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INITIAL ASSESSMENT OF MODIFICATION PROPOSAL P25 -

Commissioning Status in NETA

Prepared by ELEXON Limited

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I DOCUMENT CONTROL

a Authorities

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Version	Date	Reviewer	Signature	Responsibility
1.0	6/7/1	Roger Salomone		Trading Development

b Distribution

Name	Organisation
Each BSC Party	Various
Each BSC Agent	Various
The Gas and Electricity Markets Authority	Ofgem
Each BSC Panel Member	Various
Energywatch	Energywatch
Core Industry Document Owners	Various

c Intellectual Property Rights and Copyright

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1 SUMMARY

An initial assessment of Modification Proposal P25, "Commissioning Status in NETA" has identified the following potential areas of impact and issues to be considered:

- Precise definition of "commissioning plant"
- Precise definition of what constitutes a "commissioning plan" and "deviation" from it
- The form of relief to imbalance exposure and an examination of the incentives created

It is recommended that the Modification Proposal be progressed as follows:

- Definition Procedure;
- Definition Report to be submitted to the Panel on 23 August 2001.

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.

An electronic copy of this document can be found on the BSC website, at www.elexon.co.uk

3 PURPOSE AND SCOPE OF THE REPORT

Section F of the BSC 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).

When a new proposal to modify the BSC is made, it is the responsibility of the Panel to determine how it should be progressed. Options include submitting the proposal to a Definition Procedure¹, submitting it to an Assessment Procedure², amalgamating the proposal with another proposal³, or proceeding directly to the Report Phase⁴. With a view to assisting the Panel in taking this decision, ELEXON prepares this initial written assessment of the implications of the Modification Proposal as soon as reasonably practicable after the proposal is made⁵. ELEXON endeavours to complete this initial assessment such that it can be reviewed by the Panel at the Panel meeting at which the relevant Modification Proposal is first to be considered.

This initial assessment provides a preliminary view on the following:

- the potential impact of the proposed modification on BSC systems and processes;
- the potential impact of the proposed modification on other systems and processes used by Parties;
- the potential impact of the proposed modification on the BSC, Code Subsidiary Documents and Core Industry Documents;
- the potential impact of the proposed modification on ELEXON;
- the potential impact of the proposed modification on BSC financial arrangements and budget;
- the potential impact of the proposed modification on BSC Agent contractual arrangements;
- The process and timetable that should be adopted for the progression of the Modification Proposal, in light of its complexity, importance and urgency; and
- Issues that will need to be considered and addressed in progressing the Modification Proposal (including the potential need for impact assessments, consultation and analyses).

It should be noted that, as this document only represents a preliminary assessment of the Modification Proposal, the information contained herein will, in most cases, be superseded by the subsequent analysis and reports produced by the Modification Group to which the Panel assigns the proposal for consideration.

¹ see BSC F2.5

² see BSC F2.6

³ see BSC F2.3

⁴ see BSC F2.7

⁵ see BSC F2.1.8

4 DESCRIPTION OF THE MODIFICATION PROPOSAL

The Proposal advocates the introduction into the Balancing & Settlement Code of a new category of participation, "Commissioning Power Station". It proposes that "new plant" would be granted such status, which would afford some form relief from energy imbalance price exposure.

Trading Parties would be required to submit to NGC and update daily a commissioning plan, in respect of a "Commissioning Power Station". When the plant were able to follow its commissioning plan (as defined by the FPN) within a certain tolerance, this would be deemed to indicate that the plant was no longer commissioning and thus that the relief from imbalance price exposure was no longer required. Commissioning Status then would be withdrawn. Excessive deviation from a commissioning plan might be deemed to suggest abuse, in which case the Commissioning Status could be withdrawn also.

Commissioning Status would last for a total period of not more than 3 months although this period would not have to be continuous.

A copy of the Modification Proposal, as submitted by its proposer, can be found at Annex 1 to this report.

5 IMPACT ON BSC SYSTEMS AND PROCESSES

BSC System / Process	Potential Impact of Proposed Modification
Registration	Registration of Commissioning Status would be required
Contract Notification	No impact identified
Credit Checking	A review of credit checking for Commissioning plant may be required
Balancing Mechanism Activities	No impact identified
Collection and Aggregation of Metered Data	No impact identified
Supplier Volume Allocation	No impact identified
Settlement	Changes to imbalance settlement calculations would be necessary
Clearing, Invoicing and Payment	No impact identified
Reporting	Possible minor consequential reporting changes to report Commissioning Status
Contingencies	No impact likely, as existing provisions, e.g. Black Start, should apply notwithstanding Commissioning Status
Dispute Resolution	No specific impact identified

6 IMPACT ON OTHER SYSTEMS AND PROCESSES USED BY PARTIES

System / Process	Potential Impact of Proposed Modification
NGC System Operation	Any dilution of the incentives to follow FPNs as a result of relief from energy imbalance charges would have a potential impact on System Operation (and possible knock-on effects on balancing mechanism actions and prices)

7 IMPACT ON DOCUMENTATION

7.1 Impact on Balancing and Settlement Code

BSC Section	Potential Impact of Proposed Modification
A: Parties and Participation	Party registration provisions possibly affected
B: The Panel	No impact identified
C: BSCCo and its Subsidiaries	No impact identified
D: BSC Cost Recovery and Participation Charges	Consideration of BSCCo charging on Commissioning plant might be appropriate as there is some parity between the basis for allocation of some BSCCo costs and the basis for the allocation of some Trading Charges.
E: BSC Agents	No impact identified
F: Modification Procedures	No impact identified
G: Contingencies	No impact likely as existing contingencies should apply notwithstanding Commissioning Status
H: General	No impact identified
I: Not Used	No impact identified
J: Party Agents	No impact identified
K: Classification and Registration of Metering Systems and BM Units	No impact identified
L: Metering	No impact identified
M: Credit Cover and Credit Default	Possible changes to credit checking for Commissioning plant might be warranted to reflect changes to the calculation of Trading Charges
N: Clearing, Invoicing and Payment	No impact identified

BSC Section	Potential Impact of Proposed Modification
O: Communications	No impact identified
P: Energy Contract Volumes and Metered Volume Reallocations	No impact identified
Q: Balancing Mechanism Activities	Possible effects on data submission.
R: Collection and Aggregation of Metered Data from CVA Metering Systems	No impact identified
S: Supplier Volume Allocation	No impact identified
S: ANNEX S-1 Performance Levels and Supplier Charges	No impact identified
S: ANNEX S-2 Supplier Volume Allocation Rules	No impact identified
T: Settlement and Trading Charges	Significant revision of energy imbalance charging.
U: Provisions Relating to Settlement	No impact identified
V: Reporting	Possible consequential changes
W: Trading Queries and Trading Disputes	May need to consider whether Commissioning Status might be disputable and on what grounds and any consequential incentives.
X: Definitions and Interpretation	Consequential definitions required
X: ANNEX X-1 General Glossary	Consequential definitions required
X: ANNEX X-2 Technical Glossary	Consequential definitions required

7.2 Impact on Code Subsidiary Documents

Code Subsidiary Document	Potential Impact of Proposed Modification
BSC Procedures	New BSCP likely to be required to cover determination of Commissioning Status
Codes of Practice	No impact identified
BSC Service Descriptions	Changes to reflect modified settlement calculations
Party Service Lines	No impact identified
Data Catalogues	Possible onsequential change
Communication Requirements Documents	No impact identified
Reporting Catalogue	Possible consequential change

7.3 Impact on Core Industry Documents

Core Industry Document	Potential Impact of Proposed Modification
Grid Code	Review provisions in respect of commissioning plant.
MCUSA	Review provisions in respect of commissioning plant.
Supplemental Agreements	Review provisions in respect of commissioning plant.
Ancillary Services Agreements	No impact identified
Master Registration Agreement	No impact identified
Data Transfer Services Agreement	No impact identified
British Grid Systems Agreement	No impact identified
Use of Interconnector Agreement	No impact identified
Pooling and Settlement Agreement	No impact identified
Settlement Agreement for Scotland	No impact identified
Distribution Codes	No impact identified
Distribution Use of System Agreements	No impact identified
Distribution Connection Agreements	No impact identified

8 IMPACT ON OTHER CONFIGURABLE ITEMS

Item	Potential Impact of Proposed Modification

9 IMPACT ON ELEXON

Area of Business	Potential Impact of Proposed Modification
ELEXON Systems	Consequential changes to TOMAS and MID settlements databases
ELEXON Procedures	No impact identified
ELEXON Contracts (Excluding BSC Agent Contracts)	No impact identified
Other (e.g. costs, staffing, etc.)	No impact identified

10 IMPACT ON FINANCIAL ARRANGEMENTS AND BUDGET

Not known at Initial Assessment.

11 IMPACT ON BSC AGENT CONTRACTUAL ARRANGEMENTS

BSC Agent Contract	Potential Impact of Proposed Modification
Logica (BMRA, CRA, CDCA, SAA, ECVAA, TAA(CVA))	Possible changes to SAA, CRA and ECVAA to incorporate changed settlement calculations and registration of Commissioning Status.
EPFAL (FAA)	No impact identified
ESIS (TAA(SVA))	No impact identified
Cap Gemini (SVAA)	No impact identified
PwC (BSC Auditor, Certification Agent)	No specific impact identified
EASL (Teleswitch Agent, Profile Administrator)	No impact identified

12 PROCESS AND TIMETABLE FOR PROGRESSING THE PROPOSAL

ELEXON recommends that this Modification Proposal be submitted to Definition Procedure. The Modification Group should be actioned to provide its report to the Panel by 23 August 2001.

13 ISSUES

The following issues will need to be considered and addressed in progressing the Modification Proposal.

- Definition of what constitutes plant which is eligible for Commissioning Status, e.g. it cannot reasonably be based merely on registration of a BM Unit as this would also include re-registration of existing plant.
- Defining the nature of the relief from imbalance exposure. For instance, it is not likely to be acceptable that Commissioning plant would be exempted entirely from Trading Charges for short imbalances, as this would create a clear incentive to overcontract.
- Need to examine the incentives on commissioning plant in respect of the submission of FPNs and the impact on System Operation
- Need to consider the extent to which it can be justified that Commissioning plant should be granted relief from costs to which other Parties are exposed, or whether the costs of imbalances for Commissioning plant represent a necessary but fair cost of commissioning.

ANNEX 1 – MODIFICATION PROPOSAL

Modification Proposal	MP No: 25 <i>(mandatory by BSCCo)</i>
Title of Modification Proposal <i>(mandatory by proposer):</i> Commissioning Status In NETA	
Submission Date <i>(mandatory by proposer):</i> 25 June 2001	
<p>Description of Proposed Modification <i>(mandatory by proposer):</i></p> <p>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.</p> <p>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.</p> <p>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.</p> <p>"Commissioning Status" plants must provide NGC with their intended commissioning 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.</p> <p>Once the plant can perform at less than 5% deviation from its' commissioning plans for seven consecutive days (excluding plant outages) the plant will lose its' commissioning status and become a fully fledged BSC party.</p> <p>If a "commissioning status" plant deviates from its' commissioning plan for seven consecutive days by more than 50%, suggesting that the plant is abusing its' status, it will lose its' commissioning status.</p> <p>"Commissioning status" will be limited to a maximum of three months, although this does not have to be consecutive.</p> <p>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.</p> <p>Given the severity of this problem for the industry it is recommended that this modification be back dated to the 27th March 2001.</p>	
<p>Description of Issue or Defect that Modification Proposal Seeks to Address <i>(mandatory by proposer):</i></p> <p>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 vulnerable 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</p>	

Modification Proposal	MP No: 25 <i>(mandatory by BSCCo)</i>
<p>major disincentive to building new plant.</p> <p>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 virtually 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.</p> <p>By centrally funding the cost of commissioning investment decisions 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 competition", driving down prices and fulfilling the objectives of NETA and the BSC.</p>	
<p>Impact on Code <i>(optional by proposer):</i></p> <p>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.</p>	
<p>Impact on Core Industry Documents <i>(optional by proposer):</i></p> <p>NGC's license may need to be amended.</p>	
<p>Impact on BSC Systems and Other Relevant Systems and Processes Used by Parties <i>(optional by proposer):</i></p> <p>The SAA and possibly NGC's systems will need to be adjusted.</p>	
<p>Impact on other Configurable Items <i>(optional by proposer):</i></p>	
<p>Justification for Proposed Modification with Reference to Applicable BSC Objectives <i>(mandatory by proposer):</i></p> <p>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."</p> <p>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 imbalance exposure of commissioning plants through the RCRC The Panel will be fulfilling the primary objective of NETA.</p>	
<p>Details of Proposer:</p> <p style="padding-left: 40px;">Name: Mark Simons</p> <p style="padding-left: 40px;">Organisation: BP Gas Marketing Limited</p> <p style="padding-left: 40px;">Telephone Number: 07818 458968</p> <p style="padding-left: 40px;">Email Address: simonsmc@bp.com</p>	

Modification Proposal	MP No: 25 <i>(mandatory by BSCCo)</i>
Details of Proposer's Representative: Name: Mark Simons Organisation: BP Gas Marketing Ltd Telephone Number: 07818 458968 Email Address: simonsmc@bp.com	
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Attachments: NO If Yes, Title and No. of Pages of Each Attachment:	