has been terminated (see below), Commissioning Status cannot be granted again unless there has been another Commissioning Qualifying Event. This arrangement is intended to permit Commissioning Status to be granted in cases where for example a power station has undergone major re-planting but not in instances where there has been only a minor capacity upgrade.

5.1.2 Commissioning Settlement Periods

In respect of any Commissioning BM Unit, a Settlement Day will be a Commissioning Settlement Day in respect of a Commissioning BM Unit if the Lead Party of the Commissioning BM Unit has given notice, received by ELEXON not less than 24 hours before the start of that Settlement Day, that such Settlement Day is to be treated as a Commissioning Settlement Day

[6] Similarly any definition of Commissioning Status being where the BM Unit comprises any Plant or Apparatus which has not previously been part of a BM Unit that has exported could be triggered by insignificant plant upgrades.

Notice, once given, that a Settlement Day is to be treated as a Commissioning Settlement Day may be withdrawn, provided that such notice is received by ELEXON[7] not less than 24 hours before the start of the relevant Settlement Day. That Settlement Day will then not be treated as a Commissioning Settlement Day.

There may be no more than 90 Commissioning Settlement Days for any Commissioning BM Unit. For the avoidance of doubt, there can no more than 90 Commissioning Settlement Days in respect of each occasion on which a BM Unit has been granted Commissioning Status and becomes a Commissioning BM Unit.

5.1.3 Termination of Commissioning Status

Commissioning Status in respect of a Commissioning BM Unit terminates the earlier of:

(a) the end of the Settlement Day immediately preceding the first anniversary of the first Settlement Day on which the Commissioning BM Unit has a positive[8] BM Unit Metered Volume;

(b) the end of the Settlement Day immediately preceding the first anniversary of the first Settlement Day which the Lead Party declares to be a Commissioning Settlement Day;

(c) the end of the 90th Commissioning Settlement Day; and

(d) the end of day following the day on which the Initial Settlement Run is completed for the Commissioning Settlement Day on which any Commissioning Status Exit Criterion is met.

The Commissioning Status Exit Criteria are:

(i) the sum over all the Settlement Periods of the Commissioning Settlement Day of QIIij, divided by the sum over all the Settlement Periods of the Commissioning Settlement Day of absolute value of QME_{ij} is less than 0.05, i.e. $\Sigma_j (QII_{ij}) / \Sigma_j (QME_{ij}) < 0.05$, for 7 consecutive Commissioning Settlement Days finishing with the Commissioning Settlement Day in question; or

(ii) the sum over all the Settlement Periods of the Commissioning Settlement Day of QIIij, divided by the sum over all the Settlement Periods of the Commissioning Settlement Day of absolute value of QME_{ij} is exceeds 0.5, i.e. $\Sigma_j (QII_{ij}) / \Sigma_j (QME_{ij}) > 0.5$, for 7 consecutive Commissioning Settlement Days finishing with the Commissioning Settlement Day in question.

The first of these criteria is deemed to indicate that the Commissioning BM Unit is capable of reliable operation and can not longer be regarded as being commissioning, whilst the second criterion is intended to discourage the abuse of Commissioning Status by declaring FPNs which the Commissioning BM Unit has little realistic expectation of achieving.

5.2 Form of Imbalance Price Relief

5.2.1.1 Commissioning Status Credit Energy Volume

For each Commissioning BM Unit in a Commissioning Settlement Day, a BM Unit Commissioning Status Metered Volume ($QMCS_{ij}$) will be calculated. This will be the shortfall that the Commissioning BM Unit will be deemed to have suffered and on which imbalance price relief is to be granted. $QMCS_{ij}$ will be

[7] Or NGC acting on ELEXON's behalf for the purposes of receiving such notice.
[8] This criterion, along with the list of Commissioning Qualifying Events, would have to be amended if demand-side BM Units were to be included. Although this is currently outside the scope of the Proposal.

calculated as the difference between the Period Expected Metered Volume (QME_{ij})[9] and the BM Unit Metered Volume (QM_{ij}). The sign convention is such that a shortfall in output will give a *positive* $QMCS_{ij}$,,

$$QMCS_{ij} = QME_{ij} - QM_{ij}$$

Thus, $QMCS_{ij}$ can be regarded as a deemed additional metered volume, and is a quantity that will be additional to QM_{ij} in calculations of Account Energy Imbalance Volumes. $QMCS_{ij}$ will be reallocated by any Metered Volume Reallocation that applies to the Commissioning BM Unit to give Commissioning Status Credited Energy Volumes for the Lead and Subsidiary Parties, i.e.

$$QCECS_{ij} = QMPR_{ij} * QMCS_{ij} \text{ for the Subsidiary Party}$$

$$QCECS_{ij} = \Sigma_a QCECS_{ij}$$

Note that any Metered Volume Fixed Realloation ($QMFR_{ij}$)will be have been already reallocated in equation T4.5.1 and, similarly, any Period BM Unit Bid-Offer Volume (QBOij) will be allocated only to the lead Party by the same equation. Hence these quantities do not need to be taken into account again here.

5.2.1.2 Energy Imbalance

Neither the Account Credited Energy Volume ($QACE_{aj}$) nor the Account Energy Imbalance Volume ($QAEI_{aj}$) of each Energy Account of each Trading Party will be affected by the Commissioning Status Credited Energy Volumes of a Trading Party. However, the following applies.

First, a Commissioning Status Account Energy Imbalance Volume ($QACECS_{aj}$) is calculated,

$$QACECS_{aj} = \Sigma_i QCECS_{iaj} ;$$

and then a Commissioning Status Account Energy Imbalance Cashflow ($CAEICS_{aj}$) is calculated thus,

for $QAEI_{aj} + QACECS_{aj} > 0$,

$$CAEICS_{aj} = - (QAEI_{aj} + QACECS_{aj}) * SSP - CAEI_{aj} + (QACECS_{aj} * MP_j)$$

whilst for $QAEI_{aj} + QACECS_{aj} < 0$,

$$CAEICS_{aj} = - (QAEI_{aj} + QACECS_{aj}) * SBP - CAEI_{aj} + (QACECS_{aj} * MP_j)$$

The effect of this is to calculate an imbalance charge that *would* have applied had the Commissioning BM Unit *not* shortfalled. This quantity is represented by $- (QAEI_{aj} + QACECS_{aj}) * SSP_j$ or $- (QAEI_{aj} + QACECS_{aj}) * SBP_j$, depending on whether the resultant imbalance would have been long or short. The cashflow is then split into the existing Account Energy Imbalance Cashflow ($CAEI_{aj}$) and a new Commissioning Status Account Energy Imbalance Cashflow ($CAEICS_{aj}$), with the Trading Party paying the sum of the two.

Thus, for any shortfall that causes an Energy Account to go from long to short, the volume by which the Energy Account is short will be compensated at SBP and the remaining volume, which reduced the amount by which the Energy Account would have been long, is compensated at SSP. This reflects the exactly the additional Energy Imbalance Cashflow incurred as a result of the shortfall.

Note that the Commissioning Status Account Energy Imbalance Volume ($QAEICS_{aj}$) represents energy that has been credited to the relevant Account of the Trading Party and thus reduces the volume charged at SBP_j and/or increases the volume paid at SBP_j. In order to prevent the crediting of 'free'

[9] Note that the Period Expected Metered Volume is the sum of the Period FPN (FPNij) and any Period BM Unit Bid-Offer Volumes (QBO

energy, thereby creating a perverse incentive to over-declare FPNs during Commissioning Settlement Periods, the Commissioning Status Account Energy Imbalance Cashflow ($CAEICS_{aj}$) includes a deduction of $QAEICS_{aj}$ priced at the Market Price (MP_j). MP_j is a price representing the price of energy in the forwards markets, and is derived from a source or sources of price data, as designated by the Panel from time to time.

Market Price would be a price based on a recognised index or combination of indices, representing the value of short-term energy, i.e. the spot value, in the bilateral markets. The Panel will, from time to time, consult on and designate the basis of the Market Price.

5.2.1.3 Residual Cashflow Reallocation Cashflow

Two aspects concerning to Residual Cashflow Reallocation Cashflow ($RCRC_{aj}$) are addressed in the Proposal.

First is the funding of the Commissioning Status Account Energy Imbalance Cashflow from Total System Residual Cashflow (TRC_j). BSC Section T, equation 4.7.2 is amended with the addition of,

$$TCEICS_j = \Sigma_a CAEICS_{aj}$$

where $TCEICS_j$ is the Commissioning Status Total System Energy Imbalance Cashflow.

Furthermore, T4.10.1 is amended then to read,

$$TRC_j = TCII_j + CSOBM_j + TCND_j - TCBM_j + TCEI_j + TCEICS_j$$

Second is the entitlement to $RCRC_{aj}$ of the Lead Party in respect of the Credited Energy Volumes of the Commissioning BM Unit. Recognising that a Commissioning BM Unit is immune from exposure to imbalance prices, it can be deemed inappropriate that the Credit Energy Volumes of such a Commissioning BM Unit should attract RCRCj, which comprises, principally, the cashflow resulting from the imbalance price exposure of other BSC Parties. Accordingly, T4.10.2 is amended to read,

$$RCRP_{aj} = \{ \Sigma^{+CS}{}_i(QCE_{aij}) + \Sigma^{-CS}{}_i(-QCE_{aij}) \} / \Sigma_a \{ \Sigma^{+CS}{}_i(QCE_{aij}) + \Sigma^{-CS}{}_i(-QCE_{aij}) \}$$

where $\Sigma^{+CS\,I}$ is, for each Energy Account a in Settlement Period j, the sum over all BM Units i that are in delivering Trading Units and that are not Commissioning BM Units,

and Σ^{-CS} is, for each Energy Account a in Settlement Period j, the sum over all BM Units i that are in off-taking Trading Units and that are not Commissioning BM Units.

5.2.1.4 Worked Example

A worked example is included as Annex 2. This demonstrates a Lead Party that would be long, but for a shortfall on the Commissioning BM Unit. The Lead Party is compensated for the extent that it is short at the System Buy Price and for the extent that it would otherwise have been long at the System Buy Price. In addition, a charge is made on the Commissioning Status Credited Energy Volume, representing the volume of energy credited to the Party's Account but which was not generated, at the Market Price. This is intended to remove the incentive to overstate FPNs.

Note that, if a Party would have spilt but for the shortfall, the incremental change in revenue on the shortfall corresponds to the Market Price. This is equivalent to the revenues forgone on each MWh by any generator that does not generate and contract. Thus, the generator should be indifferent as to whether or not it overstates FPNs and contracts. Note also that a *non* Commissioning BM Unit that spills rather than contracts foregoes a revenue of Market Price (from the bilateral market) less the

System Sell Price for each MWh spilt rather than contracted, so that a Commissioning BM Unit, if it chooses not to contract, also will suffer this loss.

5.3 Transitional Arrangements

Trading Parties may apply for Commissioning Status in respect of existing BM Units. However, if granted, the termination of Commissioning Status one year after the Settlement Day of first export will still apply, irrespective of whether such Settlement Day occurred after or before the Go-Live Date.

Providing a Commissioning Qualifying Event has occurred, then the granting of Commissioning Status, and the consequential determination of Daily Commissioning Status Energy Imbalance Cashflows may be applied retrospectively to the period starting with the Go-Live Date up to and including the Settlement Day on which the BSC is modified in accordance with the Proposal. The requirement for 24 hours notice that a Settlement Day is to be treated as a Commissioning Settlement Day is waived for such retrospective applications of the Proposal.

6 ISSUES RAISED BY THE PROPOSED MODIFICATION

No assessment of the Proposed Modification has been undertaken at this stage. Nevertheless, the Proposer has suggested that the Proposed Modification will better achieve the Applicable BSC Objective, as defined in the Transmission Licence, of promoting effective competition in the generation and supply of electricity, by bringing new plant on to the system and thus making the market more competitive.

In addition, a number of issues were raised during Definition that could affect the assessment of the Proposal, or any decision to define an Alternative Proposal. These were:

(i) Procedures will need to be defined covering the granting of Commissioning Status;

(ii) Whether Commissioning Status could be granted to 'demand-side' BM Units and, in which case, what the Commissioning Qualifying Events would be;

(iii) If the Proposed Modification were to permit Commissioning Status to be granted to 'demand-side' BM Units with Commissioning Status terminating a year after the first Settlement Day of first *im*port, it would need to be possible still for 'generation' BM Units to import *prior* to that start of the year in which Commissioning Settlement Days can be declared;

(iv) Whether the compensation would be most easily implemented through a new Trading Charge, Daily Party Commissioning Status Energy Imbalance Cashflow, which might require substantial amendments to central and participants' systems, or through an amendment to the existing Daily Party Energy Imbalance Cashflow;

(v) Whether there is any equivalent relief that could be provided for generating plant, such as small generators and renewables, that is not part of a BM Unit and in respect of which the Lead Party does not submit separate FPNs;

(vi) Whether a limit of 90 for the number of Commissioning Settlement Days is appropriate, or whether some other number is required to accommodate all types of plant that reasonably might be expected to connect to the system;

(vii) Whether the time period of one year is appropriate for the applicability of Commission Status.

In addition, the following aspects of the Proposal as defined in Section 5 should be noted:

(a) Immunity from imbalance price exposure could be achieved by notifying a 100% Metered Volume Percentage Reallocation to the Transmission Company, along with a Metered Volume Fixed Reallocation of minus the Period FPN. This will have the effect of allocating a fixed quantity, equal to the FPN, to the Lead Party. The imbalance risk is allocated to the Transmission Company, but the Transmission Company does not incur any imbalance price exposure on these quantities. This might provide an expedient means of implementing the arrangement, although:

i. it will affect imbalance volumes that are reported for the Transmission Company, which could have an impact on the Transmission Company;

ii. it is not compatible with the notion of an MVRN with a Subsidiary Party. Arguably, however, if the Commissioning BM Unit is immune to imbalance risk, there is little point in an MVRN, and a Energy Contract Volume Notification will be equally effective during Settlement Periods in a Commissioning Settlement Day; and

iii. would result in Residual Cashflow Reallocation Cashflow continuing, as currently specified in the BSC, to the Commissioning BM Unit on the basis of the Credit Energy Volume.

(b) Given the small number of Commissioning BM Units and the relatively infrequency of the application of the rules, implementation via some form of manual procedure may be appropriate. The practicality of such a manual procedure might be dependent on the basis of Residual Cashflow Reallocation Cashflow continuing as currently specified in the BSC.

7 REPRESENTATIONS BY PARTIES AND INTERESTED THIRD PARTIES

7.1 Summary of Representations

Thirteen responses were received to the consultation on the Initial Written Assessment. Of these three responses supported the Proposal; two opposed the Proposal as currently drafted, and eight responses opposed the Proposal in principle.

Views in favour of the Proposal were that it would promote competition by not unduly exposing commissioning plant to imbalance prices, and that exposure to imbalance prices that do reflect the fundamentals of supply and demand create a barrier to entry that the Proposal would reduce.

Views against were that the Proposal constituted an unnecessary cross-subsidy for commissioning plant and that recent behaviour of the balancing mechanism would result in significant revenues. Although these revenues may be less than might have been received under the Pooling and Settlement Agreement, it was suggested that the revenues under the P&SA failed to reflect the costs imposed by the unreliable nature of commissioning plant.

Opponents to the Proposal as drafted suggested that Physical Notifications might not be the best means of notifying NGC of the intended behaviour of commissioning plant an also that embedded plant was not exempted by the Proposal. There were concerns that Parties may have an incentive to over-contract and that there would also be an incentive not to follow commissioning plans too closely for fear of losing Commissioning Status.

7.1.1 Other Views

Other views included:

- whether and how mothballed plant returning to service or re-powered plant could be included;
- striking a balance between possible cherry-picking of poor imbalance performance and the recognition that commissioning is an intermittent process, say, to permit plant modifications to be carried out;
- Trading Parties shouldn't receive RCRC payments in respect of Commissioning BM Unit

7.2 Comments and Views of the Modification Group

The Modifications Group has not considered whether the Proposal better meets the Applicable Objectives, other than to note the views of the consultation. The Group recommended that the Proposal should be progressed through the Assessment Phase, where this can be assessed.

8 RECOMMENDATIONS

The P25 Modification Group recommends that the Panel:

(a) refers the Proposed Modification P25, as defined by this Definition Report, back to the Modification Group for Assessment and that the Assessment Report be completed and presented to the Panel meeting on 18th October 2001; and

(b) directs the Modification Group to take account of the issues identified in Section 6

ANNEX 1 – MODIFICATION PROPOSAL

Modification Proposal	**MP No: 25** *(mandatory by BSCCo)*

Title of Modification Proposal *(mandatory by proposer)***:**

Commissioning Status In NETA

Submission Date *(mandatory by proposer)***:** 25 June 2001

Description of Proposed Modification *(mandatory by proposer)***:**

In order for the Panel to fulfil its' objective under the BSC of "promoting effective competition in the generation and supply of electricity" (Section B 1.2.1 b iii) the Code should seek to actively encourage new generation capacity.

Section A 1.3.1 of the code should include a new category of participation - commissioning power stations. The balance of the differences between accepted balancing mechanism bids and offers (Residual Cashflow Reallocation Cashflow) should be used to offset the imbalance costs incurred by commissioning plants.

New plants would be granted "commissioning status." Once the plant starts commissioning the asset will actively seek to mitigate its' risk in the contracts market, however should the plant find itself out of balance through the failure of the plant to produce its' intended volume it will be held harmless to any cashout exposure. Any imbalance costs incurred would be funded through the Residual Cashflow Reallocation Cashflow (RCRC). Once the plant completes commissioning the asset will become a "Trading Party" and the normal rules of the Code will then apply. The detailed rules of how this would work in practice must not allow for any party to abuse them.

"Commissioning Status" plants must provide NGC with their intended commisioning plan. This must be updated on a daily basis. Any changes between these plants' commissioning plans (which would equate to their PNs) and their metered output, which result in imbalance payments or charges, would be funded through the RCRC.

Once the plant can perform at less than 5% deviation from its' commisioning plans for seven consecutive days (excluding plant outages) the plant will lose its' commissioning status and become a fully fledged BSC party.

If a "commissioning status" plant deviates from its' commisioning plan for seven consecutive days by more than 50%, suggesting that the plant is abusing its' status, it will lose its' commissioning status.

"Commissioning status" will be limited to a maximum of three months, although this does not have to be consecutive.

The information submitted by the commissioning plant (or its' parent trading organisation, or equivalent) to NGC and Logica should enable Elexon to determine if a plant is abusing its' commissioning status. Elexon should be granted further powers to investigate any perceived abuses.

Given the severity of this problem for the industry it is recommended that this modification be back dated to the 27th March 2001.

Description of Issue or Defect that Modification Proposal Seeks to Address *(mandatory by proposer)***:**

Under the Pool commissioning was essentially subsidised by the rest of the industry. At present the Code does not recognise the concept nor unpredictability of commissioning plants and as such commissioning plants are much more vunerable to the balancing mechanism than any other generator. Without the knowledge of how the plant will perform, these stations are not in a position to accurately determine or control what their balancing mechanism exposure actually is. Based on the balancing mechanism prices since the start of NETA and the unreliability of brand new power stations, the substantial risks of the commissioning phase will be a

Modification Proposal	MP No: 25 *(mandatory by BSCCo)*

major disincentive to building new plant.

Under the Pool new plant received PPP for their commissioning output and could thus guarantee an income. Based on the system prices of NETA thus far, it will be virtualy impossible for commissioning plants to gain positive revenues for their generation, let alone cover production costs. Such is the extreme nature of balancing mechanism prices medium sized new plants are likely to make a colossal loss of several million pounds during commissioning.

By centrally funding the cost of commissioning investment decsions on power stations can be made with the confidence that the Balancing Mechanism imbalance exposure can be greatly mitigated. This will encourage new power station investment, thus "promoting effective competiton", driving down prices and fulfilling the objectives of NETA and the BSC.

Impact on Code *(optional by proposer)***:**

Section A will need to include "commissioning status", Sections D and T will also require some amendment to allow for the funding through the Residual Cashflow Reallocation Cashflow.

Impact on Core Industry Documents *(optional by proposer)***:**

NGC's license may need to be amended.

Impact on BSC Systems and Other Relevant Systems and Processes Used by Parties *(optional by proposer)***:**

The SAA and possibly NGC's systems will need to be adjusted.

Impact on other Configurable Items *(optional by proposer)***:**

Justification for Proposed Modification with Reference to Applicable BSC Objectives *(mandatory by proposer)***:**

The current arrangements under the BSC and the system prices evident in the first weeks of NETA do not lend themselves to commissioning plants. A major player in the England and Wales power market was approached to discuss managing the risk faced by a commissioning plant and responded "it is not in our business to enter into suicidal risk management packages such as this."

The Panel have a very active interest in bringing new plant on to the system through their objective of "promoting effective competition." By centrally funding the imblance exposure of commissioning plants through the RCRC The Panel will be fulfilling the primary objective of NETA.

Details of Proposer:

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Modification Proposal	**MP No: 25** *(mandatory by BSCCo)*

Details of Proposer's Representative:

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Details of Representative's Alternate:

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Attachments: NO

If Yes, Title and No. of Pages of Each Attachment:

ANNEX 2 – WORKED EXAMPLE

P25 Modification Group
Commissioning Status Imbalance Calculations

Variable	Acronym	Lead Party BM Units G1	Lead Party BM Units G2	Lead Party BM Units G0	Lead Party Account	Subsidiary Party BM Units G1	Subsidiary Party BM Units G2	Subsidiary Party BM Units G0	Subsidiary Party Account	System
Period FPN	**FPN**			200						
BM Unit Period Bid-Offer Volume	**QBO**			10						
BM Unit Metered Volume	**QM**	500	600	206						
Period Expected Metered Volume	**QME**			210		10				
Metered Volume Percentage Reallocation	**QMPR**	0%	0%	50%						
Transmission Loss Multiplier	**TLM**	1.00	1.00	1.00						
Credited Energy Volume	**QCE**	500	600	108		0	0	98		
Account Credited Energy Volume	**QACE**				1208				98	
Account Bilateral Contract Volume	**QABC**				1199				50	
Account Period Bid-Offer Volume	**QABO**				10					
Account Energy Imbalance Volume	**QAEI**				-1				48	
Commissioning Status BM Unit Metered Volume	***QMCS***			4				0		
	QMPR			50%						
Commissioning Status Credited Energy Volume	***QCECS***			2				2		
Commissioning Status Account Credited Energy Volume	***QACECS***				2				2	
System Buy Price	**SBP**									50
System Sell Price	**SSP**									20
Account Energy Imbalance Cashflow	**CAEI**				50				-960	
Commissioning Status Account Energy Imbalance Cashflow less Market Price adjustment	**CAEICS - QACECS*MP**				-70				-40	
Total of CAEI and CAEICS less MP adjustment					-20				-1000	
Market Price	**MP**									26
Market Price adjustment on QACECS					52				52	
Total of CAEI and CAEICS (with MP adjustment)					32				-948	

ANNEX 3 – TERMS OF REFERENCE OF P25 MODIFICATION GROUP

Specific details of Modification Proposal P25 to be by the Modification Group were as follows:

1. Assist the Proposer in identifying areas of the Proposed Modification that require further defintion including, interalia:

   (i) Definition of Commissioning Plant;

   (ii) Elegibility for Commissioning Status;

   (iii) Definition of Commissioning Plan, including the possible concepts of Commissioning Days or Commissioning Settlement Periods and regularity of updates;

   (iv) Definition of the tests to which the criteria for continued elegibility for commissioning status are applied;

   (v) Whether the proposed relief from imbalance exposure assumes that commissioning plant is always contracted to the level indicated by the commissioning plan and, if so, the proposed relief for commissioning plant that are either uncontracted or contracted at less than the level indicated by the commissioning plan and are thus selling to imbalance settlement;

   (vi) The entitlement of commissioning plant to receive Residual Cashflow Realloocation Cashflow (RCRC); and

   (vii) Detailed definitions for (v) and (vi).

2. Assist the Proposer to ensure that adequate definition is supplied for each of the items idenitifed in (1).

3. To undertake (1) and (2) with a view to identifying potential issues that may arise including, inter alia:

   (a) Incentives on commissioning plant with respect to the submission of FPNs and the level of contracting; and

   (b) Potential impact on the System Operator.

ANNEX 4 – REPRESENTATIONS

This section of the Report can be found in document P29_016c.