

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-programmed on slow response plant, but where the pick-up is underestimated, or generation coincidentally 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 imbalance 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.

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.

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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 align 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 Electricity 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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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