

April 2002

**MODIFICATION REPORT -
MODIFICATION PROPOSAL P12
Reduction of Gate Closure from 3.5
Hours to 1 Hour**

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

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b Distribution

Name	Organisation
Each BSC Party	Various
Each BSC Agent	Various
The Gas and Electricity Markets Authority	Ofgem
Each BSC Panel Member	Various
energywatch	Energywatch
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1 SUMMARY AND RECOMMENDATIONS

1.1 Recommendation

On the basis of the analysis, consultation and assessment undertaken in respect of this Modification Proposal during the Assessment Phase, and the resultant findings of this report, the BSC Panel recommends that:

- **Modification Proposal P12 should be made with an Implementation Date of Settlement Period 31 on 2 July 2002**

1.2 Background

Modification Proposal P12 was submitted by Damhead Creek Ltd on 9 May 2001. The Modification seeks to move Gate Closure from 3.5 hours to 1 hour ahead of real time to reduce the imbalance risk faced by market participants and increase liquidity in short-term markets.

The Modification Proposal was considered under both the Definition and Assessment Procedures. Consultation and analysis conducted during the Assessment Procedure indicated a high level of support for a reduction in Gate Closure and that the bulk of system changes necessary to implement a reduction would fall on the Transmission Company. The majority of Parties reported that only minor changes would be required to their systems. In any case, in the P12 Modification Group's opinion, trading closer to real time would be an option open to Parties and not compulsory.

The Assessment Report prepared by the P12 Modification Group (the Group) and presented to the Panel on 14 March 2002 recommended acceptance of the Modification Proposal. The Panel endorsed this recommendation. A draft Modification Report was produced on the basis of this endorsement and issued for consultation on 25 March 2002. On the 18 April 2002, the Panel considered the responses received and confirmed its provisional recommendation to approve the Modification Proposal.

1.3 Rationale for Recommendations

The Panel considered that reducing the Gate Closure period would reduce the period over which generators are exposed to an unmanageable risk following unplanned trips and could result in improved accuracy of demand forecasts. The Panel noted that smaller players, who did not operate on a 24/7 basis, would be less able to access this benefit. There was also doubt as to the likely materiality of improvements in the demand forecasts. Overall it was expected that the Modification would:

- reduce the imbalance risk faced by market participants; and
- increased liquidity in short-term markets.

On this basis the Panel believes that implementation of the Modification Proposal would improve competition (i.e. Applicable BSC Objective (c)) in the generation and supply of electricity. In addition, the Panel considered that the move to a shorter Gate Closure would not compromise:

- the efficient discharge by the Transmission Company of its obligations under the Transmission Licence (i.e. Applicable BSC Objective (a));
- the efficient, economic and co-ordinated operation of the transmission system (i.e. Applicable BSC Objective (b)); and
- the efficiency of the balancing and settlement arrangements (i.e. Applicable BSC Objective (d)).

However, the Panel noted that these conclusions were based on the assumption that matters outside its governance, about which many consultees had expressed considerable concern, had been satisfactorily resolved. The concerns are recorded in more detail below.

The Panel noted that the Transmission Company had reported that it anticipated that reducing Gate Closure to one-hour would not have a significant impact on the Balancing Mechanism, either in terms of the price or volume of actions taken. The Transmission Company reported that, providing that experience of a winter under NETA proved that pre-Gate Closure actions could be used to balance the system securely and that there were sufficient PGBTs in place, the system should be balanced with similar efficiency to now under one-hour Gate Closure. However, the Transmission Company noted that, based on their experience of NETA Go-live, there may be a transition period in which efficiency temporarily decreases and balancing mechanism costs temporarily increase. As with NETA Go-live, the greater uncertainty associated with balancing the system under new conditions will lead the Transmission Company, initially, to hold higher levels of reserve and response.

It should be noted that one Panel Member felt strongly that the Group had not addressed the concerns of smaller generators properly. He said that the smaller players had not been included in the consultation as he had requested and they would possibly be disadvantaged by a reduction in Gate Closure. Whereas larger players with 24 hour/7 day cover would be able to take advantage of the reduction of Gate Closure to 1 hour, many smaller players without access to 24 hour/7 day cover would not be in a position to take advantage of the reduction. The Modification Proposal as it stood, therefore, discriminated strongly against smaller players and in favour of larger players. The Panel Member supported the principle of reducing Gate Closure nearer to real time but felt that the market was not yet in a position to accept a reduction to 1 hour.

The Panel noted that the Group had taken the view that smaller generators would not be unduly disadvantaged because trading is a 24-hour a day activity regardless of whether Gate Close was for 1 hour or 3.5 hours. The Group felt that those market participants that did not want to deal as close to real time as 1 hour could continue to operate 3.5 hours ahead of Gate Closure. The Group also felt that the consultation carried out under the P12 Assessment Procedure had been published on the BSC website and had been open to all market participants to respond to. In addition, the consultation questionnaire was sent to all BSC Parties, including the small generators amongst them.

The Panel sought the Authority's provisional thinking on the Implementation Date for the Modification Proposal. The Authority had indicated in their response that, without prejudice to the Authority's considerations after receipt of the Final Modification Report for P12, on the basis of the respondent's views received by the Group during the Assessment Procedure, an Implementation Date of July 2 2002 would be appropriate. The Panel took this view into account in reaching their decision on the Implementation date.

Consultation responses received during the Report Phase suggested that the majority of Parties support the Modification Proposal on the grounds that implementation would reduce imbalance exposure and improve within-day liquidity. However, many respondents qualified this support by noting that it was contingent on the System Operator's (SO) proposed 'Pre-Gate Closure BMU Transactions' (PGBTs) being transparent, equitable and adequately reported. In addition, respondents indicated that the treatment of PGBTs under the BSAD Methodology needed to be clearly defined and clearly communicated so as not to have an opaque and distorting effect on imbalance prices. Respondents noted that these outstanding issues surrounding PGBTs should be resolved prior to the implementation of the Modification Proposal.

The Panel noted the qualified support expressed by respondents, in particular the concerns relating to PGBTs, and that the NGC representative on the Panel indicated that his company would report any complications or difficulties arising in the run-up to implementation to the Authority.

The Panel voted to recommend that the Modification Proposal should be made by a majority of 8 to 1. The member voting against did so on the grounds that he believed smaller generators would not be able to access these advantages and so would be disadvantaged, relative to larger players, by a reduction in Gate Closure at this point in time.

1.4 Implementation Issues

The proposed implementation date is 2 July 2002. Achieving this date requires commitment from NGC, Trading Parties, the Central Service Agent (CSA) and ELEXON. Furthermore this work needs to be conducted without compromising the delivery of the BSC Systems Delivery Programme. A key aspect of the development is thorough and robust testing. In support of this, ELEXON has initiated work from 15 April 2002, in advance of a formal decision from the Authority. This work includes revising documentation, testing changes to the central services and making the Participant Test Service available for use in the cross-industry 'end-to-end' testing that is being managed by NGC.

It should be noted that the work being undertaken by the CSA ahead of the Authority decision will be reversible and would cease immediately should that decision not be favourable. The total implementation cost is estimated to be £150,000. However, ELEXON are currently in negotiations with the CSA over this estimate.

The Panel noted, that whilst it supported this implementation date, if matters outside its governance, that were critical to the success of the Proposed Modification, had not been resolved then it may be preferable to delay implementation.

2 INTRODUCTION

This Report has been prepared by ELEXON Ltd., on behalf of the Balancing and Settlement Code Panel ('the Panel'), in accordance with the terms of the Balancing and Settlement Code ('BSC'). The BSC is the legal document containing the rules of the balancing mechanism and imbalance settlement process and related governance provisions. ELEXON is the company that performs the role and functions of the BSCCo, as defined in the BSC.

This Modification Report is addressed and furnished to the Gas and Electricity Markets Authority ('the Authority') and none of the facts, opinions or statements contained herein may be relied upon by any other person.

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

3 HISTORY OF MODIFICATION PROPOSAL

Damhead Creek Ltd submitted the Modification Proposal on 9 May 2001. An Initial Written Assessment (IWA) of the Modification Proposal was prepared by ELEXON and presented to the Panel meeting held on 31 May 2001. The Panel agreed that the Modification Proposal should be progressed to the Definition Procedure and that a Definition Report should be presented to the Panel meeting on 26 July 2001.

A Modification Group ('the Group'), comprising members with relevant expertise, was convened to consider the Modification Proposal. The Group produced a Definition Report recommending that the

Modification Proposal be progressed to a 9-month Assessment Procedure, which would provide the Transmission Company with the operational experience of a full winter period that it believed was necessary. The Panel noted the recommendations of the Group, and decided to submit the Modification Proposal to the Assessment Procedure with an Assessment Report scheduled for the 14 March 2002 Panel meeting.

The Panel also asked the Group to establish a set of Assessment Criteria against which the merits of the Modification Proposal could be evaluated. The Group prepared Assessment Criteria that were agreed by the Panel at the meeting held on 31 October 2001.

Consultation and analysis conducted during the Assessment Procedure indicated a high level of support for a reduction in Gate Closure and showed that the bulk of system changes necessary to implement a reduction would fall on the Transmission Company. The majority of Parties reported that only minor changes would be required to their systems. In the Group's opinion, trading closer to real time would be an option open to Parties and was not compulsory.

The Group assessed the Modification Proposal against the assessment Criteria agreed by the Panel. The Group concluded that, on balance, the pricing analysis carried out as part of the assessment was sufficient to anticipate that reducing Gate Closure would not have a dramatic negative impact on imbalance prices – prices would probably either be unchanged or slightly reduced. The Group also believed that the Transmission Company's ability to manage the system and balance the market efficiently would not be diminished by movement to a 1 hour Gate Closure. In addition, the Group anticipated that 1 hour Gate Closure would deliver real benefits to market participants and that a secure and balanced system could be maintained with relatively small implementation costs. Therefore, the Group anticipated that the costs of implementing the Modification Proposal would be minor compared with the benefits delivered.

The Group prepared an Assessment Report¹ that was presented to the Panel meeting held on 14 March 2002. The Panel endorsed the Group's recommendation that the Modification Proposal should be made with an implementation date of Settlement Period 31 on 2 July 2002. A draft Modification Report was produced on the basis of this endorsement and issued for consultation on 25 March 2002. On 18 April 2002, the Panel considered the responses received and confirmed its provisional recommendation to approve the Modification Proposal.

4 DESCRIPTION OF MODIFICATION PROPOSAL

The Modification Proposal seeks the reduction of Gate Closure time from 3.5 hours to 1 hour. The Modification Proposal is intended to increase competition in the generation and supply of electricity, without compromising the physical balancing of the system.

The Modification Proposal states that early experience of the market had highlighted the close to real time nature of the Transmission Company's trades for balancing purposes. In the light of this experience, the rationale for a 3.5 hour Gate Closure period is not valid so the Modification Proposal seeks to reduce the Gate Closure period. The current length of Gate Closure exposes market participants to a significant imbalance risk. Any unforeseen changes in demand or generating capability, such as plant failure, occurring after the Gate has closed can not be acted upon. The potential to trade up to 2.5 hours closer to real time would reduce this risk and improve liquidity in short-term markets.

¹ The P12 Assessment Report can be found on the BSC website, at www.elexon.co.uk.

5 RATIONALE FOR PANEL RECOMMENDATIONS

The Panel agreed with the Group's view that reducing the Gate Closure period would result in increased opportunity to trade and potential gains in forecasting accuracy. The Group believed that forecasting accuracy would improve because plant failures occurring between 3.5 hours and 1 hour ahead of real time could be factored into FPNs and due to the availability of more timely information relevant to consumption, such as weather data. Together these benefits would:

- reduce the imbalance risk faced by market participants; and
- increased liquidity in short-term markets.

On this basis the Panel agreed with the Group that implementation of the Modification Proposal would improve competition (i.e. Applicable BSC Objective (c)) in the generation and supply of electricity. Although it noted that, smaller players, who did not operate on a 24/7 basis, would be less able to access this benefit. There was also doubt as to the likely materiality of improvements in the demand forecasts.

In addition, the Panel agreed that the move to a one-hour Gate Closure should not compromise any of the following:

- the efficient discharge by the Transmission Company of its obligations under the Transmission Licence (i.e. Applicable BSC Objective (a));
- the efficient, economic and co-ordinated operation of the transmission system (i.e. Applicable BSC Objective (b)); and
- the efficiency of the balancing and settlement arrangements (i.e. Applicable BSC Objective (d)).

In the light of the above, the Panel agreed that the Modification Proposal would better facilitate achievement of Applicable BSC Objective (c) contained in Condition C3(3) of the Transmission Licence.

However, the Panel noted that this conclusion was based on the assumption that matters outside its governance, about which many consultees had expressed considerable concern, had been satisfactorily resolved.

The Panel also agreed with the Group's recommendation that the Modification Proposal should be implemented for Settlement Period 31 on 2 July 2002 and accepted their reasoning for making this recommendation. However, the Panel noted, that whilst it supported this implementation date, if matters outside its governance, that were critical to success of the proposed modification, had not been resolved in sufficient time then it may be preferable to delay implementation.

Consultation responses received during the Report Phase suggested that the majority of Parties support the Modification Proposal on the grounds that implementation would reduce imbalance exposure and improve within-day liquidity. However, most respondents qualified this support by noting that it was contingent on the System Operator's (SO) proposed 'Pre-Gate Closure BMU Transactions' (PGBTs) being transparent, equitable and adequately reported. In addition, respondents indicated that the treatment of PGBTs under the BSAD Methodology needed to be clearly defined and clearly communicated so as not to have an opaque and distorting effect on imbalance prices. Respondents noted that these outstanding issues surrounding PGBTs should be resolved prior to the implementation of the Modification Proposal.

The Panel noted the qualified support expressed by respondents, in particular the concerns relating to PGBTs, and that the NGC representative on the Panel indicated that his company would report any complications or difficulties arising in the run-up to implementation to the Authority.

The Panel voted to recommend that the Modification Proposal should be made by a majority of 8 to 1. The member voting against did so on the grounds that he believed smaller generators would not be able to access these advantages and so would be disadvantaged, relative to larger players, by a reduction in Gate Closure at this point in time.

6 LEGAL TEXT TO GIVE EFFECT TO THE MODIFICATION PROPOSAL

The changes to the legal text of the Code in the following section are based on version 3.0 of Section T, version 3.0 of Annex X-1 and Version 4.0 of Table X-2, and are the changes necessary to implement the Modification Proposal only. If the baseline of the Code changes prior to implementation of the Modification Proposal, or if other Modification Proposals are to be implemented at the same time as the Modification Proposal, the legal text may need to be amended.

~~4.16.1~~ **Modification Proposal**

Implementation of the Modification Proposal would require the following changes to the Code:

- **Section T3.1A.1 (a):** change 'eight Settlement Periods' to 'three Settlement Periods'
- **Section T3.1A.1 (b):** change 'eight Settlement Periods' to 'three Settlement Periods'
- **Annex X-1:** under Gate Closure entry, change '3 ½' to '1'
- **Table X-2 in Annex X-2:** under 'Balancing Mechanism Window Period' entry, change '3 ½' and '4' to '1' and '1 ½' respectively

7 ASSESSMENT

Consultation carried out by the Group as part of the Assessment Procedure indicated a high level of support for a reduction in Gate Closure and that the bulk of system changes necessary to implement a reduction would fall on the Transmission Company. The majority of Parties reported that only minor changes would be required to their systems. In any case, in the Group's opinion, trading closer to real time would be an option open to Parties and not compulsory.

The Group assessed the Modification Proposal against the 'Assessment Criteria' agreed by the Panel. The Group concluded that, on balance, the pricing analysis carried out as part of the assessment was sufficient to anticipate that reducing Gate Closure would not have a dramatic negative impact on imbalance prices – prices would probably either be unchanged or slightly reduced. The Group also believed that the Transmission Company's ability to manage the system and balance the market efficiently would not be diminished by movement to a 1 hour Gate Closure. In addition, the Group anticipated that 1 hour Gate Closure would deliver real benefits to market participants and that a secure and balanced system could be maintained with relatively small implementation costs. Therefore, the Group anticipated that the costs of implementing the Modification Proposal would be minor compared with the benefits delivered.

The Group believed that reducing the Gate Closure period would result in increased opportunity to trade and would potentially provide gains in forecasting accuracy. These would:

- reduce the imbalance risk faced by market participants; and
- increased liquidity in short-term markets.

It should be noted that the Group was somewhat sceptical that the gains in forecasting accuracy would be as significant on the demand-side as they would be on the generation-side. The Panel echoed this scepticism. Nevertheless, the Group had noted that consultation responses received from suppliers indicated that the majority, but not all, anticipated material gains in the accuracy of demand forecasting.

On this basis the Group believed that implementation of the Modification Proposal would improve competition (i.e. Applicable BSC Objective (c)) in the generation and supply of electricity. In addition, the Group believed that the more competitive trading environment would not compromise any of the following:

- the efficient discharge by the Transmission Company of its obligations under the Transmission Licence (i.e. Applicable BSC Objective (a));
- the efficient, economic and co-ordinated operation of the transmission system (i.e. Applicable BSC Objective (b)); and
- the efficiency of the balancing and settlement arrangements (i.e. Applicable BSC Objective (d))

The Transmission Company had reported that it anticipated that reducing Gate Closure to one-hour would not have a significant impact on the Balancing Mechanism, either in terms of the price or volume of actions taken. In addition, it was confident that its ability to balance the market would not be compromised provided that a minimum number of its proposed 'Pre-Gate Closure BMU Transaction' ('PGB Transaction') contracts with appropriate credit arrangements were in place.

The Group recommended that the Modification Proposal be made because implementation would better facilitate achievement of the Applicable BSC Objective (c) contained in Condition C3(3) of the Transmission Licence.

The Group believed the Modification Proposal should be implemented for Settlement Period 31 on 2 July 2002. The Transmission Company had recommended this date and time for the following reasons:

- all necessary changes would be fully deployed and operational by July 2002;
- Monday 1 July 2002 was not recommended because Mondays characteristically have issues associated with staff availability and a more severe electricity demand profile; and
- Settlement Period 31 was the optimum time in terms of availability of appropriate staff resources, lowest anticipated trading volumes, lowest computer system utilisation, and alignment with the four-hour Electricity Forward Agreement (EFA) blocks

The Group believed that the Transmission Company's recommended implementation date was compatible with Industry needs for the following reasons:

- Impact assessments had indicated that the majority of Parties would require 3 months or less notice to make the necessary changes to implement the Modification;
- The Authority has expressed a willingness to provide provisional thinking to the Panel on the implementation date;
- Should such provisional thinking be favourable and provided during March 2002, there would be 3 months between any statement and 2 July 2002; and
- The Transmission Company had recommended midweek implementation.

Details of the assessment by the Group can be found in the Assessment Report for P12, which can be found on the BSC website at www.elexon.co.uk.

The Group noted that, in order to implement P12, an outage of the Energy Contract Volume Allocation Agent (ECVAA) system will be required for approximately 2.5 hours, finishing approximately 15 minutes before Gate Closure for Period 31 on 2 July 2002.

8 SUMMARY OF REPRESENTATIONS

The responses received to the draft Modification Report issued for consultation on 25 March 2002 are attached as Annex 1. Fifteen responses, representing a total of 59 Parties, were received.

Twelve responses, representing 49 Parties supported the Modification. A single response, representing 3 Parties, did not support the Modification. Two responses, representing 7 Parties, made no comment as to whether or not the respondent supported or rejected the Modification.

The majority of those supporting the Modification indicated that they did so on the basis that its implementation would reduce imbalance exposure and increase within-day liquidity by increasing trading opportunities and improving forecasting accuracy. However, most respondents qualified this support by noting that it was contingent on the System Operator's (SO) proposed 'Pre-Gate Closure BMU Transactions' (PGBTs) being transparent, equitable and adequately reported. In addition, respondents indicated that the treatment of PGBTs under the BSAD Methodology needed to be clearly defined and clearly communicated so as not to have an opaque and distorting effect on imbalance prices. Respondents noted that these outstanding issues surrounding PGBTs ought to be resolved prior to the implementation of the Modification.

The respondent that did not support the Modification Proposal indicated that they did so on the basis of the arguments that they put forward during the Assessment Procedure. During the Assessment Procedure, they had argued that, because the SO's proposed PGBTs were not clearly defined, meaningful evaluation of the Modification Proposal was not possible.

Three respondents commented on the proposed implementation date. One respondent indicated that they were sceptical that the commercial and technical issues surrounding PGBTs could be resolved in time for a 2 July 2002 implementation date. Another respondent indicated that, from the perspective of their system development, an implementation date of three months after an Authority decision would be preferable. The last respondent to comment on the implementation date, however, indicated that their systems changes would be completed by the end of June 2002 – they had previously indicated the need for a 3 to 6 month development time.

On the issue of reporting requirements, one respondent expressed the desire for the Authority to consider P12 and P4, which would introduce enhanced Energy Contract Volume Notification (ECVN) reporting, in tandem. According to the respondent, enhanced ECVN reporting would be a key aid to the successful introduction of a reduction in Gate Closure.

Finally, one respondent noted that, on the basis of discussions held with the Transmission Company, an easier solution would appear to be a 1.5 hour Gate Closure period. Such a period would obviate the need for PGBTs because the Gate Closure period would be sufficient to use existing warming contracts for synchronisation and de-synchronisation. However, this had not been raised during the Assessment Procedure, and had not been assessed or consulted on.

A summary and copies of the original representations received and considered by the Modification Group during the Assessment Procedure of the Modification Proposal can be found in the relevant Assessment Report. This Modification Report should be read in conjunction with that report.

ANNEX 1 – REPRESENTATIONS

Responses from P12 Draft Modification Report Consultation
 (Consultation issued 25 March 2002)

Representations were received from the following parties:

No	Company	File Number	No. Parties Represented
1.	Williams Energy	P12_MR_001	1
2.	EdF Trading Ltd	P12_MR_002	2
3.	InterGen (UK) Ltd	P12_MR_003	4
4.	TXU Europe	P12_MR_004	21
5.	GPU Power UK	P12_MR_005	1
6.	SEEBOARD Energy Limited	P12_MR_006	1
7.	Energy-Koch Trading Limited	P12_MR_007	2
8.	LE Group	P12_MR_008	1
9.	Innogy plc	P12_MR_009	6
10.	ScottishPower	P12_MR_010	5
11.	Scottish and Southern	P12_MR_011	4
12.	Powergen plc	P12_MR_012	4
13.	British Energy plc	P12_MR_013	3
14.	Teesside Power Ltd	P12_MR_014	1
15.	British Gas Trading Ltd	P12_MR_015	3

P12_MR_001 – Williams Energy

Please find outlined below my comments on behalf of Williams Energy;

- (i) I am generally supportive of 1hr Gate Closure given its reduction of volume exposure in the BM (reduced price exposure is far less obvious if not counter-intuitive), however I am concerned that it may be implemented before all appropriate mechanisms are properly in place. Whilst 2 July should remain the target, it should be contingent on clearly defined criteria i.e. (a) well defined Pre Gate Closure Balancing Transaction (PGBT) contracts agreed and in place between NGC and generators (b) well defined agreed treatment of PGBT costs in BSAD and imbalance prices, and (c) adequate reporting arrangements in place via the BMRS.
 - (ii) Market transparency is paramount and I am concerned that without proper BMRS reporting of Pre Gate Closure Balancing Transactions (PGBTs) that the market will become less transparent than it is now. The change itself will stall the entry of less sophisticated players into the very short term market and any loss in transparency will not encourage sophisticated players either. This would defeat one of the key objectives of Mod P12, namely improved short term liquidity. It is important to be aware that the dynamics of market behaviour could alter in such a way that PGBTs become a substantive part of NGC BM related actions and one should be wary of making judgments based on current behaviour e.g. PGBTs will be few and far between.
16. I strongly believe PGBTs should be accommodated on the BMRS in similar fashion to submitted and accepted BOAs ie. the market should see all submissions as lodged and all acceptances as they are accepted. Use of the BMRS Alert screen whilst a helpful interim measure in the absence of anything else/a full solution it is NOT the full solution and I would be strongly against any long term solution involving NGC or Elexon websites. I believe where at all possible all relevant market data should funnel through BMRS.
17. The allocation of costs of PGBTs to energy and/or system (see (iii) below) should also be clearly transmitted to the market for transparency reasons.
- (iii) Treatment of PGBT costs in BSAD will have an crucial impact on imbalance prices, market behaviour and short term liquidity. It is vital that component PGBT costs are correctly and definitively attributed to system (outside BSAD) and energy (inside BSAD) pots. Of course this is strictly not within the remit of the BSC but is a very important aspect of the change introduced by Mod P12. As with a number of Mods this further highlights problems with issues that have cross-governance implications.
 - (iv) PGBTs need to be as simple and homogenous as possible to encourage competition. They also need to be only used where it is expected that BM actions will (a) not be possible due to dynamic considerations and/or constraint issues, or (b) less economic. Both of these need to be clearly demonstrable post-event by NGC as there is some concern that the temptation to take early actions bilaterally (especially where these are not very transparent to the market) will foreclose the BM and undermine its intended role as well as have strange effects on imbalance prices.

In summary 1 hr Gate Closure should only be implemented given simple PGBTs in place, full market transparency i.e. reporting implemented, an auditable process for choosing PGBTs over available BOAs defined and a well defined BSAD methodology in relation to PGBTs in place. Without these,

implementation of Mod P12 will not achieve its stated objectives, in particular a beneficial impact on trading.

Michael Wilks
UK Power Operations Manager
Williams Energy

P12_MR_002 – EdF Trading Ltd

On behalf of EdF Trading Ltd and EdF (Generation) please find some brief comments on the Modification P12, which seeks to move Gate Closure from 3.5 hours to 1 hour ahead of real time; the aim being to reduce the imbalance risk faced by market participants and increase liquidity in short-term markets.

We too believe that reducing the Gate Closure period will result in increased opportunities to trade and increased gains in forecasting accuracy and ,as such, support its implementation on 2nd July.

It is also noted that, in order to implement P12, an outage of the Energy Contract Volume Allocation Agent (ECVAA) system will be required for approximately 2.5 hours, finishing approximately 15 minutes before Gate Closure for Period 31 on 2 July 2002.

Steve Drummond

P12_MR_003 – InterGen (UK) Ltd

InterGen (UK) Ltd, representing the 4 BSC parties Coryton Energy Company Ltd, InterGen Energy Trading and Shipping Ltd, Rocksavage Power Company Ltd and Spalding Energy Company Ltd, is strongly supportive of modification proposal P12.

We believe the introduction of a reduced Gate Closure will:

Improve the current poor levels of within-day power market liquidity.
Improve the quality of FPN information to NGC. Reduce the unacceptably high level of risk of extreme imbalance charges to participants.

Regarding the proposed introduction date of 2nd July 2002, we support a midweek introduction and would support any moves to bring this date forwards.

We remain concerned by the fact that NGC have stated that "its ability to balance the market would not be compromised provided that a minimum number of its PGB Transaction contracts ... were in place" without clarifying what that number is. Early confirmation that this will not be used as an excuse to delay the implementation of P12 would be appreciated.

Chris Ridgway
Commercial Operations Manager
InterGen (UK) Ltd

P12_MR_004 – TXU Europe

P12 Draft Mod Report Comments

We remain to be convinced that a reduction in gate closure will result in more accurate notifications in respect of the demand side, but it may reduce the Imbalance exposure on the generation side provided the anticipated increase in within day trading does actually happen. We accept that the reduction may be viewed as “optional” by participants and that if NGC believe that they can operate the system safely as they have stated then we believe that the Modification Proposal will better achieve the relevant objectives and hence we support the draft recommendation.

Although the Authority have provided an initial view on P12 we would still prefer to see the implementation date as being 3 months after the Authority’s decision rather than a fixed date (and time) in order to avoid the P4 issue as even though the software changes from a participants perspective are small we still require our systems developers to complete the work in a timely manner.

Philip Russell
Market Development Manager
21 TXU Europe BSC Parties

P12_MR_005 – GPU Power UK

Please find that GPU Power UK response to P12 Consultation on Draft Modification Report is 'No Comment'.

Rachael Gardener
Deregulation Control Group &
Disribution Support Office
GPU POWER.NETWORKS (UK) plc

P12_MR_006 – SEEBOARD Energy Limited

We agree with recommendations within section 1.1 of draft modification report dated 25th March 2002. Our concern is with potential conflicts for testing between that for this modifications and the changes planned for BSC release on 10th August. A test environment for this BSC release will probably need to wait until after any testing for modification P12 and as such the time available for rectifying any problems with BSC release software would be limited. We would appreciate it if Elexon could consider the risks to the BSC release depending on participants requirements for P12 testing.

Dave Morton
SEEBOARD Energy Limited

P12_MR_007 – Entergy-Koch Trading Limited

Damhead Creek Limited (DCL) and Entergy-Koch Trading Limited (EKTL) strongly support the BSC Panel recommendation that P12 should be implemented from settlement period 31 on 2 July 2002. DCL and EKTL have long held the view that a reduction in the gate closure period will serve mitigate the imbalance volume risk faced by market participants, and will facilitate trade and hence liquidity in the short term markets. It is, however, essential that issues surrounding the System Operator's pre-gate closure actions, for example, transparency and system security related issues, are addressed in a timely manner prior to P12 implementation.

Melanie K Wedgbury
Director, Regulatory Affairs

P12_MR_008 – LE Group

P12 Report Comments

LE Group welcomes the comments of the panel and its endorsement of the P12 modification groups recommended acceptance of the proposal. After further investigation LE Group believes that barring unforeseen problems, we can change our systems to be compliant with one hour gate closure by the end of June - in time for the proposed implementation date of 2nd July. We therefore currently feel that there should be no problems with this implementation date. LE Group favour this modification and look forward to a decision from the authority on this matter, especially given the favourable provisional thinking received from the authority.

Liz Anderson
General Manager
Energy Strategy & Regulation

P12_MR_009 – Innogy plc

A couple of comments regarding the final report.

The transparency issue is an important one and the treatment of Pre-Gate closure actions will influence decisions regarding signing of Pre Gate Closure contracts.

One observation that has arisen from discussions with NGC regarding Pre Gate Balancing contracts. It would appear that a easier solution, avoiding the need for new pre gate closure contracts, may be to increase the gate closure to 1.5 hrs. In this timescale actions could be instructed under existing warming contracts.

Representing Innogy plc, npower Limited, Innogy Cogen Trading Limited, npower Direct Limited, npower Northern Limited, npower Yorkshire Limited.

P12_MR_010 – ScottishPower

With reference to the above, I would refer you to our previous comments on the proposal, when we agreed and supported the proposal but had some system operations issues which we believe required to be considered.

In considering this report, we would reaffirm our support for the recommendation of the Panel for the implementation of P12 in July 2002. We retain the view that the BRL methodology should be changed in response to the increase in the volume of balancing actions occurring at pre-gate closure.

I trust that you will find these comments helpful. Nonetheless, should you require further clarification of any of the above, please do not hesitate to contact me.

Man Kwong Liu
Calanais Ltd.

For and on behalf of: - ScottishPower UK Plc.; ScottishPower Energy Trading Ltd.; ScottishPower Generation Ltd.; Scottish Power Energy Retail Ltd.; SP Transmission Ltd.

P12_MR_011 – Scottish and Southern

This response is sent on behalf of Scottish and Southern Energy, Southern Electric, Keadby Generation Ltd. and SSE Energy Supply Ltd., in regard to the consultation issued on 25th March 2002 in respect to Modification proposal P12 and the associated documentation reference MR012 version 0.2.

In relation to this consultation, we do have a number of concerns that we would like to make representation on, in particular, the issue of the Pre Gate Closure contractual arrangements, the system development costs, developments with the 'beyond the wall' process and enhanced ECVN reporting associated with Modification proposal P4.

We are concerned that the issues surrounding the Pre Gate Closure contractual arrangements have still to be fully clarified. We appreciate the effort that NGC is undertaking in seeking to discuss the contractual issues with BSC Parties (including ourselves). However, we hope that the Panel and the Authority will give careful consideration to the possible need to delay the Implementation Date beyond the 2nd July 2002 if these contractual matters have not been resolved.

We are concerned at the cost associated with system changes and implementation costs arising from the seemingly never-ending change to industry agreements. We feel that the Authority should explicitly take account of the individual and cumulative effect of implementation costs in approving Modification proposals. Furthermore, there should be some prioritisation of which Modification proposals should go ahead and which should not, with explicit reference to (amongst other things) the overall development costs incurred by the industry.

We are concerned that it appears from the Elexon note of 27th March 2002, that Modification P59 will be rejected. However, we believe that the issues that gave rise to Modification proposal P59 may be brought more sharply into focus with the introduction of 1 Hour Gate Closure. Accordingly we would expect the Panel and the Authority to ensure that all major issues relating to 'beyond the wall' acceptance of bids and offers are satisfactorily dealt with before Modification proposal P12 is implemented. Furthermore, in the light of the work already done on P59, we can foresee at this time no reason why the Panel and the Authority could not expedite the Urgent processing of this work.

We also wish to note that we see the enhanced ECVN reporting that is expected to result from Modification proposal P4 as being a key aid to the successful introduction of any reduction in Gate Closure to 1 Hour. We further note that the Authority has yet to approve Modification proposal P4,

and we feel that the Authority should give due consideration to progress Modification proposal P4 in tandem the response on Modification proposal P12.

Having taken account of our concerns in relation to Modification proposal P12 (relating to pre gate closure contracts, 'beyond the wall' bid/ offer acceptances, control of development costs and the enhanced ECVN reporting linked to Modification proposal P4 being satisfactorily addressed), we believe that the benefits potentially outweigh the costs and hence we provide our qualified support for the Panel's recommendation to the Authority to approve this P12 Modification proposal.

Garth Graham
Scottish & Southern Energy plc

P12_MR_012 – Powergen plc

Powergen UK plc makes this response on behalf of itself and the following BSC Parties, Powergen Retail Limited, Diamond Power Generation Limited, and Cottam Development Centre Limited.

Powergen support this modification. We have a number of observations regarding the success of P12 which are detailed at the end of the response.

For generators, including embedded generation we do not believe that the average forecasting accuracy will be materially increased. However, reducing gate closure should enable generators to reduce their exposure to imbalance as a result of plant breakdowns.

In general, for most demand participants in the short term we do not believe that the reduction in gate closure will materially affect their ability to forecast demand.

Additional benefits of reducing gate closure may be an increase in liquidity of the short-term markets as a result of them logically gaining displaced BM activity.

We note that the system operator has indicated that reducing gate closure should not be detrimental with regard to system balancing provided sufficient pre-gate closure contracts are in place.

Discussions on the detail of pre-gate closure contracts between service providers and the system operator are currently in progress. Service providers have a number of concerns regarding the transparency and equability of the use of such contracts. If these negotiations do not allay the market concerns the result may be reduced market confidence leading to a reduction in liquidity. This outcome would act against one of the applicable BSc objectives, namely promoting effective competition in the generation and supply of electricity and ultimately affect the ability of the system operator to balance the system in an economic and efficient manner. Therefore, we believe that it is important that these contract negotiations are concluded successfully as any market uncertainty/disagreement could lead to P12 being delayed or the system operator being unable to balance the system efficiently.

C A Price
Energy Trading - Strategy & Regulation

P12_MR_013 – British Energy plc

British Energy remain unconvinced that a reduction in gate closure to one hour will deliver the stated aim of reducing the imbalance risk faced by market participants and increasing liquidity in short-term markets.

Furthermore, while implementation of a reduced gate closure period under the BSC in 3 months from the time of decision is achievable, we have concerns that establishment of the framework and process proposed by NGC for new Pre-Gate Closure Balancing Service contracts may not be realistically achievable in that time, because of the significant commercial and technical issues involved. While these issues are strictly speaking outside the BSC vires, the impact of these new trades on participants systems is still being evaluated. The three month lead time originally proposed and supported needs to be re-examined.

We re-iterate our previously stated preference for a staged reduction in gate closure, in order to reduce uncertainties.

Furthermore, we note that BSC modification proposal P59 and its alternate are closely linked to the issue of gate closure, and P59 alternate in particular could be implemented without the need for significant commercial or technical developments.

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

P12_MR_014 – Teesside Power Ltd

TPL support the modification proposal P12 for reduction of Gate Closure to one hour. Separate comments have been submitted to NGC regarding the Modification Proposal to the Balancing Services.

Christine Walker

P12_MR_015 – British Gas Trading Ltd

Modification Proposal 12: Reduction in Gate Closure from 3.5 Hours to 1 Hour

Thank you for the opportunity of responding to this consultation. This response is on behalf of British Gas Trading Ltd, Centrica King's Lynn Ltd and Centrica Peterborough Ltd.

We support this modification proposal as better facilitating the applicable BSC Objectives. We note and agree with the analysis undertaken by the Modification Group. We do however have some concerns with regard to the implementation date and arrangement and process. We do not believe one hour gate closure should become effective unless these matters are fully and satisfactorily resolved.

Should one hour gate closure be introduced we believe it is essential that any pre Gate Closure actions taken by the System Operator are transparent to all Parties. We believe this would best be achieved through a market based solution. NGC have proposed the introduction of a new Balancing Service, a Pre Gate Closure BM Unit (PGB) Transaction, which will be facilitated by the Grid Trade Master Agreement (GTMA) framework for forward energy trading. We have significant concerns with these proposed contracts. We do not believe they are sufficiently transparent although we accept that some improvement to transparency has been made through the Procurement Guidelines and the Balancing Principles Statement, including the intention to publish the accepted bids after the event.

We are concerned that Parties will be unable to submit offers ahead of time and without a prior request from NGC. This will impose limits on who is able to provide the new Balancing Service to only those Parties whom NGC contact. This will give advance knowledge of NGCs intended actions in the market to selected participants and will not allow discovery of a competitive market price. It is unlikely that NGC will be able to collect and process all the offers to accept the best price. In order to ensure transparency in the market for all participants NGC's requirements, offer prices and volumes should be published.

The PGB Transaction contracts are only acceptable as an interim measure and if this modification proposal is to be implemented then an agreed, rapid timetable must be affected to move to a more transparent market mechanism for these services.

Danielle Lane
Transportation Analyst