June 2001

MODIFICATION GROUP REPORT TO THE BSC PANEL

MODIFICATION PROPOSALS P15 and P18

Removal of Price Spikes Associated with System Balancing from System Prices; and Removing/Mitigating the Effect of System Balancing Actions in the Imbalance Price Calculations

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

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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, and the resultant findings of this report, the Modification Group recommends that the Panel:

AGREE the following procedure, in respect of Modification Proposals P15 and P18:

- Assess an enduring solution for P18A;
- Assess a workaround to give effect to P18A for implementation until such time as an enduring solution is implemented;
- Draft BSC amendments to reflect P18A;
- Undertake a consultation on the above;
- Report to be presented tothe Panel on the results of the consultation, proposing final recommendations for Panel consideration;
- Timescales for these activities as per Annex 1;

NOTE that further assessment of P15 and P18B is deferred.

NOTE that if the Panel consider that P15 should also be pursued further, then the above process could be adopted, but would entail significantly longer timescales.

AGREE that authority should be delegated to the Panel chairman to agree expenditure additional to that allowed for, if required by the Modifications Group.

1.2 Background

Modifications were raised by Vattenfall (P15) and by National Grid Company (NGC) (P18) on the 23rd May 2001. Copies of the Modification Proposal are attached as Annex 2. Both proposals sought to remove certain acceptances from the imbalance cash-out price calculations on the grounds that these acceptances were for system balancing, rather than energy balancing purposes. Both proposals were agreed as being of an urgent nature and were progressed accordingly.

A Modifications Group was established and following an initial set of deliberations by the Group, a consultation document was issued. The Modifications Group then considered the responses to consultation and arrived at a series of conclusions which enabled the above recommendations to be formulated.

This report describes the above analysis and process and presents the resulting recommendations for consideration by the BSC Panel.

1.3 Rationale for Recommendations

A majority of respondents to the consultation were of the view that, in the context of the proposals, a change should be made.

Given the urgency of the proposals and the resource implications of undertaking further development of them, there was a view that only one option, if possible should be taken forward. On balance, the Modifications Group took the view that P18A should be the option to be further progressed.

There was also a view that, given the likely timescales for an enduring solution to be implemented, assessment of both an enduring and a workaround approach should be progressed.

2 INTRODUCTION

This Consultation Document has been prepared by ELEXON Ltd, on behalf of the Modifications Group for Modification Proposal 15 and Modification Proposal 18, 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.

This Modification Report is addressed and furnished to the BSC Panel and none of the facts, opinions or statements contained herein may be relied upon by any other person.

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

3 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 modification procedures culminate in a modification report to the Authority, which normally contains the Panel's recommendation on whether or not a proposed modification should be approved and a proposed date for its implementation, together with a detailed assessment of the proposal in question. The report forms the basis upon which the Authority will decide whether to approve, direct or reject a modification proposal.

The Transmission Company or ELEXON may recommend that a Modification Proposal be treated as urgent, subject to approval by the Authority. The procedure for progressing an Urgent Modification Proposal is set out in Sections F2.9 and B4.6 of the Code. These urgent procedures allow the normal modification procedures to be circumvented as necessary to fit with the urgency of the matter. In such cases, the Authority will confirm the timetable and procedure that should apply. The timetable and procedure directed by the Authority must be adhered to, along with any other special instructions. A statement containing the reasons why the Panel (or Panel Chairman) consider the Proposal should be treated as urgent must be included in the Urgent Modification Report, together with a description of the extent to which the procedure followed deviated from the normal modification procedure.

Depending on the urgency of the matter, it may not be possible to establish a Modification Group or undertake detailed assessment of the modification proposal. The level of detail and analysis presented in this Urgent Modification Report therefore represents the full extent of relevant information regarding the modification proposal that could be collated within the time available.

4 DESCRIPTION OF PROPOSED MODIFICATION

On 23 May 2001, Vattenfall submitted Modification Proposal P15 - "Removal of Price Spikes Associated with System Balancing from System Prices". This Modification proposed that bid-offer acceptances with an acceptance time after [30] minutes before the start of the real time half-hour period be tagged and excluded from the calculation of SBP and SSP.

On 23 May 2001, NGC submitted Modification Proposal P18 – "Removing/Mitigating the Effect of System Balancing Actions in the Imbalance Price Calculations". This Modification included two options for making amendments to the imbalance price calculations.

Option 18A proposed an enhanced definition of system balancing actions. Bid-Offer Acceptances of 'Continuous Instruction Duration' (CID) less than a threshold duration of [15] minutes would be tagged as System rather than Energy balancing actions.

Option 18B proposed that the BRL parameter is set as a minimum volume of balancing actions from which the imbalance prices can be set. When there is a smaller volume of actions, the imbalance price is set as a weighted average of the price derived from the current rules, and the default price that would apply if no balancing actions had been taken. The weighting would be in proportion to the volume of balancing actions, and BRL minus this volume, respectively.

As is discussed in Section 6, two variants on Option 18A were discussed in the Modifications Group meeting of 1st June 2001, and were included in the 5th June 2001 Urgent Modification Consultation Document. The first of these two variants was Option 18Ai. This variant was proposed as a slight simplification of 18A. The simplification was that the criteria for tagging acceptances would be applied on an acceptance-by-acceptance basis, and would disregard the fact that multiple acceptances for the same BM Unit may result in a non-zero acceptance quantity for a time period in excess of the Continuous Instruction Duration when considered together. The second variant, Option 18ii proposed that instead of applying a duration-based test, those Modifications that resulted in the acceptance of less than a certain quantity of MWh would be tagged. This was again seen as a simpler implementation approach (particularly in this case because the Modification was seen as being linked to Modification P10).

Finally, whilst at the Modifications Group meeting of 1st June 2001 deliberations were generally restricted to the Modification Proposals submitted, an additional "quick fix" solution to set the value of BRL to zero was discussed and was included as an option for comment in the consultation document.

5 DETAIL OF PROCEDURE AND TIMETABLE FOLLOWED TO DATE

5.1 Statement of Urgency

Section F2.9 of the Balancing and Settlement Code makes provision for proposals to be treated as Urgent Modification Proposals upon the recommendation of the Transmission Company and BSCCo (ELEXON).

The Proposer of P15 requested (in submitting the Modification Proposal to ELEXON) that that it be treated as an Urgent Modification. ELEXON supported this recommendation on the basis that the issues addressed by the Modification were "having a highly material effect on imbalance prices". In addition ELEXON proposed that P18 (due to the similar nature of the issue raised) be considered in conjunction with P15 and treated urgently.

The BSC Panel Chairman contacted a number of Panel Members to seek their views on the proposed urgent treatment of the Modification Proposals. Some of the Panel Members were supportive of the proposals being treated as urgent. Others said that the issue that the proposals seek to address should be expedited but was so fundamental that they wished to see adequate consultation and discussion of the matter. One Panel Member suggested that it would be sensible to broaden the scope of the discussion to include P12: 'Reduction Of Gate Closure From 3.5 Hours To 1 Hour'. The Panel recommended prompt resolution of P15 and P18.

Further to the recommendation from the BSC Panel Chairman, supported by the BSC Panel, the Authority granted the modification urgent status for the purposes of Section F2.9 of the BSC on 25th May 2001.

5.2 Procedure and Timetable

The key steps that have been adopted in progressing these Urgent Modification Proposals are as follows:

(i) On 23 May 2001, Modification Proposals P15 and P18 were raised by Vattenfall and NGC respectively.

(ii) The BSC Panel Chairman sought the views of Panel Members who broadly supported the recommendation that the Modification Proposals be treated together and as urgent (in accordance with the procedures set out in F2.9 of the BSC).

(iii) The BSC Chairman's recommendation to treat the Modification as Urgent was subsequently ratified by the Authority on 25th May 2001. A Modification Group was established with the membership agreed by the Panel Chairman.

(iv) The modification Group held their first meeting on 1st June 2001 and in order to assist the Group a consultation document was issued on 5th June 2001.

(v) A second meeting of the Modification Group was held on 12th June 2001 in order to assess the responses to the consultation and make a recommendation to the BSC Panel on the most appropriate way forward.

6 ANALYSIS LEADING TO THE 5TH JUNE CONSULTATION DOCUMENT

This section sets down the analysis undertaken by the Modifications Group in deciding the approach to be taken in the 5th June 2001 Urgent Modification Consultation Document.

At the Modification Group Meeting of 1st June 2001, it was recognised that there were two broad approaches that could be taken to progress the Modification Proposals. These were:

i) To consider from first principles how Energy Imbalance Prices should be calculated in order to be consistent with the relevant BSC Objectives, and then to assess Modification Proposals P15 and P18 (and alternatives) against these deliberations; or

ii) Without considering the underlying principles associated with how the Energy Imbalance Prices should be calculated, to consider whether the specific changes to the imbalance price calculations set down in Modification Proposals P15 and P18 would better meet the BSC Objectives. This assessment would be based upon the Modification Group's views of the likely impact of the changes on the price calculations and the likely consequent changes in the market that may be expected.

The Modifications Group noted that Modifications Proposals P15 and P18 were Urgent Modifications, and that an approach that required an analysis of the underlying objectives of the Energy Imbalance Price calculations from first principles would be unlikely to be completed in the required timescales.

Furthermore, the Modifications Group noted the fact that the BSC Panel had placed an action on ELEXON to scope out how a wider review of imbalance pricing (which the Modifications Group anticipated would include a review of the pricing arrangements from first principles).

As a consequence, in the interests of progressing the Modifications in an appropriate timescale, and recognising that alternative arrangements for a wider review were being considered, the Modifications Group restricted its approach to progressing the Modifications to that set down in ii) above. In order to progress the Modification Proposals it was necessary to consider the impact of the existing price calculations on the market in general, and then to consider whether the changes proposed would better met the relevant BSC Objectives.

A further consequence of this approach was that the Modifications Group restricted its deliberations to the Modification Proposals submitted. Alternatives that were not consistent with the perceived issue/defect that the submissions sought to resolve were not considered. Some relatively minor variations on the Modification Proposals submitted were considered. Furthermore, an additional "quick fix" to set the value of BRL to zero was also discussed in conjunction with the Modification Proposals.

Thus, the 5th June 2001 consultation document included a discussion on Modifications P15, P18A, P18Ai, P18Aii, P18B, and the option of Setting BRL to zero. In seeking to present the views of the Modifications Group, all of the above options were given a rating against three key criteria:

- Effectiveness at removing short term acceptances. These ratings were asserted by the Modifications Group based on analysis provided to the Group
- Degree of intellectual purity. These ratings were based purely on the judgements of the Modification Group members
- Practicality of implementation. This was based on the technicalities of the options, as they were understood by the Modification Group members.

The ratings of each option against these criteria were as follows:

OPTION	EFFECTIVENESS	INTELLECTUAL PURITY	PRACTICALITY OF IMPLEMENTATION
P15	HIGH	MEDIUM	MEDIUM
P18A	LOW to HIGH[1]	HIGH	LOW
P18Ai)	LOW to HIGH	MEDIUM-HIGH	LOW
P18Aii)	LOW to HIGH	MEDIUM	HIGH
P18B	LOW-MEDIUM	LOW-MEDIUM	MEDIUM-HIGH
BRL = 0	MEDIUM-HIGH	LOW-MEDIUM	MEDIUM

[1] Effectiveness is dependent on the value of the limiting CID

7 SUMMARY OF REPRESENTATIONS

A summary of the representations made following the distribution of the P15/P18 Consultation Document is contained below. This summary was presented to the Modification Group at their meeting on 12th June 2001.

A total of twenty-one responses to the consultation were received, of which fourteen favoured one or other of the proposals of variations thereof. The remainder of respondents were of the view that no action should be taken until the New Electricity Trading Arrangements had had more time to "bed down".

Notwithstanding the above, a number of respondents were supportive (either implicitly or explicitly) of a wider review of pricing issues. No respondents indicated that they believed such a review would be inappropriate.

Of the fourteen respondents who supported change, seven supported Modification Proposal 15; three supported Modification Proposal 18A; one supported 18B, two supported both P15 and 18A, and one did not express a preference.

Of the seven respondents that did not favour change, two indicated that were a change to be made, then they would support Modification Proposal 18A, and one favoured an alternative approach based on run-up rates and run-down rates. The remainder did not express a preference.

It should also be noted that whilst Modification Proposal 15 received more first choice votes than the other Modifications, a number of those who did not place P15 as their first choice explicitly stated that they did not favour Proposal 15.

Insofar as the parameters associated with the two preferred options were concerned: twelve respondents suggested limiting CIDs for P18A (six preferred 30 minutes, two preferred 15 minutes, three preferred 5 minutes and one preferred a number between 5 and 10 minutes). For P15, eight respondents made suggestions for limiting Lead Times. (Seven preferred 30 minutes and one preferred 15 minutes).

The results of the consultation are summarised in Table 1 below.

Table 1 – Summary of Responses

No	Company	Support Mod at this time?	Preferred Option	Notes
1.	Axia Energy Europe (AEEL)	Y	P15	Support any Modification that would remove perceived existing distortion. Support broader review
2.	Vattenfall	Y	P15	Limiting Lead Time = 30 mins
3.	Seeboard	Y	P18A	Limiting CID 30 mins
4.	ScottishPower	N	None given	Support broader review

No	Company	Support Mod at this time?	Preferred Option	Notes
5.	Powergen	N	Alternative Modification based on using Run-up and Run-down rates.	Limiting CID 5 minutes if 18A Support broader review Believe introduction of frequency response market could provide long term solution.
6.	TXU Europe	N	None given	Any review should not commence until system has had at least six months to bed down. Believe volatility is damping down.
7.	Northern Electric	N	None given	Support broader review. Short-term solution could be to implement several options, provided Panel had discretion to "switch-off" the option. Limiting Lead time 15 mins Limiting CID 5 minutes
8.	Edison Mission Energy	N	None given	Believe volatility is damping down. Believe making changes may prejudice the achievement of a rational free market. More analysis needed, including to take into account impact on BSUoS.
9.	Aquila	Y	Both	P15 initially, then P18 (which may replace P15).
10.	National Grid	Y	18B	Do not support P15. Noted that 18A leaves some scope for NGC and other participants to influence imbalance prices. Limiting CID 15 Minutes Support wider review

No	Company	Support Mod at this time?	Preferred Option	Notes
11.	Dynegy	Y	P15	Limiting lead time = 30 mins If 18A), then limiting CID=30 mins. Support Broader review
12.	Entergy	Y	None given	Choice depends on further analysis. Should consider interacting modifications collectively. All options potentially acceptable but should have ongoing review.
13.	Enron Europe	Y	18A	Limiting CID=30 mins Do not believe existing imbalance prices reflect cost of energy Many of the actions taken to avoid imbalance are detrimental to system. System balancing costs should be socialised (as a public good).
14.	British Gas Trading	Y	18Ai) or BRL=0	Actually favour BRL=0 as an interim measure, then 18Ai) or 15 or 18A. Mods not mutually exclusive Existing prices are penal and a barrier to entry. If P18Ai) Limiting CID 30 minutes If P15 Limiting lead time = 30 mins
15.	Slough Energy Supplies	Y	P15	Limiting lead time = 30 mins
16.	Innogy	Y	18A	Limiting CID= 5 (to 10) mins Temporal distinction between system and energy balancing somewhere between 5 and 10 minutes. Do not support P15 Should revisit GC obligation on 2 minutes instruction lead time Option fees on reserve contracts should be spread over hour when contract is utilised.
17.	Bizzenergy	Y	P15	Limiting lead time = 30 mins Do not favour P18 –type options, although of these prefer P18Ai) with CID=30 mins.

No	Company	Support Mod at this time?	Preferred Option	Notes
18.	Scottish & Southern Energy	N	P18A	Proposals need to be further considered with other interacting mods. Do not favour P15 Limiting CID = 15 mins At best, P18A should be regarded as interim, pending outcome of review.
19.	British Energy	N	P18A	Do not support P15 Limiting CID = 5 mins
20.	CHPA	Y	P15	Concerns raised over timescales for responses to the consultation. Limiting lead time = 30 mins If 18A were selected, limiting CID = 30 mins.
21.	Amerada Hess	Y	P15	Limiting lead time = 30 mins

Setting BRL to Zero

Of the twenty-one respondents, six supported the option of setting BRL to zero. Of those six, four felt that it should be adopted as an interim measure by virtue of its perceived rapid implementation timescale.

The responses in relation to BRL are summarised in Table 2.

Table 2 – Summary of Responses on BRL

No	Company	Support BRL=0	Interim Only?	Notes
1.	Axia Energy Europe (AEEL)	Y	Y	
2.	Vattenfall	Y	-	BRL=0 was second choice option
3.	Seeboard	Y	Y	
4.	ScottishPower	N	N	
5.	Powergen	N	N	Suggested that setting BRL=0 may unduly flatten prices.
6.	TXU Europe	N	N	Any changes to BRL should await the review.
7.	Northern Electric	N	N	
8.	Edison Mission Energy	N	N	

No	Company	Support BRL=0	Interim Only?	Notes
9.	Aquila	-	-	No comment given
10.	National Grid	N	N	Felt that it placed too much reliance on default pricing arrangements
11.	Dynegy	N	N	Assumed in responses that P15 would be quickest to implement.
12.	Entergy	Y	-	All options acceptable, but maintain ongoing review.
13.	Enron Europe	N	N	Should be considered as part of the review of BRL.
14.	British Gas Trading	Y	Y	
15.	Slough Energy Supplies	N	N	
16.	Innogy	N	N	
17.	Bizzenergy	Y	Y	
18.	Scottish & Southern Energy	N	N	
19.	British Energy	N	N	
20.	CHPA	Y	-	Possibly as an interim option
21.	Amerada Hess	-	-	

8 RATIONALE FOR MODIFICATION GROUP RECOMMENDATIONS

In the first instance, an overwhelming majority of the Modifications Group were satisfied that the consultation responses supported some change to the imbalance pricing arrangements being made, as described in the consultation document. Two thirds of respondents had indicated that they believed that some change was needed, whereas one third suggested that it would be inappropriate to make short term changes prior to the outcome of any wider review. The opinion of some respondents that volatility was damping down over time was also suggested. It was further recognised that, of the options discussed in the consultation document, P15 and P18A were preferred. There was some consideration of the Powergen proposal to remove acceptances based on the associated ramp rates. However, there was some doubt as to the ease of implementation and it was suggested that a subsequent Modification could be raised, if necessary.

The Modifications Group also gave some consideration as to whether both options (P15 and P18A) should be pursued further, or not. Given that the Modifications were being progressed as urgent, it was recognised that effort should not therefore be diluted and timescales extended by pursuing more than one option. This view was further reinforced by the recognition that both of the preferred options would be complex and not amenable to any form of quick resolution, irrespective of the implementation strategy adopted. It was also noted that resources, particularly from ELEXON and its main service provider would be critical and hence, timescales would certainly extend significantly if both options were to be developed further. The Modifications Group therefore considered whether a preferred option could be deduced in the light of the consultation responses.

Although P15 appeared to be more favourable to respondents than P18A, the Modifications Group considered that there were a number of important qualifications to be made:

- From a number of the responses given, there was a clear implication in some cases that P15 had been preferred over 18A only because of the assumption that P15 was capable of being implemented more rapidly than P18A. It was noted that the consultation document had suggested that P15 would be simpler than P18A to implement, from a technical perspective. This reflected the views of the Modifications Group in its meeting of the 1st June 2001. However, at the meeting of the 12th June 2001, it was suggested by ELEXON that, whilst P15 might be a simpler Modification, both P15 and P18A would entail a project infrastructure and processes such as testing. Hence, the incremental time associated with differences in technical complexity was likely to be small. The Modifications Group accepted the judgement that in terms of overall project timescales, relative technical complexities had little impact. However, it was recognised that these were only judgements and, particularly in the case of a workaround approach (avoiding the need to fully implement in the BSC Central Systems), it was more a case of there not being any evidence to the contrary, since no impact assessments had yet been possible.

- Advocates of P15 were not generally negative towards P18A, whereas a number of advocates of P18A were explicit in being hostile to P15, citing certain features of P15 which suggested that P15 did not meet the BSC Objectives as effectively as P18A. These views supported the analysis given in the consultation document (which compared the 'intellectual purity' of the options).

- Of those respondents that favoured no action, a number suggested that if a Modification were to proceed, their preference would be P18A (albeit with a lower value of limiting CID than was generally preferred).

- Generally speaking, nothing in the responses suggested that the generally held view of the Modifications Group that P18A was more intellectually pure than P15, i.e. that P18A was more likely to achieve BSC Objectives more satisfactorily than P15 was inappropriate.

On the basis of the above, an overwhelming majority of the Modifications Group supported the view that P18A should be taken further, holding proposals P15 and P18B in abeyance in case P18A should be found to be infeasible or inappropriate, as a result of further investigations.

The Modification Group was also of the view that the option of setting BRL to zero should not be considered further in this context, but should be a matter for the review of BRL currently being undertaken by the BSC Panel.

Finally, in respect of the value of limiting CID, the Modifications Group took the view that this element of the Modification should be treated as a parameter to be set by the BSC Panel. However, it was noted that responses to the consultation favoured a value of 30 minutes. It was anticipated that it may be appropriate to invite views on the value to adopt at a later stage when and if more relevant data analysis becomes available. Also, nothing in the responses suggested that the view that the approach for generating Balancing Services Adjustment Data (BSAD) may need to be reviewed in the light of any direction given to implement P18A (or indeed P15, or variants of P18A) was inappropriate.

9 MODIFICATION GROUP CONSIDERATION OF IMPLEMENTATION ISSUES

The Modification Group considered four implementation strategies:

OPTION 1 P18A to take effect on the settlement day for which BSC central systems were capable of processing the revised approach.

OPTION 2 P18A to take effect on the settlement day immediately following a directive from the Authority (with no ability to produce correct imbalance prices and hence no ability to settle appropriately). This arrangement to continue until a suitable system or process could be implemented.

OPTION 3 P18A to take effect on the settlement day for which some workaround were capable of processing the revised arrangements.

OPTION 4 Implement P18Aii) via the implementation of P10, with suitable parameters. This approach was regarded as a workaround, whereby modification of the parameter that rejects acceptances below a certain volume could be changed to incorporate rejections envisaged by P18Aii).

A number of key assumptions underpinned the above options:

For option 1, it was assumed that the timescales would be of the order of 6 months, implying an implementation date of January 2002. This timescale will be subject to confirmation following impact assessment.

Under option 2, it was assumed that a decision might be possible by early August 2001 (further refinement of this timescale was subsequently possible, following ELEXON's consideration of next steps). However, the main feature of this approach would be that settlement systems would not be able to reflect the revised arrangements, and hence the correct imbalance prices, until the first reconciliation run of settlement following system implementation (assumed to be the date given for option 1). Hence, under option 2, appropriate imbalance settlement would not be possible until the given reconciliation run. Furthermore, the first reconciliation run, for the relevant days, given the timescales for an enduring solution, may occur 30 weeks from the first effective settlement day. If that reconciliation were missed, the timescales would extend to final reconciliation, at 14 months from the first effective day. This assumes that recourse to ad-hoc reconciliation runs would not be a practical proposition.

Under option 3, it was assumed that such an implementation would need to be significantly quicker than option 1. It was also assumed, however, that option 3 may not be as robust as option 1 and could not be relied upon to produce prices as expeditiously as option 1, but that revised prices would be available for the relevant SF run of settlement.

Option 4 assumed that P10 would be implemented around August or September 2001.

For any of the above options, the term workaround is intended to reflect that the arrangement would ultimately be superseded by an enduring solution.

The Modifications Group endeavoured to structure a series of decisions in order to arrive at a conclusion.

Firstly, a majority of the Group were of the view that option 4 should be rejected, primarily on the grounds that P10 did not fully reflect the functionality required for P18Aii): P10 actually operates on bid/offer pairs that have been accepted, rather than acceptances themselves.

The Modifications Group then considered whether it was appropriate to adopt option 1, given that it implied a likely implementation in January 2002. A majority of the Group was against this on the grounds that this constituted too big a delay in revising imbalance prices.

The next question was therefore that, if implementation should be sooner (from the time of an Authority direction), would it be acceptable to wait until the first reconciliation run following a full implementation in BSC central systems for correct imbalance prices to be available? There was no support for this proposition and a large number of Modification Group members supported some interim arrangement to allow correct prices to be made available earlier.

Hence, the Modification Group were able to conclude that, subject to the results of relevant assessments and consultation; implementation should occur immediately following any direction given by the Authority, a workaround should be implemented as soon as possible thereafter and an enduring implementation in BSC central systems should be implemented at the earliest opportunity (with the assumption that this would be in January, 2002)

10 CONSIDERATION OF THE WAY FORWARD

On the basis of the foregoing deliberations, the Modification Group suggested the following next steps:

- Draft BSC text to give effect to P18A for the purposes of further consultation and impact assessment;
- Undertake an impact assessment of an enduring implementation of P18A
- Assess the feasibility of employing a workaround to give effect to P18A
- Hold P15 and P18B in abeyance
- Prepare a plan, incorporating the above, along with necessary Panel and Authority decision points and processes to be followed and present to the BSC Panel for decision

ELEXON have subsequently considered what the next steps involve and have used the following assumptions to establish an outline plan[2]:

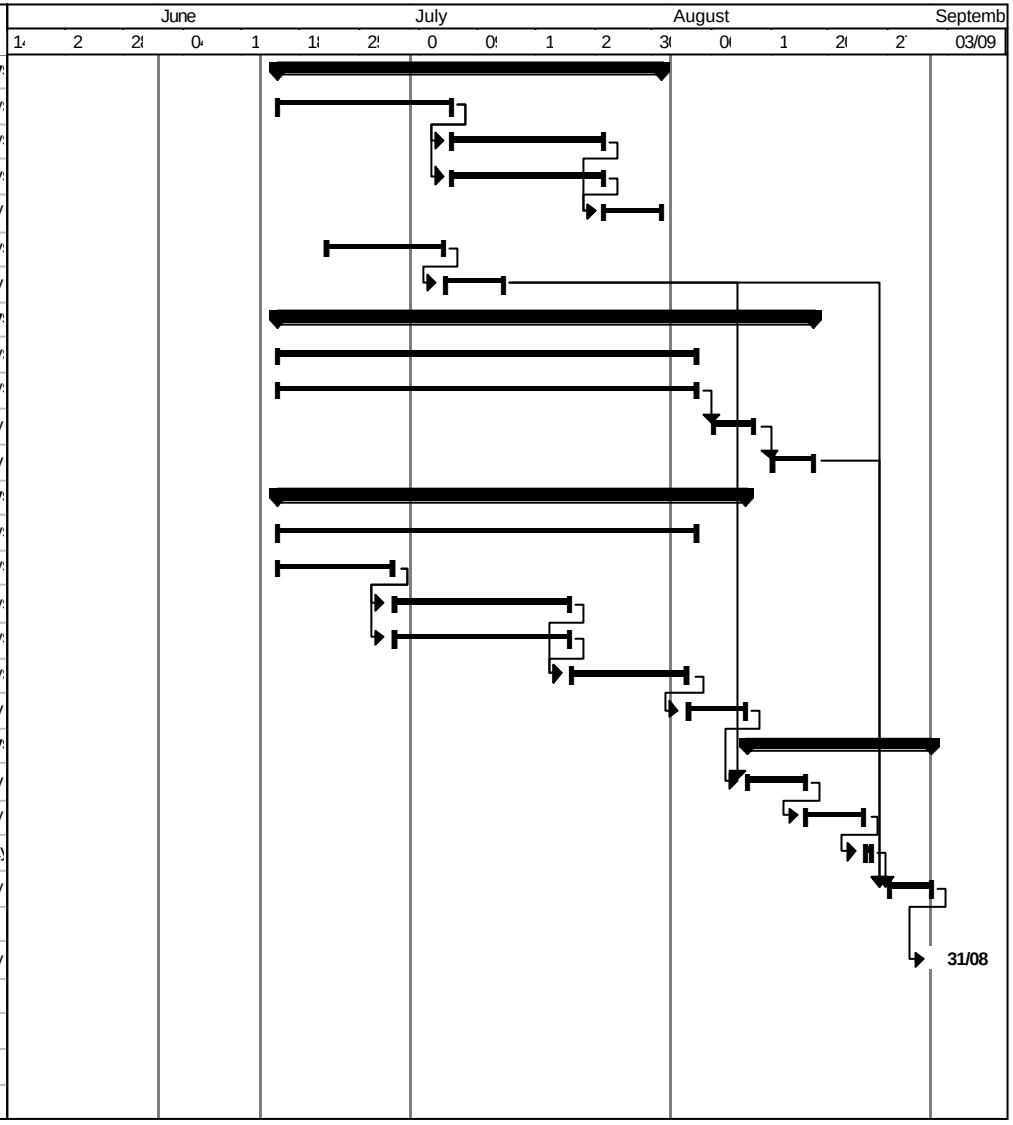
- There are three areas of work, each of which can largely be undertaken in parallel; assessment of an enduring P18A solution, workaround assessment and further analysis of limiting CID value. A fourth area Reporting and Consultation is then dependent on the first three work areas.
- Under the terms of clause 9 of section F (Urgent Modifications) of the BSC, it is suggested that the process to be followed should reflect a combination of assessment procedure and report procedure, as follows; a consultation report should be prepared following completion of the above activities and should be issued following BSC Panel approval. The consultation should seek views on the BSC drafting, on whether, in the light of the assessments, the case for workaround and full implementation of P18A remains favourable and on any further refinement to the preferred value of limiting CID. Subject to the responses to the consultation and discussion by the Modification Group, recommendations will be put to the BSC Panel for subsequent referral to the Authority.
- The further work associated with these Modifications will be established as a priority for ELEXON and resources will be allocated accordingly. Hence, some re-scheduling of current workload may be required.
- One solution will be taken forward by the BSC Panel. If parallel development were requested, this would have a significant impact on timescales.
- The workaround will deliver identical functionality to that of the enduring solution.
- The service provider primarily impacted will be able to provide an adequate impact assessment (for the full system implementation) in 12 days, with a 5-day window for any rework. If an impact assessment for P15 is also required, a significant extension to timescales is likely.
- Additional costs, above those normally envisaged (£50k), may be incurred as a consequence of the significance of the proposed changes.
- Appropriate data can be made available from settlement systems to enable a workaround to be developed.

[2] Annex 1 contains a Gantt chart which shows the plan that derives from these assumptions.

- Appropriate data can be made available from whatever source to enable analysis of limiting CID values.

ANNEX 1 – OUTLINE PLAN FOR ASSESSMENT PHASE

ID	Task Name	Dura
1	**Enduring 18A Solution**	**32 day**
2	Requirement Definition	15 day
3	Impact Assessment (Service Provider)	12 day
4	Quote (Service Provider)	12 day
5	Rework Impact Assessment & Quote	5 day
6	BSC Drafting (Forumlae)	10 day
7	Review (Modifications Group)	5 day
8	**CID Analysis**	**46 day**
9	Data Acquisition	36 day
10	Analysis	36 day
11	Report	5 day
12	Consultation on CID [time]	5 day
13	**Workaround Assessment**	**40 day**
14	Data Acquisiation	36 day
15	Analysis	10 day
16	Impact Assessment	15 day
17	Quote	15 day
18	Consolidate Proposals/Options	10 day
19	Draft Proposals	5 day
20	**Reporting and Consultation**	**16 day**
21	Draft Consultation Document	5 day
22	Consultation	5 day
23	Report from Consutlation	1 day
24	Report to Panel	5 day
25		
26	Assessment Phase Complete	0 day



ANNEX 2 - MODIFICATIONS P15 AND P18

Modification Proposal	**MP No: 15** *(mandatory by BSCCo)*

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

Removal Of Price Spikes Associated With System Balancing From System Prices

Submission Date *(mandatory by proposer)*: 22nd May 2001

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

It is proposed that bid-offer acceptances with an acceptance time after [30] minutes before the start of the real time half-hour period be tagged and excluded from the calculation of SBP and SSP.

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

In Ofgem's April 2000 consultation (NGC systems operation under NETA: transitional arrangements), the view is reiterated that there is a distinction between NGC actions taken for system balancing as opposed to energy balancing reasons. In practice it is very difficult to distinguish between these factors but, in principle, system balancing actions should not impact upon imbalance prices. An extract of the relevant text is given in the attachment to this proposal.

Certain actions taken in the Balancing Mechanism have set System Buy Price to several thousand pounds even where the system was net long. At NGC's Operational Forums it was explained that a common cause for these spikes has been TV pick-ups where there is a requirement for very small amounts of near-instantaneous energy for a very few minutes. Much of the TV pick-up can be pre-progammed on slow response plant, but where the pick-up is underestimated, or generation coincidentially trips or underperforms, generation must be brought on at very short notice. Because of the short notice period required, only certain types of plant can be used. The price of such plant has been very high.

There are various reasons why the prices offered for such a service are so high. A significant factor is that NGC's policy of "just-in-time" scheduling may have created temporal monopolies on several occasions. However, there is no definitive evidence that NGC could have procured the services provided by the problem acceptances more economically by alternative contracts and so such prices seem likely to persist.

These spikes are far more likely to affect SBP than SSP. Participants have reacted by contracting long and over-delivering. This is the only way they can avoid the consequences of such price spikes because they cannot contract for energy for periods of less than a half-hour. This is an understandable contravention of licence obligations to seek to balance. The BM is therefore delivering perverse incentives. This makes the market for system balancing offers very thin and also makes buy price spikes more likely.

The proposal is a pragmatic solution to the central problem that a significant number of BM prices do not reflect the cost of energy imblance because the actions that set the price are primarily for system balancing purposes. This is important in that so many of the prices are extreme, which distorts the economic incentive signals the mechanism is intended to provide. It is acknowledged that this proposal does not rigorously define the differences between a system balancing action and an energy balancing action but such a distinction can only be made after we have considerably more experience of the new markets. The price distortions experienced are too severe for there to be a delay in finding a resolution.

The definition of an action taken for system balancing purposes is based on the lead time between instruction and fulfilment. This takes one characteristic of certain system balancing actions, which is their short-term nature and seeks to address those system balancing actions most likely to distort imbalance prices.

The proposal is also pragmatic in seeking to utilise existing tagging software to minimise systems cost.

Modification Proposal	**MP No: 15** *(mandatory by BSCCo)*

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

The description of tagging in the Annex to Section T would need to be extended to include a separate class of tagged acceptance.

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

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

It seems likely that the tagging processes will need to be revised. Such system changes are already being included as a result of the implementation of Modification P10.

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

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

This proposal is a pragmatic methodology for making imbalance settlement prices allign more closely with the costs of balancing energy as opposed to balancing the system. This facilitates the NGC licence objective of operation of an efficient and economic transmission system by providing participants with price signals more reflective of the true costs of energy imbalance.

By reducing the risk on participants of imbalance price spikes that do not reflect energy imbalance, participants have a greater incentive to contract to balance rather than to seek to over-contract. This facilitates competition between generators and suppliers because they can contract to balance more economically. This allows a lower net cost of supply, which should benefit customers.

This proposal is supported by: Electricity Direct (UK) Ltd., BizzEnergy.com Ltd., Atlantic Electicity and Gas Ltd., Enfield Energy Centre Ltd., Maverick Energy Ltd., Slough Energy Supplies Ltd., Alcan, Axia Energy Europe Ltd; Combined Heat and Power Association

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Modification Proposal	**MP No: 15** *(mandatory by BSCCo)*

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Attachments: YES

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

Annex To Modification Proposal – Removal Of Price Spikes Associated With System Balancing From System Prices,

1 page

Annex To Modification Proposal – Removal Of Price Spikes Associated With System Balancing From System Prices

Extract from Ofgem Consultation: "NGC systems operation under NETA: transitional arrangements", April 2000.

Chapter 4, page 50

Introduction

4.1 Under the new trading arrangements, NGC as SO will be purchasing a range of services through a variety of different arrangements, both inside and outside of the Balancing Mechanism, in order to meet its licence and other obligations to operate the electricity transmission system in an efficient, economical and co-ordinated manner and thus to ensure the security and stability of supply. In doing so, the SO will incur a range of costs. The December Consultation summarised these services and their costs into two broad categories:

- Energy balancing - the activities of the SO in matching overall supply and demand at a half-hourly level; and
- System balancing – the activities of the SO in achieving the stable and secure operation of the transmission system.

4.2 The December Consultation argued that participants who are out of energy balance should be exposed to all the costs incurred by the SO in achieving a gross energy balance (i.e. matching demand and generation at the half-hourly level). The actions the SO takes in the Balancing Mechanism naturally flow through to energy imbalance prices i.e. the System Buy Price (SBP) and System Sell Price (SSP) charged to out of balance participants. However, imbalance prices based solely on actions taken by the SO in the Balancing Mechanism are unlikely to reflect the total costs incurred by the SO in maintaining a gross energy balance. For example, they would not include the costs incurred by the SO in contracting ahead for reserve to meet energy imbalances.

4.3 Furthermore, **some Balancing Mechanism actions will be taken for system balancing reasons** such as those taken to provide frequency response services or to relieve transmission constraints. The December Consultation argued that **system balancing actions taken by the SO should be recovered from all participants on a fair and non-discriminatory basis**. In addition, the July 1999 and October 1999 NETA documents argued that ways in which the costs of transmission constraints, in particular, could be removed from imbalance prices should continue to be explored.

4.4 We address first the issue of how imbalance prices can be changed to reflect better the full costs including contract costs of energy balancing then consider how to exclude system balancing costs from energy imbalance cash out. The next section discusses how the costs of energy and system balancing services should be recovered under NETA. Finally, we consult on detailed proposals for the recovery of central NETA system costs being incurred by BSCCo.

Modification Proposal	**MP No: 18** *(mandatory by BSCCo)*

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

Removing / Mitigating The Effect Of System Balancing Actions In The Imbalance Price Calculations

Submission Date *(mandatory by proposer)***:** 23 May 2001

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

The current imbalance price calculations utilise Trade Tagging to identify system balancing actions and exclude them from setting SBP and SSP. The trade tagging methodology was based on the assumption that there would be a significant volume of balancing actions in both directions in each half-hour. However, experience to date is that many periods have only a small volume of balancing actions in one direction, and so the methodology is less effective at removing system balancing actions.

It is recognised that it is not possible to separate balancing actions into 'energy' and 'system' in an unambiguous and clearcut manner. However, the current methodology is resulted in some extreme imbalance prices, as balancing actions that appear to be more related to system effects (such as minute by minute frequency control) are being included in price setting, and can have a disproportionate effect on the prices (when there are only small balancing volumes taken in one direction in a period).

Two options for addressing this issue are proposed:

Option A: This proposes an enhanced definition of system balancing actions. Bid / Offer acceptances of 'Continuous Instruction Duration' less than a threshhold duration of [15] minutes are tagged as System rather than Energy balancing actions, and so are excluded from the imbalance price calculation. In consequence, fewer acceptances are eligble to set imbalance prices. The rationale is that short duration balancing actions are most likely to related to minute-by-minute frequency control, rather than energy balancing at a half-hour level. Therefore, it is not appropriate that these actions are used to set imbalance prices which are faced by market participants who have half-hourly imbalances.

Option B: This proposes that the BRL parameter is set as a minimum volume of balancing actions from which the imbalance prices can be set. When there is a smaller volume of actions, the imbalance price is set as a weighted average of the price derived from the current rules, and the default price that would apply if no balancing actions had been taken. The weighting would be in proportion to the volume of balancing actions, and BRL minus this volume, respectively.

The rationale for this option is that it limits the impact that any small volume balancing action can have on the imbalance price in the cases where the assumptions behind the trade tagging methodology (i.e. that there will be at least BRL volume of balancing actions in each direction) are invalid. It does not attempt to improve the allocation of balancing actions between energy and system, but ensures that the price effects of system balancing actions which are incorrectly tagged as energy is mitigated.

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

See the attached paper, dated 23 May 2001

Modification Proposal	**MP No: 18** *(mandatory by BSCCo)*

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

Option A:

Modification required to the 'Trade Tagging' Annex T-1 of the Code, to include a definition of Short Duration Bids and Short Duration Offers. Exclusion of Short Duration Bids and Offers in 'Determination of Energy Imbalance Prices' (section T4.4) of the Balancing and Settlement Code.

Option B:

Modification required to calculation of System Buy Price and System Sell Price in Section T Paragraphs 4.4 of the Code

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

None.

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

Under either option, the software calculating System Sell Price and System Buy Price will need to be altered.

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

None

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

Option A refines the definition of system and energy balancing actions, and thus results in a more appropriate stack of accepted Bids and Offers being used in the determination of System Buy Price and System Sell Price. Option B ensures that small volume system balancing actions cannot have a disproportionate effect on the System Buy Price and System Sell Price. Therefore both options meet the objective of "promoting efficiency in the implementation and administration of the balancing and settlements agreement."

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Email Address: mike.calviou@uk.ngrid.com

Modification Proposal	**MP No: 18** *(mandatory by BSCCo)*

Details of Representative's Alternate:

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Email Address: paul.plumptre@uk.ngrid.com

Attachments: YES

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

Enhanced Trade Tagging - BSC Modification Proposal, 5 pages.

23rd May 2001

NATIONAL GRID COMPANY

Mitigation of System Balancing Actions in Imbalance Prices
BSC Modification Proposal
(Paper by National Grid)

Extreme imbalance prices can arise from expensive Offers or Bids accepted in the BM for short-term frequency control. We believe that it is inappropriate that market participants should be exposed to these extreme prices. This paper proposes two alternative modifications to the BSC that will moderate imbalance prices in such circumstances.

I. BACKGROUND

A feature of the Balance Mechanism to-date, is that National Grid is accepting a number of Bids and Offers of short duration, usually on plant of fast dynamics. These are high value services, and are often expensively priced. The imbalance prices, System Sell Price and System Buy Price, are set as the average of accepted Bids and Offers, which are not tagged as 'system balancing actions' by the trade tagging process. Particularly when we accept only a modest total volume of Bids or Offers accepted in one half-hour, these expensive Bids or Offers have a large effect on imbalance prices.

We believe that the underlying expectation, before Neta Go-Live, was that there would usually be a reasonable volume of both Bids and Offers accepted, so that the resulting Imbalance prices in each direction would reflect a reasonable average of Bid and Offer prices, and that the Trade Tagging rules would usually be able to exclude extreme price system effects. While it was accepted that both SSP and SBP would occasionally take extreme values, reflecting underlying system stresses at such times, it was not expected that short-term actions arising daily would have such a significant impact on imbalance prices

It was agreed before Go-Live, that balancing actions directly relating to frequency control, relating to the balancing service of automatic frequency response, should be excluded from imbalance price setting. Whereas balancing actions relating to the half-hourly balance of generation and demand, generally termed reserve, should be included in imbalance price setting. However, it is unclear as to whether an action of 5-15 minutes duration should be regarded as system or energy, and it remains a matter of viewpoint as to which treatment to adopt.

II. PROPOSALS

In order to address the inappropriate levels of imbalance prices, we propose two modifications to the calculation of SBP and SSP as defined in the BSC. We expect these proposals to be considered as alternatives. (However, we note that one could in fact implement both together.)

Proposal A: Tagging Short Duration BOAs
Proposal B: Averaging Imbalance Price Setting

IIA. PROPOSED SOLUTION A: Tagging Short Duration BOAs

This proposes an enhanced definition of system balancing actions. Bid or Offer acceptances (known as BOAs), whose duration is less than a threshold of (say) 15 minutes, are tagged as system balancing actions, and are excluded from the imbalance price calculations.

The rationale behind this proposal is that short duration actions are likely to relate to minute-by-minute frequency control, and thus it is not appropriate to include them in imbalance prices. Of course, the attribution of short duration to frequency control is not perfect, but since BOAs can be accepted for many overlapping reasons, no attribution will be unambiguous.

The proposal enhances the current distinction between response actions and reserve actions. At present, response actions are automatic, are not recorded as BOAs, and the cost of them is reflected within the Response Imbalance; they are thus definitely system actions. Any reserve actions are Bid / Offer acceptances (BOAs), and are eligible to set imbalance prices, subject only to current trade tagging rules.

Within the main text of Section T4.4 'Determination of Energy Imbalance Prices', the proposal is simply effected by a new clause, after T4.4.4:

T4.4.4A In respect of each Settlement Period, some of the accepted Bids and accepted Offers may be defined as Short Duration Accepted Bids and Short Duration Accepted Offers respectively in accordance with the provisions of Annex T-1, and all such Short Duration Accepted Bids and Short Duration Accepted Offers shall be disregarded for the purposes of calculation of energy imbalance prices.

Modification to the Trade Tagging Rules

To give effect to this proposal, it is desirable to extend the Trade Tagging rules, which constitute Annex T-1 to BSC Section T, to define a 'Continuous Instruction Duration' for each BOA. The 'Continuous Instruction Duration' should be constructed by looking at all Bid or Offer acceptances for each BMU, across Bid/Offer pair ranges and across half-hours; where acceptances of non-zero MW are contiguous over adjacent minutes, the 'Continuous Instruction Duration' of all contiguous acceptances is set to the end time of the latest minus the start time of the earliest.

The rationale for this definition of 'Continuous Instruction Duration' is that we may issue sequential instructions to the same BMU, for example during conditions of minute-by-minute uncertainty on the system. The settlement system records each acceptance separately, but it is the aggregate acceptance that is meaningful

Then, individual BOAs are tagged as 'Short Duration Acceptances', if their Continuous Instruction Duration is less than a threshold level. We propose that this threshold level is initially set to 15 minutes.

We recognise that we have not yet defined precise rules, suitable for drafting Annex T-1, to give effect to this proposal. We expect such a definition to be progressed during the assessment stage of this modification.

IIB. PROPOSED SOLUTION B: Averaging Imbalance Price Setting

This proposes that the BRL parameter is used as a minimum volume of balancing actions, from which the imbalance prices can be set. When there is a smaller volume of untagged actions, the imbalance price is set as a weighted average of the price defined by the current rules, and the default price that would apply if no balancing actions had been taken in that direction.

The rationale for this option is that it limits the impact that any small volume balancing action can have on the imbalance price in the cases where the assumptions behind the trade tagging methodology (i.e. that there will be at least BRL volume of balancing actions in each direction) are invalid. It does not attempt to improve the allocation of balancing actions between system and energy, but ensures that the price effects of actions of small volume, which are inappropriately included as energy actions, is mitigated.

A further argument for this option relates to the volumes of balancing actions, as against the volumes of gross imbalance. An expensive price over a small volume will only cause a modest cost within the Balancing Mechanism. But the resulting large imbalance price may be charged out to a large volume of gross imbalance, because there can easily be large volumes of gross imbalances which nearly net out, and so the gross imbalance payments are very large. The averaging approach of this proposal mitigates a modest cost of balancing giving rise to a very large cost of gross imbalances.

Modification to the SBP Calculation

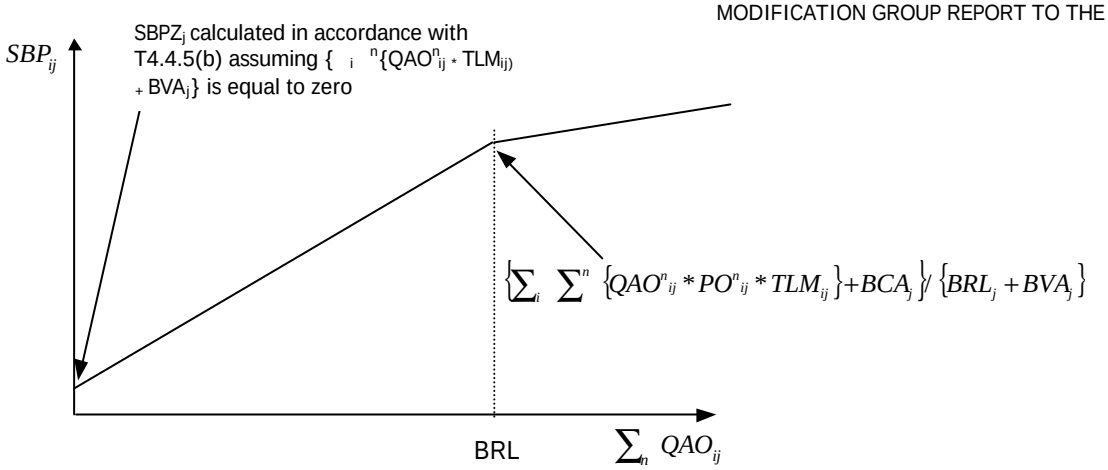
Under Section T, Paragraph 4.4 of the BSC, System Buy Price is calculated as follows:

$$SBP_j = \left\{ \sum_i \sum^n \left\{ QAO^n{}_{ij} * PO^n{}_{ij} * TLM_{ij} \right\} + BCA_j \right\} / \left\{ \sum_i \sum^n \left\{ QAO^n{}_{ij} * TLM_{ij} \right\} + BVA_j \right\}$$

The aggregate cost of Offer acceptances and energy contracts for a given half-hour is divided by the associated energy volume. Thus, if we accept a small volume of Offers, the price of these Offers set the imbalance price. If we accept no Offers, the imbalance price defaults to the maximum of SSP and the cheapest available Offer price, in accordance with the BSC. This current approach ensures continuity in the imbalance price as the volume of accepted Offers increases.

However, when the system is long, we may sometimes accept a small volume of highly priced Offers close to real time. Effectively a discontinuity can exist in setting imbalance prices depending on whether we accept a zero or non-zero volume of Offers. We propose the removal of this discontinuity by smoothing out potential price spikes.

The diagram below illustrates how we propose that Imbalance Prices could be set when the volume of accepted Bids exceeds the Volume of accepted Offers ($_i{}^n QAB^n{}_{ij} > {}_i{}^n QAO^n{}_{ij}$).



For zero Offer volume acceptance, the imbalance price would continue to be set as defined in the BSC to 'SBPZ' (para T4.4.5(b)), namely to the maximum of SSP and the cheapest available non-arbitraged Offer. For an accepted Offer volume equal to or greater than the Balancing Reserve Level (BRL), the imbalance price would continue to be set according to the formula in the BSC. However, for Offer acceptance volumes between zero and BRL, we propose a linear extrapolation to determine the appropriate value for SBP.

Hence when $\sum_i {}^n\{QAB^n_{ij} * TLM_{ij}) > \sum_i {}^n\{QAO^n_{ij} * TLM_{ij}\}$ and $\sum_i {}^n\{QAO^n_{ij} * TLM_{ij}\} < BRL_j$:

$$SBP_j = \left(\frac{\sum_i\sum^n \{QAO^n_{ij} * TLM_{ij}\}}{BRL_j}\right) * \left(\frac{\left(\sum_i\sum^n \{QAO^n_{ij} * PO^n_{ij} * TLM\} + BCA_j\right)}{\sum_i\sum^n \{QAO^n_{ij} * TLM_{ij}\} + BVA_j}\right) + \left(1 - \frac{\sum_i\sum^n \{QAO^n_{ij} * TLM_{ij}\}}{BRL_j}\right) * SBPZ_j$$

where $SBPZ_j$ is calculated in accordance with T4.4.5(b) (i.e. in the current case where: $\{\sum_i {}^n\{QAO^n_{ij} * TLM_{ij}\} + BVA_j\}$ is equal to zero.

Modification to the SSP Calculation

The modifications to the SBP calculation would also be repeated in the System Sell Price (SSP) calculation.

IV. IMPACT ASSESSMENT

For proposal A, we have performed some analysis of our concept of 'Continuous Instruction Duration' (CID), and applied it to one week of BM operation. Over 1500 BOAs, 80% have CID greater than 15 minutes, and so we are not tagging out a large proportion of acceptances. However, over a class of BMUs of fast dynamics, 75% of the acceptances have CID of less than 15 minutes, and so would be tagged out.

Detailed assessment of proposal A will require full replication of the Trade Tagging rules, and we have been unable to achieve this. However, our review of the prices associated with our class of BMUs of fast dynamics, leads us to a view that a threshold of 15 minutes might mitigate half the instances of 'extreme' System Buy Prices (say, those above 100 £/MWh). A threshold of 10 minutes might mitigate only one third of such instances.

For proposal B, there have been many half-hours where imbalance price has been set over a volume less than BRL, and it is clear that proposal B will mitigate extreme imbalance prices.

V. OTHER ALTERNATIVES

The BSC Panel may wish to consider a number of wider alternatives to the proposal of this paper, which include:

Extending the 'P10' modification, which excludes acceptances of less than 1MWh, to a much larger level such as 50MWh. This proposal has the advantage of being implementable as soon as P10. Our analysis of the price of accepted bids and offers, against the volume, shows little relationship of price to volume of call-off, apart from the spike of prices of <1MWh call-offs. Hence we believe that this proposal would have little overall impact on imbalance prices.

There are a number of sub-options of Proposal A, which could refine the basic definition of a 'short duration' Bid / Offer acceptance.

The maximum MW of Bid or Offer accepted could be used as a criterion. For example, an acceptance of less than 200MW could be seen as fine-tuning of the system, whereas an acceptance of greater than 200MW must have a major impact on the energy balance over the whole half-hour. We have examined the spread of maximum MW over a number of Bid / Offer acceptances during one week, and conclude that there is no natural level to set such a tolerance.

A variant of the above criterion, would be to impose a rule that no more than (say) 500MWh of Bid or Offer acceptances could be tagged as 'short duration' in any half-hour. Such a rule seems to us to be counter to the objective of a clear distinction between system and energy balancing actions, and would be complicated to design and implement.

Another consideration might be only to exclude 'short duration' acceptances, when they are in the opposite direction to the system length. Thus this modification would only affect System Buy Price when the system is long, and System Sell Price when the system is short. Again, this rule seems to us to be counter to the objective of a clear distinction between system and energy balancing actions.

Another criterion might be a direct test on the dynamic parameters of each accepted Bid / Offer. For example, any BOA whose run-up and run-down rate exceeded say 25 MW/minute would be always tagged as a system action. Apart from the issue that BSC Settlement has no current use of dynamic parameter data, we believe that such a rule might encourage participants to make careful selections of dynamic parameters of 24 or 26 MW/minute, in order to influence imbalance prices.

A further criterion could be used, that any short duration acceptance should also be called at a lead-time of less than (say) five minutes. This would reflect a concept than 'unplanned' actions should be system, whereas actions planned at a greater horizon should contribute to energy imbalance prices. However, such a rule would prevent short duration actions on certain BMUs, such as OCGTs and demand-side providers of standing reserve, which have to be called at up to 20 minutes notice, being tagged as system actions.

ANNEX 3 - REPRESENTATIONS

P15&18_UMR_01 – Axia Energy Europe

8 June 2001

MODIFICATION PROPOSALS P15 and P18
Methods of Removal of Price Spikes and Removing/Mitigating the Effect of System Balancing Actions

Axia Energy Europe Limited, the European marketing and trading arm of Entergy-Koch, LP (AEEL), offers the following comments respecting these modification proposals. AEEL endorses generally comments submitted by Entergy Wholesale Operations on these proposals.

The balancing price setting mechanism should exclude anomalous acceptances within definable parameters because they distort balancing mechanism prices. The current price setting mechanism misallocates and distorts the costs of settling imbalances. This creates undue risk to trading parties and ultimately lessens competition.

Lead times before gate closure should be shortened over time to no more than 30 minutes, subject to the outcome of Modification Proposal P12 and further review after experience.

AEEL does not oppose any practical and effective modification to the balancing mechanism pricing system if it eliminates distorted balancing mechanism prices. All the proposals advanced offer progress in that regard. However, AEEL suggests that Mod P15 is the most sensible and effective of all proposed modification formulas. AEEL further recommends the BRL be set to zero immediately until Elexon implements Modification Proposal P15.

AEEL further suggests the BSC Panel implement an on-going process to completely review the balancing mechanism pricing formula and recommend comprehensive changes. BSC parties have submitted modification proposals addressing price-setting anomalies at the rate of nearly one per week since NETA Programme Go-live. Each modification proposal seeks laudable results, but addresses the problem from a different perspective. Each modification proposal advances piecemeal change, but none would achieve a complete solution. Opinions vary greatly as to which modification proposal will best correct the formula's flaws and where to start first. All agree the present formula produces dreadful results. Thus, it would appear the time at hand to eschew plaster-by-plaster proposals, studies, modifications, adjustments and consultations, and instead implement a joint industry/government team specifically responsible to the BSC Panel to study and recommend by a date certain the major surgery necessary to correct the flaws in the BM pricing formula.

Thank you for the opportunity to submit our views.
/s/
William C. Pitcher
Director, Legal & Regulatory Affairs

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P15&18_UMR_02 - Vattenfall

From: bo.wahrgren@vattenfall.com[SMTP:bo.wahrgren@vattenfall.com]
Sent: 08 June 2001 11:51
To: modifications@elexon.co.uk
Cc: larsinge.gustavsson@vattenfall.com; mattias.hedberg@vattenfall.com; stig.andersson@vattenfall.com
Subject: P15/P18 Report Comments

These are Vattenfalls comments to the report.

Q1 Yes
Q2 Our preference is 30 minutes "lead-time".
Q3 Our preference is 30 minutes "CID".
Q4

P15	preference 1
P18A	preference 4
P18Ai)	preference 3
P18Aii)	preference 5
P18B	preference 5
BRL=0	preference 2

Q5 Yes, the anomalous price spikes and spreads must be removed as soon as possible.

Best regards,

Bo Wahrgren

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P15&18_UMR_03 - Seeboard

From: Fraser, Sue
Sent: 08 June 2001 14:19
To: 'modifications@elexon.co.uk'
Subject: P15/P18 Report Comments - Seeboard's Response

Seeboard's comments to the questions raised in the Consultation report are as follows:-

Question 1
We agree with the majority of the Modifications Group that the existing pricing arrangements result in regularly extreme SBPs. This encourages participants to trade long rather than to balance their requirements and the costs of some of these actions are unfairly allocated. We, therefore, believe that the exclusion of certain additional acceptances is desirable to fulfil the BSC objective.

Question 2

Lead Time	Preference (Mark one)	Comments
15 Minutes		
30 Minutes		
45 Minutes		
1 hour		
Other (please specify)	At this stage we do not feel a sensible preference could be made	The object of the proposal is to separate system from energy acceptances. We, and I suspect most respondents, could only give an answer based on intuition rather than evidence. This question could only be addressed by further rigorous analysis

Question 3

CID	Preference (Mark one)	Comments
5 Minutes		
15 Minutes		
20 Minutes		
30 Minutes		
Other (please specify)	Please note comments	Further analysis would determine what would be the correct CID. We share the general view that short term intra-half-hour action constitutes system balancing. We, therefore, are of the view that the CID should be of less than 30 minutes.

Question 4

Modification	Preference (1 = high, 5 = low)	Comments
P15	3	
P18A	1	
P18Ai)	2	
P18Aii)	2	
P18B	4	
BRL = 0	4	
Other (please specify)		

Question 5

We believe P18a to be the most robust and 'intellectually pure approach'. It also seems likely that it will be the most difficult to implement.

This matter is quite rightly regarded as urgent and therefore in the event of a protracted implementation timescale for P18a it may be pragmatic to implement BRL=0. However, we would see this as an interim solution rather than a permanent alternative. Therefore, in the long run our preference remains the same.

Sue Fraser
for DAVE MORTON
0190 328 3465

P15&18_UMR_04

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Modification Proposals P15/P18 - Price Spikes

Dear Mr Forrester,

ScottishPower is pleased to have the opportunity to respond to the consultation on Modification Proposals 15 and 18 regarding the removal of system balancing acceptances from the calculation of imbalance prices. We recognise that the volatility and magnitude of imbalance prices, especially SBP, is causing some concern within the industry and agree with some members of the Modifications Group that "...the existing pricing arrangements did not provide appropriate incentives for participants to balance, rather they provided an incentive for participants to trade long." However, we also agree with those members of the Mods Group who thought that "...it was premature to consider implementing one or more 'quick fix' changes...".

We were pleased to note that the Panel "..also identified the need for a wider discussion on the issue of imbalance pricing" and have initiated preparations for such a review. ScottishPower welcomes this and will be pleased to contribute to this discussion in due course. In the meantime, we are not convinced that significant resources should be devoted to isolated attempts to make simple changes to a complex system.

I trust you find these comments helpful, and please do not hesitate to contact me should you wish to discuss any points further.

Yours sincerely,
J M Harrison
ScottishPower Cathcart Business Park Spean Street Glasgow G44 4BE
Telephone 0141 568 2000

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P15&18_UMR_05 - Powergen

Powergen Response to the Consultation on Modification Proposals P15 & P18

A. F. Dicicco 7 June 2001

Summary

- *The NETA Policy Board, the DISG and the NETA expert groups developed the NETA trading arrangements over a two-year consultation period to which all parties were able to input. These arrangements are being undermined by the proliferation of modification proposals in the first two months of NETA.*
- *Powergen supports the BSC Panel's decision to initiate a review of the level of BRL and the trade tagging process six months after Go Live.*
- *Powergen believes it is appropriate that market participants that cause energy imbalance pay for that imbalance. We do not believe, however, that energy imbalance prices should include system balancing costs.*
- *Powergen supports using a simple, direct test on the run-up and run-down rates for each BOA in order to separate balancing actions. For instance, any BOA whose run-up or run-down rate exceeded say 100 MW/minute would always be tagged as a system balancing action.*
- *Powergen does not support P15, P18a(i), P18a(ii) nor setting BRL to zero. We believe that P18a is a more pragmatic solution and we believe a threshold duration of 5 minutes would be appropriate*
- *Powergen also believes that the introduction of the proposed frequency response market could provide a long-term solution.*

Introduction

1. This document gives Powergen's response to the issues raised in the Urgent Modification Consultation Document (5 June 2001) for Modifications P15 – *Removal of Price Spikes Associated With System Balancing from System Prices* and P18 - *Removing/Mitigating The Effect of System Balancing Actions In The Imbalance Price Calculations.*

2. P15 and P18 raise significant issues as regards the operation of the Balancing Mechanism and structure of the energy imbalance prices. Powergen has supported, and continues to support Dual Cash Out Pricing as an effective means of incentivising market participants to balance. We believe that energy imbalance price volatility is consistent with the very nature of the Balancing Mechanism in regulating generation and demand in real time. We do not support any modification that will reduce the natural volatility in the Balancing Mechanism.

3. In our view, Dual Cash Out should correct any long term propensity for market participants to go either very long or very short. It has to be recognised that the nature of demand forecasting, particularly Non Half-Hourly (NHH) customer demand profiling, means that Market Suppliers can never balance their positions. They will always be exposed to either SBP or SSP depending on whether they choose to over- or under-contract. We should also recognise that the industry is still going through a learning curve with respect to operating under these new arrangements. Dual Cash Out provides the incentive to market participants to improve their effectiveness and hence supports the licence condition to improved market efficiency.

4. The NETA arrangements were developed over a two-year period by the NETA Policy Board, the DISG and the NETA expert groups. Powergen is concerned that these arrangements are being undermined by the proliferation of modification proposals in the first two months of NETA. The BSC Panel decided before Go Live to initiate a six-month review of the level of BRL and the trade tagging process. Powergen supports this review and would like to see it concluded before major change to the market rules.

5. Our detailed comments on P15 and P18 and the issues that they raise are discussed in detail below.

System Balancing Vs Energy Balancing

6. Powergen believes it is appropriate that market participants that cause energy imbalance pay for that imbalance. We do not believe, however, that energy imbalance prices should include system balancing costs. Two critical issues are:

   - what constitutes a system balancing trade and what is an energy trade; and
   - how can energy and system balancing costs can be separated?

7. Under NETA, a trade tagging methodology and a Balancing Reserve Level (BRL) were introduced to address these issues. This was designed to tag out BM bids and offers for frequency response and the resolution of transmission constraints (i.e. system balancing trades). This would leave BM bids and offers taken to resolve imbalances between generation and demand (i.e. energy balancing trades) to set the energy imbalance prices (SBP and SSP).

8. It is widely accepted across the electricity industry that it is a difficult process to separate some of NGC's actions in the Balancing Mechanism into system balancing and energy balancing. The tagging methodology to date has not proved effective in separating energy and system balancing BM trades, mainly due to the market being long.

9. There have been a number of instances in the Balancing Mechanism where demand pick-ups have been under-estimated by NGC, and/or generation coincidentally trips or under-performs causing fast response generation to be brought on at very short notice. This has generally resulted in high SBPs due to the high prices charged for providing this service.

10. It could be argued that these actions are for system balancing (frequency response) and not for energy balancing (reserve), although frequency response is in effect very short-term reserve. Frequency response is a short-term response to events causing a change in frequency. Longer term, the surfeit or deficit of energy should be corrected by acceptance of BM Bids and Offers. The NGC Incentive Scheme encourages just in time Bid-Offer Acceptances (BOAs) and no unwinding of positions. This means that NGC have a commercial incentive to use frequency response as a medium-term substitute for correcting energy imbalances. The impact of any modification on the NGC incentive scheme is outside of the scope of the P15/P18 Modifications Group but this issue must be addressed by OFGEM before any modification is agreed

11. NGC can itself cause system frequency problems through an inaccurate forecast of the TV pick-up. NGC uses its own forecast of spot time demand and actual system frequency to operate the system. Are the correct drivers in place on NGC to get this spot forecast correct?

12. The example in Annex 4 of the Consultation document describes the use of fast response plant to contain a 500 MW plant loss and respond to a TV pick-up. This is a regular scenario experienced so far in the Balancing Mechanism. The issue here is to what degree system frequency should be controlled by the use of fast response plant rather than automatic primary and secondary response. NGC stated they would instruct 22% more response under NETA to cover uncertainty, is this happening?

13. High and volatile prices should not be seen as restricting competition especially over such a short timescale. To the contrary, they will encourage generators and demand-side providers to develop innovative products and service offerings to compete with incumbent fast response plant.

14. The apparent high premia charged for short-term offers merely reflect the earning stream that is required to compensate plant that has a low load factor and high uncertainty of call-off. High priced offers seem to come from generating units that have been instructed to 'spin in air'. These

units have been instructed to operate in this manner via an explicit instruction and so it should be possible to identify offers or bids accepted on such units and tag them out.

15. Powergen agrees that parties in energy imbalance should not be exposed directly to system balancing costs. These costs should be recovered from all parties that benefit from a stable system. It is difficult to separate these costs from energy balancing costs (which should be targeted) in an unambiguous manner but BOAs to support system frequency are, by definition, of short duration. There are various ways of addressing these problems. P15 and P18 (and its variations) are potential solutions but there are others including the introduction of a frequency response market.

Modification P15: Exclusion of bid-offer acceptances (BOAs) after [30] minutes before the start of real time half-hour period from the calculation of SBP and SSP

16. NGC currently accept the majority of bids and offers in the BM within the timescales (up to 30 minutes before {and including real time}) set out in the proposal and hence a significant proportion of these BOAs are for energy balancing purposes. This would therefore remove a substantial volume of BOAs accepted for energy purposes, from being included in the calculation of cash out prices. This proposal is also inconsistent with a change in Gate Closure from 3.5 hours to 1 hour ahead (Modification Proposal P12). If both P12 and P16 were introduced then all BOAs would be tagged as system balancing trades, which is patently not the case.

17. This proposal is much too blunt an instrument and would remove the natural volatility in the Balancing Mechanism. This would seriously undermine parties' incentives to balance. Therefore, **Powergen does not support this modification proposal.** (Responses to the specific questions raised in the Consultation are included as Attachment 1.)

P18: (a) BOAs of 'Continuous Instruction Duration' less than a threshold duration of [15] minutes are tagged as System rather than Energy balancing actions & (b) A minimum volume of BM trades is set from which imbalance prices can be set

18. Powergen prefers P18a to both P15 and P18b as this is a more economically sound approach. P18a does separate out the very short-term intra-half-hour actions which can be thought of as system balancing from the inter-half-hour actions that are clearly energy balancing. Powergen believes however that 15 minutes is too long for the threshold duration. We believe that this threshold should be 5 minutes as this will capture very short-term actions that are for frequency response but not longer actions that have been instructed for energy balance.

19. Powergen agrees that P18a(i), where BOAs are processed individually and not aggregated (P18a), may give NGC undue influence over whether or not an acceptance was included in the price calculations. Powergen does not therefore support P18a(i).

20. P18a(ii), where a MWh test is used rather than a Continuous Instruction Duration, is not an economically sound solution and there would be considerable difficulty in setting an appropriate level. Powergen therefore does not support P18a(ii).

21. Powergen believes that P18b is preferable to P15 but is more arbitrary than P18a. This may be an option if it is decided that P18a cannot be readily implemented.

Other Proposals

22. Another proposal (not covered by either P15 or P18) which is included in the Consultation is setting BRL to zero. Powergen does not support this option, either in the interim or longer term, as we believe this will flatten the energy imbalance prices too much and remove the necessary incentives to balance. It will lead to every period having either the SBP or SSP set by the default price arrangements which we believe is inappropriate.

23. One of the alternative options in the proposal for P18 is to use a direct test on the dynamic parameters of each BOA. For instance, any BOA whose run-up or run-down rate exceeded say 100 MW/minute would always be tagged as a system balancing action. Powergen believes that this would provide a quick and easy solution and give a reasonable separation of system and energy balancing actions. This option could be improved further by combining the test on the dynamic parameters with the duration of instruction (P18a). This would however take longer to implement.

24. Using a direct test on the dynamic parameters of each BOA would mean that fast response, high priced system balancing actions were charged directly through BSUoS charges. It could be argued that as these actions are due to unexpected demand pick-ups (such as TV pick ups) to meet mass market customers' demand increases, then there should be an appropriate allocation of BSUoS charges to reflect this. This may mean that Half-Hourly metered demand and generation pay a lower proportion of BSUoS charges (say 30%) than Non Half-Hourly metered demand. System balancing actions due to generator failures and/or generation away from FPN could be (partly) paid for from an information imbalance charge. The functionality already exists to implement this.

Attachment – Answers to questions raised in the Consultation

Q1: Do you believe that the exclusion of certain additional acceptances is desirable such that the BSC Objective of promoting effective competition in generation and supply is better achieved?

Yes for system balancing and transmission constraints but not for those trades instructed for energy balancing.

Q2: If P15 were to be progressed, below what "lead-time" should acceptances be excluded?

Lead Time	Preference (Mark one)	Comments
15 Minutes		
30 Minutes		
45 Minutes		
1 Hour		
Other (please specify)	**Zero minutes – only intra** **Half hour trades should be** **Tagged as system balancing**	**Powergen does support this Mod.**

Q3: If P18A were to be progressed, below what "Continuous Instruction Duration" (CID) should acceptances be excluded?

CID	Preference (Mark one)	Comments
5 Minutes	**Yes**	
15 Minutes		
20 Minutes		
30 Minutes		
Other (please specify)		

Q4: Which of the following proposals do you believe better delivers the relevant BSC Objectives in the context of excluding certain additional acceptances?

Modification	Preference (1=high, 5=low)	Comments
P15	5	Much too blunt an Instrument!
P18A	2	Best of P15/P18 Options
P18Ai)	3	Open to manipulation By NGC
P18Aii)	4	Too arbitrary
P18B	3	A possible solution
BRL=0	5	Would lead to very Inappropriate prices (based on default price mechanisms)
Other (please specify) Use Run-Up/ Run-Down Limit (100 MW/min) to Tag system bal. Trades	1	Simple to adopt, And implement and Would separate out System balancing Trades (i.e. very fast response trades)

Q5: How would your preference for the above Modifications be affected if your preferred solution was found to have protracted implementation timescales (e.g. six months or more), for example would this increase your preference for BRL=0?

Our preferred solution (Use Run-Up/Run-Down Limit [100 MW/min]to tag system balancing trades is very simple to introduce. We would not support BRL = 0 under any foreseeable circumstances.

P15&18_UMR_06 – TXU Europe

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Gareth Forrester
Modifications Manager
Elexon Ltd
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08 June 2001

Dear Gareth

Urgent Modification Proposals P15 and P18

Thank you for the opportunity to comment on the above Urgent Modification Proposals. TXU Europe Energy Trading Ltd. would like to make the following comments on behalf of all TXU Europe companies.

TXU do not support either of the modification proposals. We do not believe that after only 10 weeks of NETA it is appropriate to change the way that imbalance prices are calculated. Imbalance prices are showing signs of settling, there are fewer 'spikes' than there were in the first weeks of NETA and those that we are seeing are lower. The attached graphs illustrate how prices have smoothed since the introduction of NETA.

The first few months of any new regime are bound to show more volatility as the market beds down and participants adjust to operating under the new rules. Tinkering with the imbalance price calculations will not assist the process of bedding down. TXU believes that the market needs time to settle properly before any such changes are made. A series of piecemeal changes to the way in which imbalance prices are calculated may undermine emerging confidence in the new regime, and will serve to extend the initial period of instability. Changes to the calculation of imbalance prices should wait until systems and processes have settled.

Urgent Modification Proposal P15 suggests that bid-offer acceptances with an acceptance time after 30 minutes before the start of the settlement period should be excluded from the calculation of SBP and SSP. TXU do not support this proposal. We do not believe that this will in any way better serve to remove system balancing actions from the energy imbalance price calculations. In fact it may result in energy balancing actions also being removed. The modification report states that the current imbalance price calculations are not providing the correct incentives on participants to balance their energy accounts. Whilst this may be true, we do not believe that implementation of P15 would provide any better incentive. In fact if too many energy balancing actions are tagged then system prices may be too low to provide a sufficient incentive to balance.

TXU also believes that P18 should be rejected, we do not support any of the proposals contained within the modification report. Whilst P18A may capture the majority of system balancing actions, there is still scope for energy balancing actions to be tagged, and we do not believe that this is desirable.

As regards the proposals relating to changes to the Balancing Reserve Level, TXU agree that BRL may need to be reduced, however we do not believe that either of the options in P18 are the appropriate way of achieving this. We understand that a group has been established to examine the appropriate level of BRL and we believe that any changes should wait until a full consultation has taken place on the group's findings.

If there is a genuine desire to remove system balancing actions from imbalance prices then a robust solution is required. A halfway house (as proposed in this modification report) will not necessarily better facilitate the relevant objectives, in fact it may merely highlight a different set of perceived inefficiencies. TXU do not feel that it is prudent to make changes to the imbalance price calculations at this stage. We believe that if any changes are to be made, then there should be a full consultation with realistic timescales for impact assessments to take place. Further, any such consultation should not take place until the system has had at least six months to bed down (i.e. September/October).

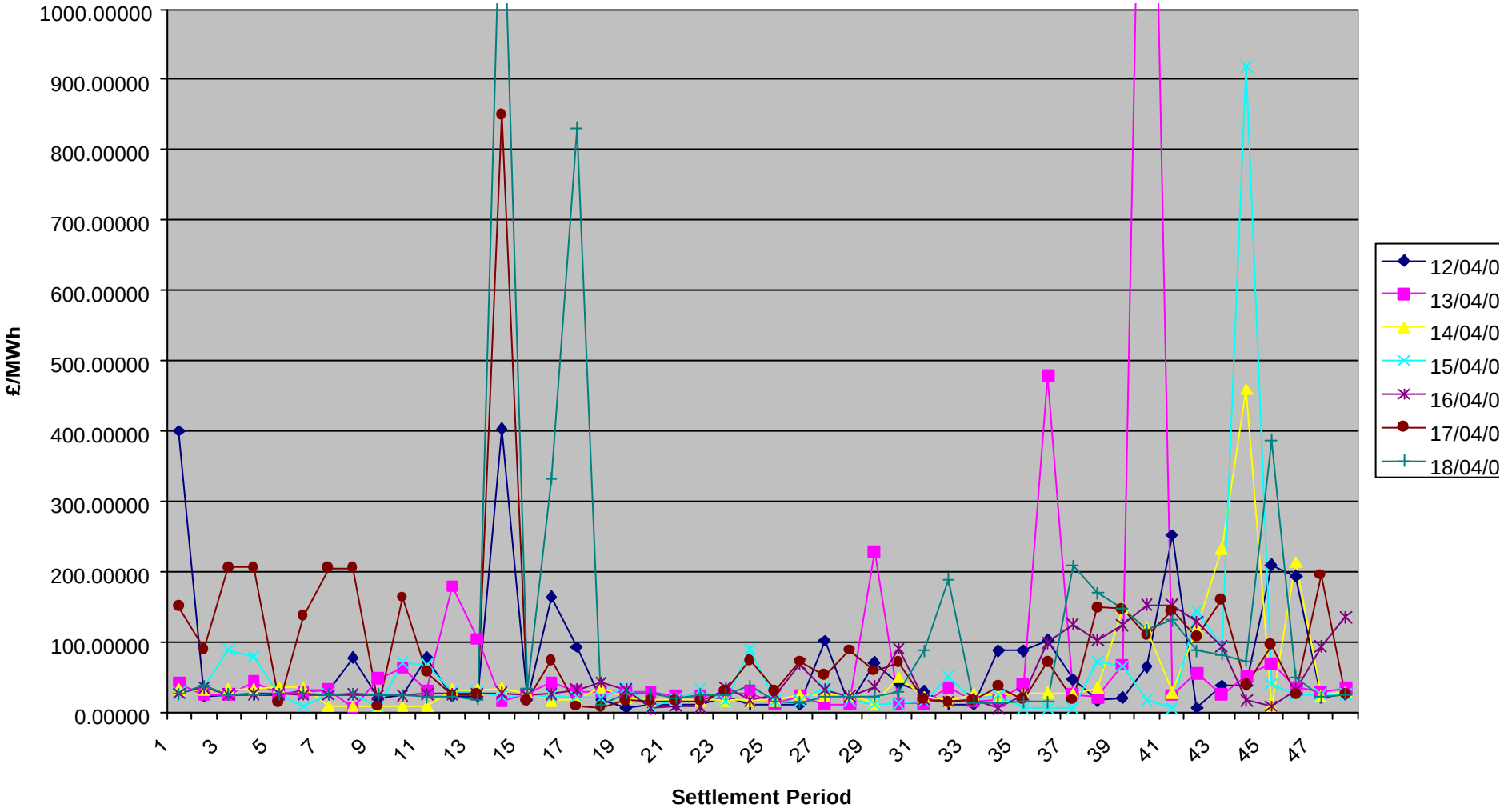
We hope that you have found our comments useful, and should you wish to discuss any aspect of this response please contact me on the above number.

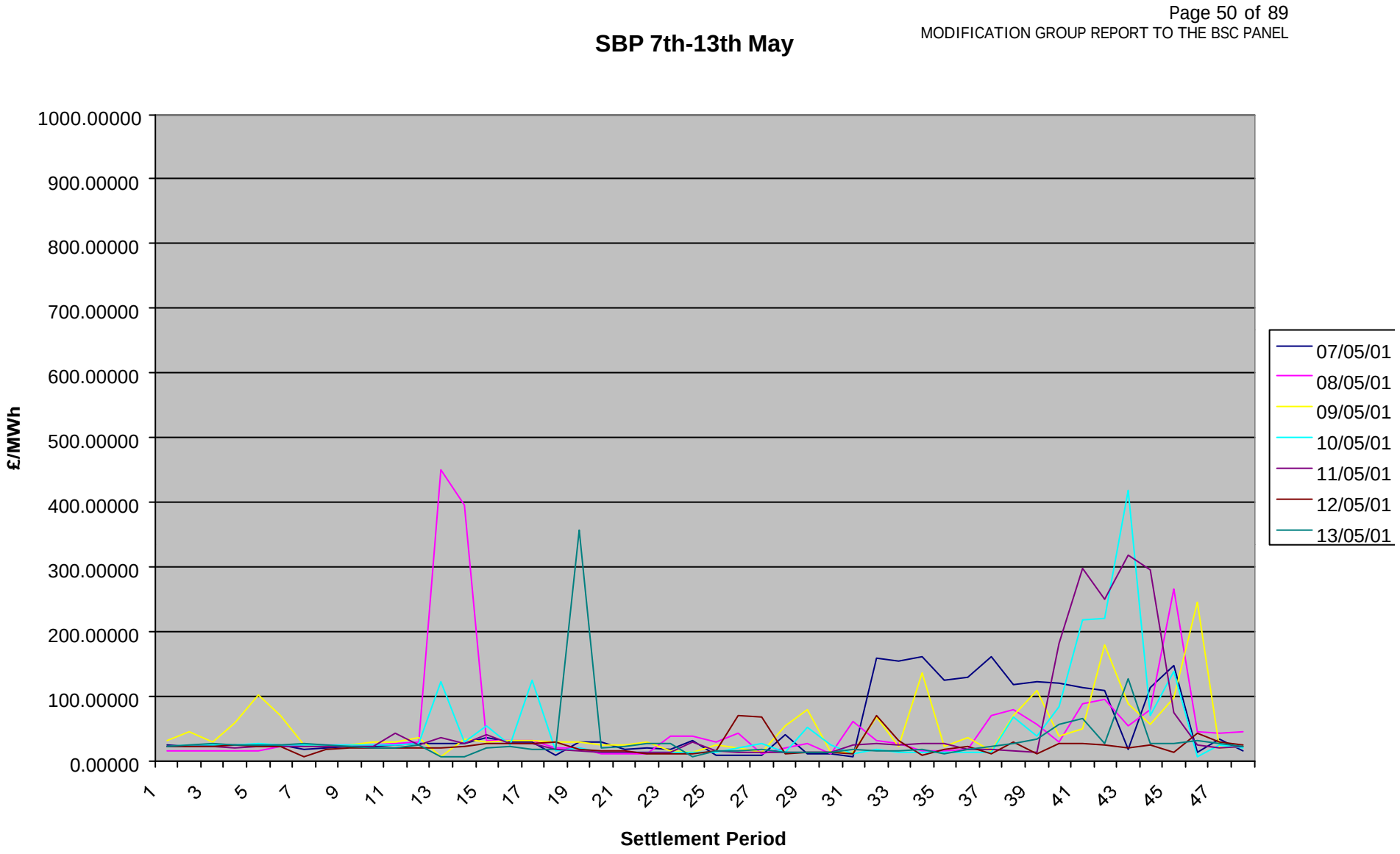
Yours sincerely

Nicola Lea
Market Development Analyst

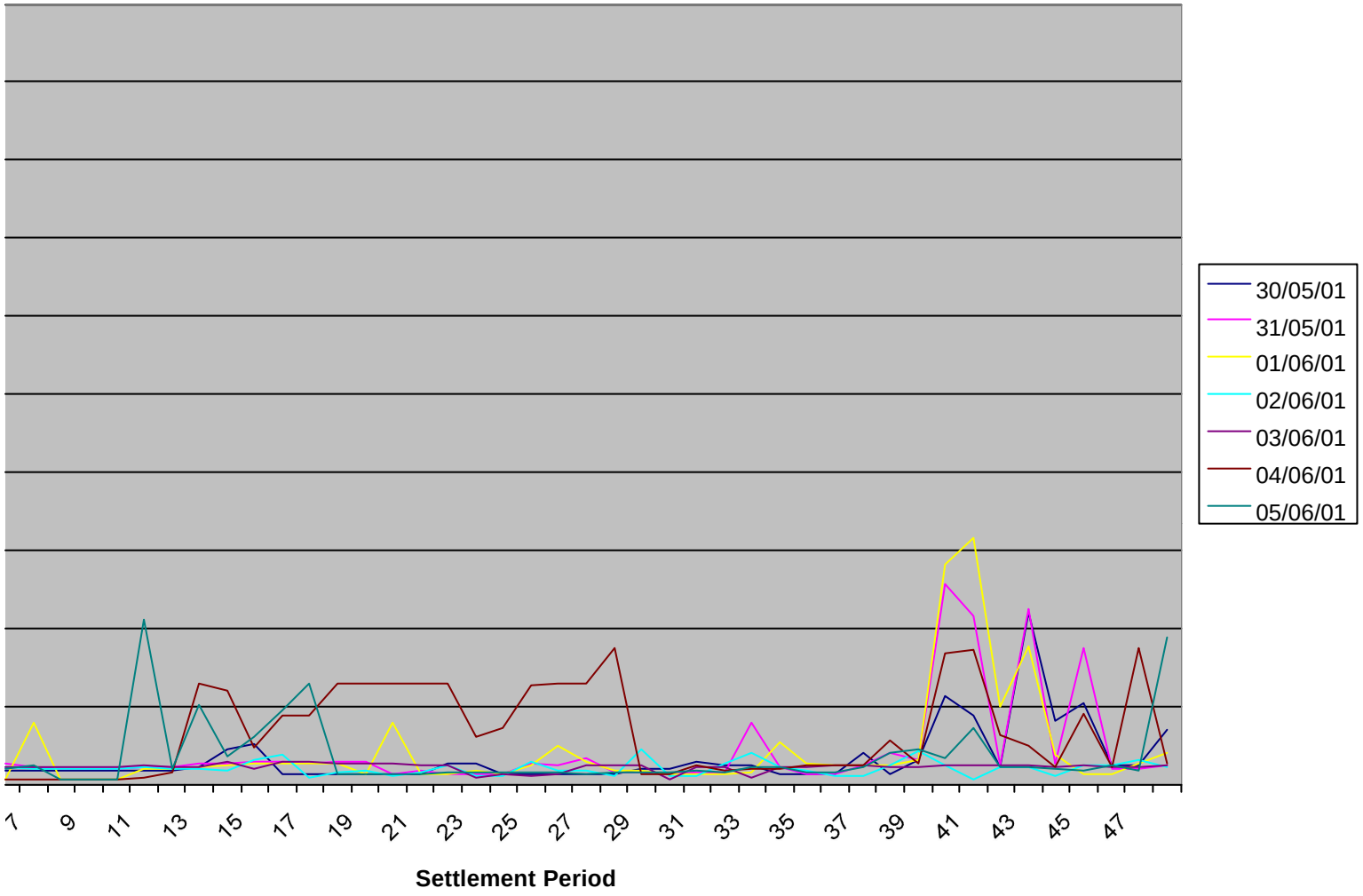
Att

SBP 12th-18th April





SBP 30th May-5th June



P15&18_UMR_07 – Northern Electric

8th June 2001

Modification Department
ELEXON
10th Floor
338 Euston Road
London
NW1 3BP

Dear Sir,

Modification Proposal P15: Removal of Price Spikes Associated with System Balancing from System Prices; and P18: Removing / Mitigating the Effect of System Balancing Actions in the Imbalance Price Calculations

Northern Electric and Gas welcomes the opportunity to comment on modifications P15 relating to Removal of Price Spikes Associated with System Balancing from System Prices; and P18 relating to Removing / Mitigating the Effect of System Balancing Actions in the Imbalance Price Calculations.

Response to Specific Questions

In response to the questions, we have the following comments:

Q1: Do you believe that the exclusion of certain additional acceptances is desirable such that the BSC Objective of promoting effective competition in generation and supply is better achieved?

We believe that the exclusion of certain additional acceptances may better fulfil the BSC objective in promoting effective competition in generation and supply. However, this is subject to a rigorous review of the operation of the balancing mechanism and associated prices. We would note that time is required to fully assess the impact of NETA, particularly the fact that initial volatile system prices may reflect early teething troubles rather than long-term problems. We would also note that volatile prices might be expected during shoulder periods (winter/summer/winter transitions). It will be interesting to assess balancing mechanism prices over the relatively more stable (but potentially more constrained) summer months prior to implementing changes.

We do not believe that arbitrary changes to balancing mechanism prices should be implemented at this time and therefore do not, in principle, support modifications P15 and P18. However, these modifications could be implemented in some form in due course dependent on the outcome of the review of the balancing mechanism and associated prices (see also answer to Q5 and the general comments).

Q2: If P15 were to be progressed, below what "lead-time" should acceptances be excluded?

Lead Time	Preference (Mark one)	Comments
15 Minutes	✓	We do not support implementation of P15 at this time as the lead-time approach is necessarily arbitrary. If a case can be made for implementation, the modification should be designed to capture acceptances that are responsible for price spikes rather than capture the difference between System and Energy balancing. We do not believe that the modification as proposed resolves the issue of system/energy balancing. Furthermore (subject to a case for implementation) the modification should initially be applied to acceptances that occur shortly before gate closure – i.e. 15 minutes. The Panel should closely monitor the effects of the modification on system prices. In addition, in the light of further data, the Panel should be given the discretion to change the lead-time as appropriate in order to capture additional price spikes. An enduring solution would be to give the Panel the discretion to set the lead-time to zero if appropriate.
30 Minutes	-	-
45 Minutes	-	-
1 Hour	-	-
Other (please specify)	-	-

Q3: If P18A were to be progressed, below what "Continuous Instruction Duration" (CID) should acceptances be excluded?

CID	Preference (Mark one)	Comments
5 Minutes	✓	Our comments are similar to those as noted under Q2. We do not support implementation of P18 (or variants) at this time as the duration approach is necessarily arbitrary. If a case can be made for implementation, the modification should be designed to seek to capture acceptances that are responsible for price spikes rather than capture the difference between System and Energy balancing. We do not believe that the modification as proposed resolves the issue. Furthermore, (subject to a case for implementation) the modification should initially be applied to acceptances that relate to short-run balancing actions- say duration of less than 5 minutes. The Panel should closely monitor the effects of the modification on system prices. In addition, in the light of further data the Panel should be given the discretion to change the duration as appropriate in order to capture additional price spikes. An enduring solution would be to give the Panel the discretion to set the duration to zero if appropriate.
15 Minutes	-	-
20 Minutes	-	-
30 Minutes	-	-
Other (please specify)	-	-

Q4: Which of the following proposals do you believe better delivers the relevant BSC Objectives in the context of excluding certain additional acceptances?

Modification	Preference (1=high, 5=low)	Comments

P15	**5**	Detailed review of balancing mechanism and system prices required. See answer to Q5.
P18A	**5**	Detailed review of balancing mechanism and system prices required. See answer to Q5. With respect to Modification option 18a, we would note that analysis in the consultation document shows that any longer than 15 minutes effectively results in more normal plant instructions being discounted than fast acting plant. 5 mins may be a reasonable starting point, subject to revision in light of operational experience.
P18Ai)	**5**	Detailed review of balancing mechanism and system prices required. See answer to Q5
P18Aii)	**5**	Detailed review of balancing mechanism and system prices required. See answer to Q5
P18B	**5**	Detailed review of balancing mechanism and system prices required. See answer to Q5
BRL=0	**5**	Detailed review of balancing mechanism and system prices required. See answer to Q5
Other (please specify)	**-**	**-**

Q5: How would your preference for the above Modifications be affected if your preferred solution was found to have protracted implementation timescales (e.g. six months or more), for example would this increase your preference for BRL=0?

As noted above, we support a robust review of the balancing mechanism and associated prices prior to implementation of short-term reforms. However, we believe that that several different options could be implemented through revised BSC drafting, provided that the Panel has the discretion to "switch-off" the option. This could enable the different approaches to be applied as appropriate, address short-term price spikes, allow the impact of the alternative options to be identified and support the development of a more robust definition of system and energy balancing actions. It would also enable the Panel to switch-off the options until such time as the necessary systems are available. Therefore, a simple option could be applied initially and could be replaced by another more robust option in due course (subject of course to impact analysis and costing of systems development).

General Comments

We remain concerned that the proposed modifications may interact with NGC's system operational activities and incentive scheme arrangements. For example, under modification P15, NGC may wait until after the lead-time before accepting an expensive bid (or vice versa). While under Modification

P18 NGC may really want the plant for 20 minutes, but accept for 14 minutes so as not to generate high cash-out (or alternatively ask the plant to generate for 21 minutes rather than 19). We would welcome some recognition of this in the discussion of the options, though we would note that the system operator incentive scheme is outside the terms of reference for the Modifications Group.

Furthermore we note that Ofgem under DTI direction are undertaking a review of the implications of the balancing mechanism for small generators. We believe that the findings of this study must be incorporated in any review of the balancing mechanism.

We hope that these comments are helpful,

Yours faithfully

Lesley Mulley
Industry Communications Manager
Northern Electric and Gas

P15&18_UMR_08 – Edison Mission Energy

8 June 2001

Dear ELEXON

Comments on Modifications P15/18

Summary

Edison Mission Energy considers that any decisions on changes to the fundamental calculation of imbalance prices are premature. We have seen no clear description of the perceived shortcomings in the Balancing Mechanism, let alone any comprehensive analysis of the anticipated effects of these modifications. At one level, the outcome has been in line with expectations, parties have contracted bi-laterally, volumes in the Balancing Mechanism have been small, and security of supply has been maintained. I therefore do not support pushing through these modifications as emergency fixes. Any changes should be carried out in a measured way, starting with a clear understanding of what we are trying to achieve.

Once this analysis is complete, we should then consider the implications of these proposed modifications along with other proposals such as the reduction in Gate Closure and revising the BRL. It is unclear from the consultation whether these modifications are to be treated as an interim fix or will be in addition to the reduction in Gate Closure and changes to the BRL. Each of these changes must not be addressed in isolation. Selective short term intervention with the price calculations reduces market confidence in forward prices and prejudices the achievement of a rational free market.

General comments

NETA went live less than twelve weeks ago after more than two years of development. Whilst we did see some early price volatility, it is clearly dampening down. In the last two weeks commencing 21 and 28 May, the SBP averaged £37.45/MWh and £34.30/MWh . This is less than the average price envisaged when the System Operator Incentive targets were agreed. The dampening down of prices calls into question the continuing relevance of these modifications. There is insufficient evidence of market operations to warrant the speed of such a change and insufficient analysis has been carried out to allow participants to assess the effects of this change in terms of incentives to balance and BSUoS charges. Without more thorough analysis there is a danger that the problem will simply manifest itself in some other way (e.g. reduced incentives to balance leads to a requirement for more balancing actions on both sides, and an increase in BSUoS charges).

Will this lead to further modifications which in turn may lead to even more obscure incentives than there are at present?

It is essential that any analysis examines the effect on BSUoS charges. If BSUoS charges increase as a result of reduced incentives to balance then the whole market will be paying towards the cost of short term variations in generation or demand. Better performing companies will be subsidising the poorer performers.

Our suggested way forward is to first examine whether or not NETA is meeting its objective criteria. If it isn't, market participants should focus their efforts on changes that will address the market failings, not on the application of poorly considered fixes.

Yours faithfully

Phil Edgington

P15&18_UMR_09 - Aquila

Aquila
Southside
105 Victoria Street
London
SW1E 6QT

08 June 2001

Dear Sirs,

MP 15 & 18 for the removal of price spikes

Aquila supports the implementation of both these modification proposals. Since MP15 could be implemented almost immediately, Aquila believes the modification would be a desirable "quick fix" for SBP volatility problems. In the longer term MP18 would prove a more targeted way of filtering out balancing actions taken for system rather than energy reasons. MP18's implementation could lead to MP15's repeal.

Yours sincerely,

Alastair Johnston
Analyst, Legal & Regulatory Affairs

P15&18_UMR_10 – National Grid

Appendix A
Market Development

The National Grid Company plc
National Grid House
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Tel No: 024 7642 3958
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Date: 14 June 2001

Peter Davies
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1 Triton Square
London
NW1 3DX

Dear Peter

NGC REPLY TO BSC MODIFICATIONS P15 / P18 CONSULTATION

Action:

This note represents National Grid's response to Elexon's Consultation, dated 5th June 2001, on Modifications P15 and P18 to the imbalance price calculation. First we discuss each modification in turn, and then our Reply is summarised in Elexon's tables.

A.1.1 Modification P15

We do not support this proposal. The lead-time of an action is not necessarily any indication of the immediacy or of any driver of the action. For example, were we to select a fast dynamic offer for five minutes over a TV pick-up, we might decide to do this at a lead-time of 3 hours or 3 minutes before the event - there may be no meaning to be inferred from the difference. Similarly, it may be apparent that the system is long at Gate Closure, but we might accept the balancing bids at short notice.

We do not believe that modification P15 does anything to enhance the distinction between system and energy actions. In addition, as noted in the Consultation, it could give rise to the suggestion that we were deliberately choosing the timing of our balancing actions in order to influence imbalance prices.

Modification P18A

We believe that there are no objective and absolute criteria that divide system from energy actions. However, there appears to be widespread support for the concept that it is not appropriate for a balancing action of duration significantly shorter than the 30-minute settlement period to contribute to imbalance prices.

However, we note that P18A still leaves some scope for both National Grid and other participants to use this modification to influence imbalance prices. With a parameter fixed at 15 minutes, we could in theory bias our selection of 14 minute or 16 minute acceptances. In addition, there are a number of ways participants can structure their BMU submissions, for example of dynamic parameters (such as the MNZT parameter), to limit BOAs to be either all below, or all above, 15 minutes duration.

We would only support P18A as proposed. The variants P18A(i) and P18A(ii) stray too far from the concept. Should P18A take longer than six months to implement, we believe it would be sensible to parallel-track software development with the BSC Panel's wider review of imbalance pricing.

Modification P18B

We believe that P18B offers a sensible modification to moderate imbalance prices, which appears to have the additional benefit of being relatively quick to implement. It retains the current principle that imbalance prices are set as averages of actions in each direction, and ensures that the imbalance prices are calculated over a sensible volume. The averaging process will be effective at smoothing prices, whilst retaining the current underlying pricing principles.

Setting BRL to Zero

We recognise that setting BRL to zero would be easy to implement, and would be effective at moderating some but not all extreme prices. However, we have both procedural and, potentially, operational concerns with this proposal.

Procedurally, with BRL at zero, one of SBP or SSP will be set by the default rules in each half-hour. The default rules were written on the basis that they would rarely be used, and as such are not robust for routine application. For example, there is a very different outcome according to whether there happens to be an arbitraged BOA or not. There are several ways that a non-accepted Bid or Offer can be unrepresentative and unsuitable for setting imbalance prices:

- The Bid or Offer can easily be infeasible against MIL or MEL (our initial analysis indicates that the volume of infeasible Bids and Offers typically exceeds the volume of feasible Bid or Offers);
- The Bid or Offer can be effectively unusable due to dynamic parameters;
- The Bid or Offer can violate Transmission Constraints.

For these reasons we firmly believe that normal imbalance prices should continue to be set using only accepted Bids and Offers. Imbalance prices set regularly against the default are likely to be seen as arbitrary and unrealistic, and are unlikely to be acceptable to participants on an enduring basis.

Furthermore, it is likely that advantage would be taken of the default rules to set an extremely benign SSP or SBP. An individual market participant could ensure that there is always an infeasible Bid at +100 £/MWh and an infeasible Offer at –100 £/MWh, and thereby ensure that SBP will almost always default to SSP when the system is long, and SSP to SBP when the system is short. This would leave zero spread between SSP and SBP, and thus effectively a single imbalance price.

If this were to occur, then parties would no longer have a strong incentive to balance, which would have potential adverse operational consequences.

Replies to the Elexon Questions:

Q1: Do you believe that the exclusion of certain additional acceptances is desirable such that the BSC Objective of promoting effective competition in generation and supply is better achieved? Yes

Q2: If P15 were to be progressed, below what "lead-time" should acceptances be excluded?

Lead Time	Preference (Mark one)	Comments

15 Minutes		
30 Minutes		
45 Minutes		
1 Hour		
Other (please specify)	As small as possible	Given our view that this is the wrong approach, we would argue to minimise its impact.

Q3: If P18A were to be progressed, below what "Continuous Instruction Duration" (CID) should acceptances be excluded?

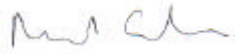
CID	Preference (Mark one)	Comments
5 Minutes		
15 Minutes	X	Our recommendation as proposer.
20 Minutes		
30 Minutes		
Other (please specify)		

Q4. Which of the following proposals do you believe better delivers the relevant BSC Objectives in the context of excluding certain additional acceptances?

Modification	Preference (1=high, 5=low)	Comments
P15	5	
P18A	2	
P18Ai)	4	We believe that the Ai) simplification seriously erodes the advantages of P18A.
P18Aii)	5	There is no clear basis to justify any particular MWh level.
P18B	1	
BRL=0	5	
Other (please specify)		

Q5: How would your preference for the above Modifications be affected if your preferred solution was found to have protracted implementation timescales (e.g six months or more), for example would this increase your preference for BRL=0? No, our response would not be affected by implementation timescales.

Yours sincerely



Mike Calviou
Strategy & Portfolio Manager

P15&18_UMR_11 – Dynegy

From: Lisa Waters[SMTP:lisa.waters@dynegy.co.uk]
Sent: 08 June 2001 17:33
To: modifications@elexon.co.uk
Cc: Sam Murray; Rekha Patel; David Keane; Alex Feuer
Subject: RE: Modification Proposals P15/P18 - Consultation

Dear Sir

Dynegy has the following comments:

1 - Dynegy believe the extension of the exclusions of different acceptances is desirable and consistent with the BSC objectives. In particular it will improve the effective competition in the generation and supply of electricity, and the efficiency in the implementation and administration of the balancing and settlement arrangements.

2 - If P15 is progressed a 30 minute lead-time should be adopted, after which acceptances are excluded. Dynegy believe this best captures "system" actions rather than those relating to "energy".

3 - If P18 is adopted, Dynegy support excluding all actions with a duration of less than 30 minutes. Again this is to capture non-energy related actions.

4 - all of the proposals are a move towards better achieving the relevant objectives. However, Dynegy believe that none are perfect and we are looking at a quick fix for the short term rather than a longer term solution. We would therefore favour the solution with the quickest implementation timetable. From the discussions at the meetings we assume this is P15.

5 - Dynegy want the quick fix. However we prefer a longer term review to find a more robust solution and hope that a group can be established to progress this in a timely manner. To help achieve a more economically sound solution we would propose that which ever change is adopted has a drop dead date to try and steer the wider review of imbalance prices towards a timely conclusion.

We hope these comments are helpful at this time. If you have any further questions please do not hesitate to contact me.

Yours sincerely

Lisa Waters
Senior Regulatory Analyst
020 7551 6637

P15&18_UMR_12 – Entergy

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8 June 2001

MODIFICATION PROPOSALS P15 AND P18

Removal of Price Spikes Associated with System Balancing from System Prices; and

Removing/Mitigating the Effect of System Balancing Actions in the Imbalance Price Calculations

Entergy Wholesale Operations (EWO) is acutely aware of the significant risk associated with price spikes in the balancing mechanism arising from balancing actions. These price spikes are having a distorting effect in the market which is stifling effective competition in the generation and supply of electricity, and this does little to instil confidence in the market.

The volatility of imbalance prices since NETA Go-live has undoubtedly led to generators under contracting and suppliers over contracting in an attempt to minimise the risk of exposure to these prices. One of the key NETA objectives is that market participants should be incentivised to balance their position; during the design phase it was always envisaged that this would be enabled through the ability of participants to fine tune their positions in the short-term markets. Experience since Go-live suggests that this objective has not been fully met. The incentive for participants to balance has been distorted by anomalous imbalance prices, and participants are paying unjustifiably high prices for being out of balance during off-peak periods because of the nature of the balancing actions.

There is no doubt that urgent action is necessary to address the current imbalance price situation. The present regime is sending the wrong signals to the market and were it allowed to continue there is a risk that smaller participants would be driven out of business, and further that the cost base of the industry would increase as participants attempt to mitigate this risk.

EWO would be supportive of a modification that addressed and eliminated the distorting imbalance price spikes currently being witnessed and accepts that an attempt to remove or mitigate the effect of system balancing actions would serve this purpose.

There is insufficient market information and impact analysis to determine in advance which of the proposed options offers the best solution, and as the modification

consultation document demonstrates each of the proposed options has its merits. Either would be an acceptable short-term solution, although it is of concern that according to Elexon neither of these modifications could be implemented until the end of this year at the earliest. EWO would urge that implementation of a short-term solution be made as soon as possible. Further, EWO believes that the matter should remain under review to ensure that an appropriate long-term solution can be developed and implemented.

As an aside, it should also be noted that the driver behind a number of the current modification proposals is the mitigation of risk to participants caused by imbalance prices. There is a need for all such modifications to be considered collectively and the full implications of the various modification permutations explored. Without an ongoing fundamental review of the market there is a danger that distortions will remain in, or even be introduced into, the market. The aim must be to deliver robust and enduring solutions.

Melanie K Wedgbury
Senior Manager, Regulatory Affairs

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P15&18_UMR_13 – Enron Europe

Modification Proposals P15 & P18: Removal of Price Spikes Associated with System Balancing from System Prices; and Removing/Mitigating the Effect of System Balancing Actions in the Imbalance Price Calculations

Response by Enron Europe

8 June 2001

1. Enron's Recommended Solution

Bid offer acceptances with Continuous Instruction Duration (CID) of less than 30 minutes should be disregarded for the purposes of calculating Energy Imbalance Prices, ie, Enron recommends adoption of modification proposal P18A with 30 minute CID.

2. Rational for Enron's Recommendation

The way Energy Imbalance Prices are calculated is fundamentally flawed because system balancing actions are included in the calculation. Enron's recommended modification addresses this fundamental flaw thereby better meeting the Applicable BSC Objectives.

The remainder of this section discusses: (i) why the inclusion of system balancing actions in the calculation of Energy Imbalance Prices creates significant problems; (ii) why system balancing actions should be excluded from the calculation of Energy Imbalance Prices; and (iii) why solution P18A best meets the Applicable BSC Objectives.

2.1 Including System Balancing Actions in Imbalance Prices Conflicts with the Applicable BSC Objectives

Including system balancing actions in the calculation of Energy Imbalance Prices results in prices that bear no resemblance to the underlying value of energy. For example, when the system is long the value of additional energy should be low but the System Buy Price (SBP) is often very high as a direct result of system balancing actions.

Energy prices that don't reflect the underlying value of electricity incentivise inefficient and perverse behaviour that is of little or no value to the system. The high and volatile SBP caused by including system balancing actions in the calculation of Energy Imbalance Prices incentivises Parties to incur real costs to mitigate that price risk. Mechanisms available to mitigate the price risk include:

1. Deliberately going long to reduce the risk of exposure to the SBP. This is a daily occurrence.
2. Withholding generation capacity to provide reserve in case of a plant failure.
3. Withdrawal from the market. Some renewable generators are rumoured to have stopped generating as a consequence of the imbalance price risk.
4. Improving demand control or generation control.
5. Increasing maintenance levels to reduce the risk of plant failure.
6. Avoid taking a within day position because the price risk means the possible cost of being unable to close out the position prior to Gate Closure is very high. This has resulted in illiquid within day contract markets.
7. Adjusting output away from FPNs after Gate Closure to offset energy imbalances. This option is only available to portfolio generators and contravenes the Grid Code.

Most of these actions are of little or no benefit to the system and some are detrimental to the system. Costs incurred in mitigating the risk of high and volatile imbalance prices that do not result in equal or greater cost savings to the system merely increase the overall cost of the industry. Increased costs will eventually be passed through to consumers in the form of higher prices. This clearly conflicts with the Applicable BSC Objective of operating an efficient transmission system.

The existing Energy Imbalance Price calculation also conflicts with the Applicable BSC Objective of promoting effective competition in generation and supply because the imbalance price risk and lack of a liquid within day contract market discriminates in favour of portfolio generators and large suppliers at the expense of single site generators and small suppliers.

2.2 Why Exclude System Balancing Actions from the Calculation of Energy Imbalance Prices?

When a Party has an energy imbalance, it is impossible to measure the amount of system balancing "consumed" because of the complex interactions between system events. Also, a similar amount of system balancing would be provided even if an individual Party were removed from the system. System balancing is therefore a public good, which is procured centrally to provide a stable and secure transmission system for the benefit of all system users whether or not they are out of energy balance.

Like any public good, the cost of system balancing should be socialised (ideally in a way that minimises the economic distortion) and not targeted at those Parties out of energy balance. To do otherwise creates the serious economic inefficiencies identified in section 2.1. This provides an economic justification for excluding system balancing actions from the calculation of Energy Imbalance Prices.

There is little argument that system balancing actions should be excluded from the calculation of Energy Imbalance Prices. Ofgem has consistently suggested that it would be desirable to remove the costs of system balancing from the calculation of Energy Imbalance Prices.[3] The real debate is how should system balancing actions be excluded. We address this in section 2.3.

2.3 Option 18A *Best Meets the Applicable BSC Objectives*

To better achieve the Applicable BSC Objectives, the recommended modification must identify and exclude system balancing actions from the calculation of Energy Imbalance Prices without compromising transparency and efficiency. Therefore it is important to distinguish between system and energy balancing actions. While no rule can achieve this with perfection, of the six options on the table Option 18A is the best at distinguishing system and energy balancing actions and best achieves the Applicable BSC Objectives. Below we discuss each option in turn.

Option 15

Lead time is not a good method of distinguishing system balancing actions from energy balancing actions. Therefore, depending upon the lead-time either (i) many system balancing actions will remain in the calculation of Energy Imbalance Prices, or (ii) many energy balancing actions will be removed from the calculation. Retaining many system balancing actions in the calculation of Energy Imbalance Prices would not achieve the objective of the proposed modification. Alternatively, excluding many energy balancing actions from the price calculation would be inconsistent with the efficient, economic and co-ordinated operation of the transmission system since energy prices would not reflect the underlying cost of energy balancing.

As discussed in the Urgent Modification Consultation Document, lead time would allow NGC to de facto choose which BM actions are included in the calculation of Energy Imbalance Prices. Increasing NGC's discretion over the calculation of Energy Imbalance Prices reduces transparency thus conflicting with

[3] Paragraph 4.37, *NGC Systems operations under NETA: transitional arrangements. A consultation document*, Ofgem April 2000.

the BSC objectives of efficient operation of the transmission system and promotion of effective competition.

Option 18A

Continuous Instruction Duration (CID) would better distinguish system balancing actions from energy balancing actions than would lead time. Therefore Option 18A would better meet the Applicable BSC Objectives than Option 15 since for a given level of system balancing actions excluded from the calculation of Energy Imbalance Prices, fewer energy balancing actions will be excluded.

All bid offer acceptances (BOAs) with a CID that does not cover the full duration of a Settlement Period should be excluded from the calculation of Energy Imbalance Prices for that Settlement Period. Actions that take place within a Settlement Period should not set the Energy Imbalance Prices for that Settlement Period because (i) those actions do not reflect the underlying value of energy over the full half-hour period; and (ii) the financial consequences of the balancing action differs from the cost to the system of taking that balancing action. For example, a single offer acceptance of 10MW at £500/MWh for 5 minutes would cost the system operator £417 but could result in energy imbalance charges of say £125,000 if the total deficit of all Parties short was 500MW, and the system as a whole was long in the Settlement Period for which the offer was accepted. A relatively trivial balancing action cost translates into a very significant cost for anyone with an energy deficit over the half-hour and the SBP bears little resemblance to the value of energy (which should be low because the system is long).

A more pragmatic approach than excluding all BOAs with a CID that does not cover a full Settlement Period from the calculation of Energy Imbalance Prices for that Settlement Period would be to exclude all BOAs with a CID of less than 30 minutes. This would be simpler to implement and would probably achieve largely the same result. Therefore, we recommend that Option 18A be selected with CID set to 30 minutes.

Option 18A(i)

Treating bid offer acceptances separately when measuring CID would allow NGC to de-facto decide which Balancing Mechanism actions to include in the calculation of Energy Imbalance Prices. For example, NGC could make two 20 minute offer acceptances or a single 40 minute offer acceptance – achieving the same balancing action in both instances. However, using a CID of 30 minutes as the cut off, the two 20 minute actions would be excluded from the calculation of Energy Imbalance Prices, whilst the 40 minute action would not.

The reduced transparency of this option compared with Option 18A means that Option 18A would better achieve the BSC objectives of efficient operation of the transmission system and promotion of effective competition than Option 18A(i).

Option 18A(ii)

A MWh test would not be a good method for distinguishing between system balancing and energy balancing actions because the MWh size of a BOA is the product of both time and power. For example, a system balancing action of 5 minutes duration and high MW could be for a greater amount of energy than an energy balancing action of 45 minutes duration and only a few MW. We reject Option 18A(ii) because it suffers from similar problems to Option 15.

Option 18B

We reject Option 18B on the grounds that it does not attempt to differentiate between system and energy balancing actions. Rather, this option aims solely at attaining a “reasonable” imbalance price. This is non-transparent since a reasonable price is an arbitrary concept and what is a reasonable price for one party is unreasonable for another. The resultant Energy Imbalance Prices would be arbitrary and therefore conflict with the objectives of efficient, economic and co-ordinated operation of the transmission system.

Set BRL to 0

Setting BRL equal to zero may have some merits but it is not an alternative to option 18A under this proposal. Instead, setting BRL to zero should be addressed in addition to the outcome of this modification proposal, and it should be addressed in the context of the BRL consultation, which is under way.

3. Questionnaire

Q1: Do you believe that the exclusion of certain additional acceptances is desirable such that the BSC Objective of promoting effective competition in generation and supply is better achieved?

Yes. Currently system balancing actions cause imbalance prices to bear little or no resemblance to the underlying value of electricity. This creates significant risk and incentivises Parties to undertake perverse and inefficient actions to mitigate that risk. Removing additional system balancing actions from energy imbalance price calculations would allow prices to better reflect the underlying value of electricity. This would better promote effective competition and improve the efficient operation of the transmission system. We discuss this further in section 2.1 above.

Q2: If P15 were to be progressed, below what lead-time should acceptances be excluded?

P15 shouldn't be progressed because option P18A provides a solution that better meets the Applicable BSC Objectives. This is discussed in section 2.3 above.

Q3: If P18A were to be progressed, below what "Continuous Instruction Duration" (CID) should acceptances be excluded?

Bid/offer acceptances with CID of less than 30 minutes duration should be excluded from the calculation of Energy Imbalance Prices for reasons given in section 2.3 above.

Q4: Which of the following proposals do you believe better delivers the relevant BSC Objectives in the context of excluding certain additional acceptances?

Modification	Preference (1 = high, 5 = low)	Comments
P15	3	See section 2.3 above
P18A	1	See section 2.3 above
P18Ai)	4	See section 2.3 above
P18Aii)	5	See section 2.3 above
P18B	5	See section 2.3 above
BRL=0	5	See section 2.3 above
Other		

Q5: How would your preference for the above Modifications be affected if your preferred solution was found to have protracted implementation timescales (eg, six months or more), for example would this increase your preference for BRL=0?

We have a preference for implementing the technically correct solution as quickly as possible and the selection of the technically correct solution should not be compromised by the implementation time. There may be merit in having an interim solution in addition to the technically correct solution, not instead of the correct solution.

P15&18_UMR_14 – British Gas Trading

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Tel. (01753) 758
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Our Ref.
Your Ref.
14 June 2001

Friday 8 June 2001

Dear Sir,

Urgent Modification 15: Removal of Price Spikes Associated with System Balancing from System Prices

Urgent Modification 18: Removing/Mitigating the Effect of System Balancing Actions in the Imbalance Price Calculations

Thank you for the opportunity of responding to the above modifications.

British Gas Trading (BGT) support the implementation of **both** modifications. We do not consider the modifications to be mutually exclusive as they seek to address two different and separate causes of imbalance settlement prices which, in our view, do not reflect the costs of energy imbalance but are reflecting the costs of short-term actions for system balancing.

Due to the importance of these modifications we would encourage the fastest possible timetable for their implementation.

We have answered the questions posed in the Urgent Mod Report below but would like to draw a number of points to your attention.

We believe that both of the proposed modifications will better achieve the BSC Objective of promoting effective competition in generation and supply as:

- The current imbalance prices are overly penal. They can be regarded as penal in that participants cannot contract and demand is not metered/deemed at less than half-hourly resolution and participants cannot react to imbalance prices that are set by short duration or short lead time SO BM actions.

- The current imbalance prices also act as a barrier to entry for new market entrants, both suppliers and generators, and that in particular impact less predictable generation. Whilst

the fact that NETA would reduce the value of unpredictable generation versus firm generation was always recognised as part of the NETA changes, the level of imbalance charge currently seen was not. Any move to mitigate these charges for the whole market will therefore be particularly beneficial in achieving the Government's objectives on renewables, CHP and embedded generation, as these tend to be smaller and more intermittent technologies.

- Market liquidity will be stifled by high imbalance prices as there will be little incentive for market participants to offer a variety of contracts or services.

- The high imbalance prices faced by companies are increasing the level of credit risk of BSC Parties.

- If participants have a greater incentive to balance then this will facilitate competition between suppliers and generators.

We also believe that the modifications would better facilitate NGC's Licence Condition of operating the electricity transmission system in an efficient, economical and co-ordinated manner as:

- Current imbalance prices do not reflect the costs incurred by the SO in maintaining a **gross energy balance** (i.e. matching demand and generation at the half-hourly level). Prices include the costs of system balancing.

- Imbalance prices (specifically high System Buy prices) are encouraging over contracting by suppliers and under contracting by generators. The modifications would provide participants with a greater incentive to balance rather than seeking to over-contract.

It was stated in the Modification Report that there was concern over the interaction of this modification and Modification Proposal 12 (Reduction of Gate Closure from 3.5 hours to 1 hour) if Modification 12 were to be implemented. Whilst we acknowledge this concern we do not believe that this modification should be decided upon the basis of another decision that has yet to be made.

It is important to note that Parties are only able to trade products of half hour duration or greater and as such exposing them to "energy imbalances" within the half hour does not seem appropriate. This key issue would not change if Modification 12 were implemented and Gate Closure was reduced to 1 hour.

Finally it is worth pointing our that in our view neither of the modification proposals will disadvantage any market participants. Generators who provide fast response will still get paid at the same rate as prior to the modification (as the NETA mechanism is pay as bid) but these costs will not be reflected in the imbalance price, instead it will be smeared back across the community. This will have the effect of reducing any inappropriately high smear back resulting from the "change to actions" being out of line with their costs. It is a separate question, not for consideration here, as to whether NGC are paying a reasonable price for fast response generation.

Yours faithfully

Danielle Lane
Transportation Analyst

Q1: Do you believe that the exclusion of certain additional acceptances is desirable such that the BSC Objective of promoting effective competition in generation and supply is better achieved?
BGT agrees that the exclusion of certain additional acceptances is desirable. We believe the current imbalance prices created from what are arguably system balancing actions act as a barrier to entry and potentially disadvantage smaller players.

Q2: If P15 were to be progressed, below what "lead-time" should acceptances be excluded?
BGT would support a lead-time of 30 minutes.

The lead-time should be reviewed after 6 months in the light of experience as participants and NGC may modify their behaviour over time.

Q3: If P18A were to be progressed, below what "Continuous Instruction Duration" (CID) should acceptances be excluded?
BGT believe CID acceptances should be excluded if they fall below 30 minutes duration. This is the duration of the settlement period. We do not believe that anything less than a half hour is energy balancing; it is system balancing.

Q4: Which of the following proposals do you believe better delivers the relevant BSC Objectives in the context of excluding certain additional acceptances?

Modification	Preference (1=high, 5=low)	Comments
P15	2	We would support the implementation of this modification as we agree that it would further the BSC Applicable Objective as stated above. The lead-time should be for 30 minutes.
P18A	2	
P18Ai)	1	This is our preferred option with a CID of 30 minutes.
P18Aii)	5	If the intention of the modification is to remove prices caused by short duration acceptances then the energy volume isn't relevant.
P18B	5	
BRL=0	1	We believe this option should be implemented as an interim solution until Option 18Ai can be fully implemented. As highlighted in the Modification Report, this solution does not capture all the price spikes.
Other (please specify)		

Q5: How would your preference for the above Modifications be affected if your preferred solution was found to have protracted implementation timescales (e.g. six months or more), for example would this increase your preference for BRL=0?
We appreciate that the modifications proposed will necessitate some fundamental system changes. As a result this will cause protracted timescales for implementation. However, due to the importance of these modifications we would like to see these changes handled as a priority with the shortest practicable timescale.

As we have stated above, we support the implementation of BRL=0 as an interim solution. Alternatively we would support the implementation of Modification 18Ai and/or 15 with an interim manual work around.

P15&18_UMR_15 – Slough Energy Supplies

MODIFICATION P15 CONSULTATION – Response by Slough Energy Supplies

Imbalance Prices do not reflect total volumes of surplus/shortfall energy in any settlement period

This leads to a situation where:

Imbalance prices are highly volatile in an unpredictable manner
Imbalance price spread is excessive

With a result that:

Parties are incentivised to be "long" rather than to balance

Slough Energy Supplies' view is that the NETA market is fundamentally flawed, and the above problems are indicative of this. Thus, whilst this Modification may not rectify the situation, it represents a step in the right direction, and so Slough Energy Supplies supports Mod P15.

We comment below on your particular questions:

Q1: Do you believe that the exclusion of certain additional acceptances is desirable such that the BSC Objective of promoting effective competition in generation and supply is better achieved?

Yes. Some acceptances have caused bizarre prices which have led to the overall system balance to be one-sided, and the costs of settling those imbalances have consequently been mis-allocated. This creates undue risk to trading parties, which does not promote effective competition.

Q2: If P15 were to be progressed, below what "lead-time" should acceptances
be excluded?
Lead Time Preference (Mark one) Comments
30 Minutes

Q3: If P18A were to be progressed, below what "Continuous Instruction Duration" (CID) should acceptances be excluded?

CID Preference (Mark one) Comments
30 Minutes

However, we believe that P15 is the preferable option.

Q4: Which of the following proposals do you believe better delivers the relevant BSC Objectives in the context of excluding certain additional acceptances?
Modification Preference
(1=high, 5=low)

Modification	Preference (1=high, 5=low)
P15	1
P18A	5
P18Ai	5
P18Aii	5
P18B	5
BRL=0	5
Other (please specify)	

Q5: How would your preference for the above Modifications be affected if your
preferred solution was found to have protracted implementation timescales (e.g. six months or more), for example would this increase your preference for
BRL=0?

A prompt implementation is to be desired.

P15&18_UMR_16 – Innogy

Innogy's response to the Consultation on Urgent Modification Proposals P15 and P18

Removal of Price Spikes Associated with System Balancing from System Prices; and Removing/Mitigating the Effect of System Balancing Actions in the Imbalance Price Calculations

Generally

1. We support the view expressed by a number of Modification Panel members that these proposed modifications should be addressed in a considered manner, and in the context of the market fundamentals. Ideally System Buy Price and System Sell Price should reflect the resource cost that an imbalance imposes on the system. It would be better to take a holistic view of the issues rather than respond to volatility in cash-out prices that may be short lived as market participants gain familiarity with the market. If there is a "knee jerk" reaction then imbalance prices are likely to become unstable as frequent modifications chase changing market strategies. The BSC Panel has indicated that there should be a review of the trade tagging process at the end of September 2001. If any aspects of these proposed Modifications are adopted then it should be on the basis that it is an interim measure pending this review being undertaken.

2. We are also concerned at the implicit suggestion in the title of P15 that price spikes are in some sense intrinsically wrong. The level of price should reflect the resource cost that is imposed on the system. If a severe loss of plant causes the system to be put under stress, which in turn leads to a substantial excursion in price then this is entirely legitimate, and even necessary to give the correct price signal, rather than be suppressed by an administered manipulation of the price.

3. Innogy recognises that it is appropriate to base imbalance prices on energy balancing actions as opposed to system balancing actions. Notified contract amounts are on a settlement period basis and do not seek to reflect the precise match with system demand on a minute by minute basis. It follows that the imbalance prices should also reflect the resource costs of balancing the average energy over the half-hour rather than the cost of BM actions taken to enable system perturbations over shorter time-scales to be tracked.

4. The tagging process that has been adopted based on the price of trades and the level of the Balancing Reserve Level (BRL), seems unlikely to create the required distinction between system and energy balancing actions. Previously we have argued for a temporal distinction as the most effective basis for delineating between system and energy balancing, whilst recognising that any algorithm is likely to be, at best, a broad approximation. We would support this as the conceptual basis for any modification designed to improve the present methodology.

Preferred Approach

5. The distinction between system and energy balancing is inevitably arbitrary to some extent. We would view system balancing as being predominantly concerned with accommodating short-term perturbations in demand, such as TV pick-ups or the early actions in restoring lost generation. Energy balancing should be concerned with correcting sustained imbalances or biases in notified positions. The definition of ancillary services traditionally used by the system operator may give some clue to where the distinction should be drawn.

6. Fast ramping services from pumped storage plant, and fast start services from OCGT plant, as well as five-minute reserve, might typically be associated with system balancing, as would frequency response services although these are not currently covered by the BSC. Standing Reserve and other reserve arrangements would represent a secondary action and thus be

associated with energy balancing, as would instructing plant that was part of a spinning reserve to increase its output. This would imply that BM actions that had a duration of substantially less than 10 minutes would constitute system balancing, whilst those of longer duration would reflect predominantly energy balancing.

7. Such a distinction would also seem from NGC's analysis to create a broad match with VLL. Extrapolating NGC's analysis suggests that a cut off somewhere between 5 and 10 minutes would exclude all accepted offers with a price above the indexed level of VLL. Although a concept that is not embodied in the BSC it is understood that VLL still forms the basis of NGC's evaluation of the Standing Reserve Tender.

8. Although we favour a temporal basis for distinguishing between system and energy balancing trades we also think that the flexibility that is associated with any BM action might also be worthy of consideration as a delineator. For example a BOA that incorporated ramp rates of, say, 100 MW per minute should be deemed to be a system balancing action since it is clearly being utilised to cover a perturbation in the demand curve rather than meet the overall level of demand.

9. Our view against this background would be to reject modification 15 which, if adopted, could result in the exclusion of most, if not all offers for a period of up to 59 minutes from acceptance. This would encompass the vast bulk of offers and bids that would have been accepted for energy balancing purposes. Conceptually it is difficult to see why the early part of a sustained offer acceptance, which would most likely have been accepted for energy balancing purposes because of its longevity, should be excluded. Furthermore, as the text notes, exclusions of this length could extend beyond gate-closure if Modification P12 were adopted.

10. Equally we have little faith in Modification 18B to produce imbalance prices reflective of resource costs. Continuous variation of the BRL would make for instability in the cash-out prices, and the use of a default price when acceptances fell below a threshold would introduce perversity into the price calculation.

11. Our preferred option from those considered is 18A where SBP and SSP are calculated excluding all acceptances that have duration of shorter than 10 minutes. This would still leave some significant volatility in the cash-out prices, but exclude acceptances that were of such a short duration that they could only have been for system balancing purposes.

12. Two variants to Modification 18A have been suggested. 18A(i) processes acceptances individually when determining the "Continuous Instruction Duration". We do not think this appropriate since the cashout price would become a function of how the System Operator instructed plant. 18 A(ii) relies on a MWh test rather than seeking to define the duration of a BOA. This would appear to have some merit on practical grounds as an interim approach, although it should be combined with a speed of ramping test to ensure that small trades with relatively slow dynamics are not excluded from the imbalance prices.

Other issues

13. Adoption of a temporal delineation between system and energy balancing trades would suggest that the Grid Code obligation for all BM acceptances to be capable of being instructed within 2 minutes should be re-visited. BM participants should be able to choose whether they offered sufficiently fast dynamics to participate in the system balancing activity, or a delayed start to the ramp which would mean that their use would be for the energy balancing activity.

14. We have argued elsewhere (Modification P8) that the option fees in reserve contracts should be allocated to those hours in which the contract is utilised. In practice this would mean that a part of the option fee would be spread over those hours when the contract was displacing the need to carry spinning reserve. The remainder would be targeted at the hours when the option was called with the rate being determined ex-ante from the anticipated call. To ensure consistency of treatment between actions taken in the BM and those taken in advance of Gate-Closure the same

temporal rule could be used to exclude short calls on any option arrangement from the BSAD adjustment of the imbalance prices.

Specific Questions

15. Our response to the specific questions raised in section 3.4 of the consultation is as follows:

Q1: Do you believe that the exclusion of certain additional acceptances is desirable such that the BSC Objective of promoting effective competition in generation and supply is better achieved?

Our view is that the BSC objectives can be better met by replacing the current system of tagging with a system based on a temporal distinction between system and energy balancing trades.

Q2: If P15 were to be progressed, below what "lead-time" should acceptances be excluded?

Lead Time	*Preference (mark one)*	*Comments*
15 Minutes		
30 Minutes		
45 Minutes		
1 Hour		
Other (please specify)		**Only a sub-set of trades within a settlement period should be designated as system balancing**

Innogy thinks this is an inappropriate way to distinguishing between system and energy trades in the BM.

Q3: If P18A were to be progressed, below what "Continuous Instruction Duration" (CID) should acceptances be excluded?

CID	*Preference (mark one)*	*Comments*
5 Minutes	**Preferred**	**A slightly longer duration might be appropriate but this should be no more than 10 minutes.**
15 Minutes		
20 Minutes		
30 Minutes		
Other (please specify)		

Q4: Which of the following proposals do you believe better delivers the relevant BSC Objectives in the context of excluding certain additional acceptances?

Modification	*Preference*	*Comments*

	(1=high, 5=low)	
P15	**5**	**Would make the imbalance prices reflective of only a tiny number of energy balancing trades**
P18A	**2**	**This is the best of the options considered**
P18A(i)	**5**	**We do not favour this approach since the outturn prices will depend on how the SO makes acceptances**
P18A(ii)	**3**	**This might be used as an interim arrangement pending a more enduring solution. It might be appropriate to add the speed of ramping to a volume test in delineating a system balancing action**
P18B	**5**	**This would introduce unacceptable arbitrariness into the calculation**
BRL=0	**5**	**Not appropriate**
Other		

Q5: How would your preference for the above Modifications be affected if your preferred solution was found to have protracted implementation timescales (e.g. six months or more), for example would this increase your preference for BRL=0?

.

We believe it is necessary to reach an enduring solution rather than be governed by the time-scales of alleged implementation programmes.

P15&18_UMR_17 – Bizzenergy

BizzEnergy.com Ltd

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Tel: 01905 451120
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Mr G Rowlands,
Modifications Department,
ELEXON,
10 th Floor,
338 Euston Road,
London NW1 3BP

7th June 2001

Dear Mr Rowlands,

Thanks you for the opportunity to contribute to the debate on this important subject. Imbalance mechanism prices are important to all players, especially those with small portfolios where the exposure to any anomalous prices could seriously impact their business. We would therefore wish to see the early removal of any quirks in the algorithms that lead to prices that have implications for players beyond that of providing an incentive to balance their energy requirements.

Please find attached our comments in relation to the above proposals.

Q1: Do you believe that the exclusion of certain additional acceptances is desirable such that the BSC Objective of promoting effective competition in generation and supply is better achieved?

> Yes. Acceptances that impact upon price that are for Short term system balancing rather than ½ hourly energy balancing should be removed to the extent that they effect imbalance mechanism prices. The objective was that the mechanism should incentivise players to balance with costs that reflect the costs of energy imbalance. Players should therefore only be exposed when out of energy balance to those costs directly attributable to energy imbalance.
> Imbalance mechanism prices that reflect the cost of energy imbalance and are less of a function of System balancing and System Operator behaviour should be less volatile and more predictable. This should remove additional costs and uncertainties that eventually would have to be passed through to customers. Finally, a mechanism orientated around energy imbalance costs rather than system costs should encourage

the evolution of instruments to assist in the risk management of imbalance exposure and hence competition.

Q2: If P15 were to be progressed, below what "lead-time" should acceptances be excluded?

Lead Time	Preference (Mark one)	Comments
15 Minutes		
30 Minutes	*Yes*	*But should be kept open for review in the light of experience and other actions taken.*
45 Minutes		
1 Hour		
Other (please specify)		

Q3: If P18A were to be progressed, below what "Continuous Instruction Duration" (CID) should acceptances be excluded?

CID	Preference (Mark one)	Comments
5 Minutes		
15 Minutes		
20 Minutes		
30 Minutes	*Yes*	*Instruction of less than 30 mins are most likely to be for system balancing. A pragmatic response to be reviewed in the light of experience.*
Other (please specify).		

Q4: Which of the following proposals do you believe better delivers the relevant BSC Objectives in the context of excluding certain additional acceptances?

Modification	Preference (1=high, 5=low)	Comments
P15	*1*	*Simple and pragmatic.*
P18A	*4*	*Required CID to be high (30mims)*
P18Ai)	*3*	*Slightly simpler and easier to implement than 18A, effect very similar*
P18Aii)	*5*	*Difficult to assess as no size of acceptance size indicated.*
P18B	*5*	*Effectiveness questionable, Dependant on size od BRL. Not attractive solution*
BRL=0	*2*	*Easy to implement, although may not be as*

		effective. Could be used in conjunction with any other solution.
Other (please specify)		

Q5: How would your preference for the above Modifications be affected if your preferred solution was found to have protracted implementation timescales (e.g. six months or more), for example would this increase your preference for BRL=0?

> Anomalous price spikes should be removed as a matter of urgency as they are distorting the underlying market. I can see no reason why an interim solution which may include setting BRL to zero should not be adopted whilst any preferred solution is being implemented.

If you would like further comment or clarification then please contact me.

Regards

Keith Munday
Director of Energy Trading

P15&18_UMR_18 – Scottish & Southern Energy

Modifications P15 and P18 - Comments

The following is SSE's response to the consultation on Modifications P15 and P18.

Introduction
We believe that it is inappropriate at this time to implement any of the proposals. At this stage it is too early to judge and too short a period in which to analyse the full effect these changes would have on the market and market participants' behaviour and therefore whether the changes would better facilitate the meeting of the relevant objectives of the Code. At this early stage, the market is still settling down.

These issues are so fundamental to the market that they should not be tackled on an ad hoc basis. If the Modifications process does not allow this joined-up thinking to take place, then it has to take place under a fuller review process. We welcome and look forward to taking part in the wider discussion of these issues as part of the work package being put together by Elexon.

In assessing the proposals, it is to be questioned whether the effectiveness of a proposal in removing short-term acceptances and whether the criterion set out in section 7.5, is suitable to assess whether the proposal meets the relevant BSC objectives.

At best, the implementation of one of the proposals could only be viewed as an interim measure pending the outcome of the fuller review. It is in this light that we have submitted our responses to the questions and it should be clear from these that of those put forward we feel that Modification P18A best meets the criterion used in section 7.5, though as put forward above, not necessarily the relevant BSC objectives.

Q1: Do you believe that the exclusion of certain additional acceptances is desirable such that the BSC Objective of promoting effective competition in generation and supply is better achieved?

It is not clear what the overall medium to long term effect of removing additional acceptances would be on the market or market participants' behaviour. These proposals need to be considered in conjunction with the proposal for reduced Gate Closure and the review of BRL. It is therefore uncertain what the effect on the BSC objectives of promoting effective competition in generation and supply would be. It is likely only to be able to judge this following the fuller review that is to be put in place by Elexon.

It is questionable whether the criterion used to judge these proposals i.e. those in section 7.5 is sufficient to judge whether they meet the relevant BSC objectives. It is questionable that on such a fundamental issue, the proposals are put forward on the basis of a subjective assessment of what constitutes a "highly material effect on imbalance prices". It is also questionable that a decision can be taken as to whether these proposals meet the relevant BSC objectives when it is recognised that these proposals would change what is treated as system and energy balancing

actions, whilst at the same time it is recognised that a more fundamental review of the division between system and energy balancing actions is required.

Q2: If P15 were to be progressed, below what "lead-time" should acceptances be excluded?
Lead Time Preference;15 Minutes; 30 Minutes; 45 Minutes; 1 Hour; Other (please specify)

We do not believe that P15 should be implemented, that P18A better meets the criterion of 7.5

Q3: If P18A were to be progressed, below what "Continuous Instruction Duration" (CID) should acceptances be excluded?
CID Preference (Mark one); 5 Minutes; 15 Minutes; 20 Minutes; 30 Minutes Other (please specify)

Should P18A be implemented, then those acceptances below 15 minutes Continuous Instruction Duration should be excluded.

Q4: Which of the following proposals do you believe better delivers the relevant BSC Objectives in the context of excluding certain additional acceptances? Modification Preference (1=high, 5=low)

P15; P18A; P18Ai); P18Aii); P18B; BRL=0; Other (please specify)

We believe that P18A best meets the criterion set in section 7.5, but question whether even this can be judged to best meet the relevant BSC objectives.

Q5: How would your preference for the above Modifications be affected if your preferred solution was found to have protracted implementation timescales (for example would this increase your preference for BRL=0).

We feel that at best only P18A should be implemented, and only on an interim basis, pending the outcome of a fuller review.

P15&18_UMR_19 – British Energy

From: Mate Martin[SMTP:martin.mate@british-energy.com]
Sent: 11 June 2001 09:45
To: 'Modifications@elexon.co.uk'
Cc: Brookshaw Terry; Knee Nigel; Capener John; Ace Rachel
Subject: Response to the P15 & P18 Modifications Consultation

To: Modification Secretary, Elexon
From: Martin Mate, British Energy, 11 June 2001

British Energy is concerned that inferior solutions may be implemented in the haste to make rapid modifications to the BSC. Imbalance prices are a key part of the operation of the energy markets, and participants and other experts should be given sufficient time to consider and discuss potential changes and the issues surrounding them, before changes are made. We are not keen to see a series of essentially ad-hoc modifications to the pricing mechanisms going into the foreseeable future. This said, we recognize that if the pricing mechanism is clearly giving inappropriate signals, then some urgent changes may be unavoidable. Where urgent changes are made without proper consultation, then a more considered consultation and analysis should follow to establish whether a better enduring solution is possible.

We do not consider that the "lead time" for a bid-offer acceptance is a sufficiently accurate measure of its status as a system or energy balancing action, and therefore do not support the proposal to exclude bid-offer acceptance from energy imbalance prices solely on the basis of lead time.

The proposal P18A to exclude bid-offer acceptances on the basis of "Continuous Instruction Duration" may have some merits, and if this approach is adopted our preference would be for a short "CID" of 5 minutes, at least initially.

In the absence of further time for consideration we do not support proposal 18B to set a minimum volume of balancing actions from which the imbalance prices can be set, or the proposal to set BRL to zero. We are unconvinced by the arguments in favour of these proposals. Simplicity of implementation seems to be the main advantage.

Regards,

Martin Mate
for
British Energy Power & Energy Trading
British Energy Generation Ltd
Eggborough Power Ltd

P15&18_UMR_20 – CHPA

COMBINED HEAT AND POWER ASSOCIATION
Response to the P15 & P18 Modifications Consultation

Introduction

The Combined Heat and Power Association welcomes the opportunity to comment on the above consultation. The response follows the format proposed in Elexon's consultation paper.

The Association would wish to record its concerns over the exceedingly short timescales over which responses are expected. Timescales of three working days do not provide sufficient opportunity for market participants and those affected by the market to give full, if any, consideration to the developments and modifications proposed. Smaller participants are particularly disadvantaged in this respect.

Views Invited

Q1: Do you believe that the exclusion of certain additional acceptances is desirable such that the BSC Objective of promoting effective competition in generation and supply is better achieved?

Yes.

Q2: If P15 were to be progressed, below what "lead-time" should acceptances be excluded?

Lead Time	Preference (Mark one)	Comments
15 Minutes		
30 Minutes	✍	
45 Minutes		
1 Hour		
Other (please specify)		

Q3: If P18A were to be progressed, below what "Continuous Instruction Duration" (CID) should acceptances be excluded?

CID	Preference (Mark one)	Comments
5 Minutes		
15 Minutes		
20 Minutes		
30 Minutes		
Other (please specify)		

Q4: Which of the following proposals do you believe better delivers the relevant BSC Objectives in the context of excluding certain additional acceptances?

Modification	Preference (1=high, 5=low)	Comments
P15	1	
P18A	4	
P18Ai)	3	
P18Aii)	5	
P18B	5	
BRL=0	2	
Other (please specify)		

Q5: How would your preference for the above Modifications be affected if your preferred solution was found to have protracted implementation timescales (e.g. six months or more), for example would this increase your preference for **BRL=0?**

The rankings given above reflect the practicality of implementation as well as the effectiveness of the measures. The need for urgent action to address the shortcomings of the market should result in a relatively high priority to the option of setting the BRL to zero.

A.1.2 *Graham Meeks*

A.1.3 *Deputy Director*

Combined Heat and Power Association

June 2001

The views expressed in this paper cannot be taken to represent the views of all members of the CHPA. However, they do reflect a general consensus within the Association.

8 June, 2001

Gareth Forrester
Elexon
3rd Floor
1 Triton Square
London NW1 3DX

Dear Gareth

Modifications P15 & P18 – Urgent Modification Consultation Document

Thank you for the opportunity to comment in respect of the above Modifications Report. We note the request for specific responses.

Q1: We consider that the exclusion of certain acceptances to prevent price distortion may better facilitate the BSC objectives. We are not sure that any one of the proposals mooted is the "correct" long-term solution, but would agree that a pragmatic approach is required in the short term to ease the current situation. This is especially true in the light of Ofgem's previous comments in relation to System vs Energy Balancing costs.

We would further suggest that perhaps a time limited approach may be appropriate, such that if one of the options is implemented, it applies for a nominated transitional period, with provision for formal tracking of the impact relative to the current position. End dating the effectiveness of the modification would also ensure review.

If the monitoring shows a clear improvement over the current state, the change could then be made permanent, if not, this would provide a pragmatic solution whilst the longer term review of imbalance pricing instigated by the Modifications Panel takes place and any required changes are implemented.

Q2: On balance, from the Modification report, P15 would appear to be the most practical solution for now. With respect to the preferred lead time, it seems logical that where market participants are unable to react, because they cannot contract for energy for periods of less than half an hour, these elements should be excluded from the imbalance price calculations. This indicates that 30 minutes lead time is a sensible cut off point. If further consideration were given to a time limited approach, this could perhaps be reviewed after a defined period.

Finally, we would note that as a criterion for change, whilst intellectual purity has its place, this is a commercial world, and such purity must be balanced with practical and commercial considerations.

We hope these comments have been helpful, but should you wish to discuss any points in more detail, I can be contacted on 0207 887 2687. This letter represents the views of Amerada Hess Gas Ltd, Amerada Hess Gas (Domestic) Ltd, Midlands Gas Ltd, Western Gas Ltd and amerada.co.uk.

Yours sincerely

Alison Kuck
Transportation Contract Manager

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