20th July 2001

DEFINITION REPORT

MODIFICATION PROPOSAL P12 – Reduction of Gate Closure Time from 3.5 Hours to 1 Hour

Prepared by the P12 Modification Group on behalf of the Balancing and Settlement Code Panel

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0.1	10/07/01	Trading Strategy		Peer Review
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b Distribution

Name	Organisation
Panel	

c Intellectual Property Rights and Copyright

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1 SUMMARY AND RECOMMENDATIONS

Damhead Creek Ltd submitted Modification Proposal P12 ('the Modification') on the 9th May 2001. The Modification seeks to move Gate Closure from 3.5 hours to 1 hour ahead of real time to reduce imbalance risk and increase market liquidity. According to the Proposer, the ensuing improvement in demand and output forecasting would reduce the exposure of market participants to imbalance charges and, hence, increase liquidity. Moreover, the Proposer asserts that the System Operator's demonstrated preference for "just-in-time" balancing undermines the original rationale for setting Gate Closure at 3.5 hours – the need for sufficient time to synchronise slow response plant to system parameters.

An Initial Written Assessment (IWA) was produced by ELEXON and presented to the Panel meeting on the 31st May 2001. The Panel endorsed ELEXON's recommendation that the Modification be progressed to the Definition Procedure and that a Definition Report be presented to the Panel meeting on the 26th July 2001.

After the Panel meeting, the Modification and the IWA were circulated for consultation and responses were requested by Friday 15th June 2001. Fifteen responses were received, with roughly a third supporting the Modification, a third supporting the principle of moving Gate Closure closer to real time, but with strong reservations, and a third rejecting it. The principal concern amongst those supporting the idea, but not the Modification, was timing – there were strong concerns about implementing a reduction prematurely.

The Modification Group ('the Group') met on the 27th June 2001 to consider the Modification and the responses received to the IWA. Group opinion reflected the IWA responses – the majority was favourable to the idea of reducing Gate Closure, but believed that a reduction now would be premature. In particular, it was felt that operational experience under greater system stress or a reasonable period with a "short" Balancing Mechanism (eg: a winter period with lower plant margin) was required. However, in both the responses to the IWA and in the Group meeting, strong views both for and against the Modification were expressed.

The Group was of the opinion that an optimum time for Gate Closure exists, but that there was little evidence at present to suggest what it was. Whilst it was agreed that there would potentially be a reduced risk from plant failure for generators (commensurate with the reduction in the timescales), it was thought unlikely that the accuracy of demand forecasting would increase significantly. Moreover, the Group felt that market liquidity issues were primarily a result of the calculation of system prices and contract notification problems, rather than the accuracy of forecasting.

The Transmission Company (TC) gave a presentation to the Group, re-iterating and expanding on their response to the IWA. They indicated that whilst they were not opposed to moving Gate Closure closer to real time, they continued to believe that a year (i.e. across a winter period), of experience operating under NETA was necessary for three reasons. First, they believed that ten weeks operating experience in late spring was insufficient to establish confidence that NETA processes and systems are capable of continuously balancing the system under the full range of operating conditions (eg: winter and major outages). Second, significant development of their despatch support tools would be necessary to enable the more rapid assimilation of data that moving Gate Closure would require. Third, without these tools in place, implementing the Modification could compromise their ability to meet their licence obligations and increase system costs.

The Group was of the opinion that the TC's need for sufficient operational experience of different system conditions be given due significance by the Balancing and Settlement Code Panel ('the Panel') whilst considering the Modification.

On the basis of the analysis, consultation and assessment undertaken in respect of the Modification during the Definition Procedure, and the resultant findings of this report, the Group recommends that the Panel should:

1. **Note that the majority of the Group members were in favour of re-considering the issue - but only once sufficient experience of the market and Balancing Mechanism has been accumulated;**
2. **Note that opinion amongst responses to the consultation was divided. Roughly a third supported the Modification, a third rejected it, and a third supported the principle of reducing Gate Closure with strong reservations;**
3. **Note that the majority of the Group recommend that operational experience of a full winter period is desirable prior to assessing the merits of changing Gate Closure;**
4. **Note that progressing the Modification to the Assessment Procedure now would, assuming a 3 month timetable, require an Assessment Report to be completed by the end of October 2001, which would not provide the TC with the operating experience they believe is crucial to implement the Modification;**
5. **Note that a minority view, including the Proposer, recommended that the Modification progress to Assessment Procedure at the end of September 2001 – which would provide 6 months of operational experience since market opening;**
6. **Recommend to the Authority that the Modification be progressed to a 9-month Assessment Procedure, which would provide the Transmission Company with the operational experience of a full winter period they believe is necessary, and that an Assessment Report is submitted to the Panel meeting in May 2002.**

2 INTRODUCTION

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

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

3 PURPOSE AND SCOPE OF THE REPORT

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

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

The Panel may decide to submit a Modification Proposal to the 'Definition Procedure'[1]. In such cases, the Panel commissions a Modification Group to define the issues raised by a Modification Proposal in sufficient detail to enable the Panel to determine whether to:

a) Refer the proposal back to the Modification Group for further analysis; or

b) Submit the proposal to the Assessment Procedure[2]; or

c) Proceed directly to the Report Phase[3].

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

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

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

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

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

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

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

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

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

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

4 MODIFICATION GROUP DETAILS

This Definition Report has been prepared by the P12 Modification Group. The Membership of the Modification Group was as follows:

MEMBER	ORGANISATION
Chris Rowell	ELEXON (Chairman)
Andrew Murray	Damhead Creek (Proposer)
Maurice Smith	Campbell Carr
Paul Dawson	Enron
Martyn Hunter	St Clements Services
Danielle Lane	British Gas Trading
Alan Robb	National Grid Company
Tony Doherty	Ofgem

5 ISSUES RAISED BY THE PROPOSED MODIFICATION

The Applicable BSC Objectives (as defined in the Transmission Licence) are:

(a) the efficient discharge by the Licensee of the obligations imposed upon it by the licence;

(b) the efficient, economic and co-ordinated operation by the Licensee of the Licensee's Transmission System;

(c) promoting effective competition in the generation and supply of electricity, and (so far as consistent therewith) promoting such competition in the sale and purchase of electricity; and

(d) promoting efficiency in the implementation and administration of the balancing and settlement arrangements

The Proposer believes that reducing Gate Closure from 3.5 hours to 1 hour would promote effective competition in the generation, supply, sale and purchase of electricity without compromising the TC's ability to balance the system efficiently and economically.

The Group considered the main issues raised by the Modification to fall into two categories – the ability of the TC to meet its licence obligations (points (a) and (b) above) and the effect of moving Gate Closure on the wholesale electricity market (points (c) and (d) above).

The TC believe that their ability to balance the system economically and efficiently could be compromised by moving Gate Closure to 1 hour now. Without the necessary development to their dispatch tools, which has an estimated lead-time of 9 months, the time available for decision making will be significantly reduced. As a consequence, the Bid/Offer Acceptance decisions could well be economically sub–optimal.

The majority of the Group felt that the TC's concerns over its ability to meet its licence obligations be given due weight, particularly so given that the greatest impact of implementing a reduction in Gate Closure would fall on the TC.

The issues of liquidity and imbalance risk were at the centre of Group discussions on the impact of the Modification on the market. Opinion was divided as to whether or not moving Gate Closure closer to real time would increase liquidity. Whilst most agreed that there was the potential for generators to reduce imbalance closure with more accurate predictions of output, the Group did not see trading closer to real time as significantly improving the accuracy of demand forecasting.

The majority of the Group agreed that insufficient market experience was available at present against which to assess whether or not implementing the Proposal would promote greater competition in the generation and supply of electricity.

It should be noted that whilst the Group discussion focused on moving Gate Closure to 1 hour ahead of real time, no other time was identified as being more suitable (e.g. arguments for and against 1 hour were considered equally applicable to 2 hours).

6 THE NEED FOR FURTHER ASSESSMENT AND EVALUATION

Should the Modification be submitted to the Assessment Procedure the following are some of the issues that would need to be evaluated:

- Impact of implementing the reduction in Gate Closure time on system prices through analyses of contributing Bids and Offers;
- Quantification of the scope for reducing risk in generation and supply by allowing trading closer to real time;
- Extent to which short-term markets would provide the opportunity for effective risk management were Gate Closure moved to 1 hour ahead of real time;
- Ability and desirability of the System Operator balancing the system outside the Balancing Mechanism; and
- Extent to which the Modification would better facilitate the Applicable BSC Objectives compared to the current timing of Gate Closure.

7 REPRESENTATIONS BY PARTIES AND INTERESTED THIRD PARTIES

7.1 Summary of Representations

The first phase of the Definition Procedure was sending the Initial Written Assessment (IWA) and the Modification out for consultation to all BSC Parties. Fifteen responses were received (seen Annex 5), five (or 33%) supporting the Proposal, four (or 27%) rejecting it, and six (or 40%) supporting the idea of reducing Gate Closure but with strong reservations about the Modification itself. The table below provides a brief summary of the responses:

RESPONDENT	SUPPORT	SUPPORT IN THEORY	REJECT
BP Gas Marketing	X		
Enron Europe			X
European Power Source Co.	X		
Innogy		X	
British Energy Power		X	
Seeboard		X	
Powergen		X	
Northern Electric			X
Scottish Power		X	
Edison Mission	X		
London Electricity		X	
Dynergy	X		
NGC			X
Entergy	X		
TotalFinaElf			X

The responses clearly indicate a majority in favour of the idea of moving Gate Closure closer to real time, but also that the majority of respondents have strong reservations about the Modification.

The most common reasons for supporting the Modification were that the System Operator was demonstrably capable of balancing the system with Gate Closure at 1 hour and that reducing Gate Closure would promote competition in the wholesale electricity market.

The most common reasons for rejecting the Modification were that it was premature, that it would not promote competition and that it was an inappropriate method to address imbalance risk.

The most common reason for supporting the idea of reducing Gate Closure, but with strong reservations about the Modification itself, was that the System Operator had limited operational experience of NETA and the Balancing Mechanism.

7.2 Comments and Views of the Modification Group

The majority of the Group favoured re-considering the issue of changing Gate Closure once sufficient operational experience to assess it has been accumulated. The majority of the Group supported the TC's view that sufficient experience will have been gained after a full winter period.

Most of the Group believed that the timing of Gate Closure was not a major determinant of market liquidity, they considered price volatility and contract notification problems to be more significant. In addition, most Group members doubted that the accuracy of demand forecasting would improve were the Modification implemented.

A minority of the Group, including the Proposer, was concerned that should the Modification go directly to Report Stage with a recommendation to reject, a popular idea could be deferred indefinitely. To avoid this outcome, the Proposer suggested deferring the start of an assessment of P12 until September 2001, when a full 6 month's operational experience of NETA will have been accumulated (i.e. March to September).

Another minority opinion was that the Modification would reduce, rather than increase, market liquidity. The proponents felt it would increase imbalance risk for the majority of participants because it would only reduce imbalance volume risk for portfolio generators and suppliers with controllable load but would increase imbalance price risk for all. The volume risk would not reduce for those participants without the option of self-balancing because it would be difficult to trade contracts in the illiquid intra-day markets. The price risk would increase because the TC's scope to minimise the cost of balancing actions would be reduced, as the portfolio of generators able to respond during the balancing window would shrink.

8 SUMMARY OF TRANSMISSION COMPANY ANALYSIS

The TC is not opposed to moving Gate Closure closer to real time. However, it believes that a year's experience of operating under NETA is necessary prior to assessing the merits of changing Gate closure time. Two main reasons were given:

- Ten weeks operating experience in late spring is insufficient to establish confidence that NETA processes and systems are capable of continuously balancing the system under the full range of operating conditions (eg: winter and major outages); and
- Significant development of the TC's despatch support tools would be necessary to enable the more rapid assimilation of data that moving Gate Closure would require. NGC estimate a lead-time of 9 months to implement the required changes.

Without such operating experience the TC believe their ability to meet their obligations under the Transmission Licence could be compromised for the following reasons:

- Balancing decisions would be made on the basis of limited experience of the potentially diverse system conditions; and as a consequence
- Decisions taken within short timescales might not be the most economic or cost effective. Decisions are not necessarily instantaneous and may require thought and planning.

The TC have identified a set of "confidence criteria" which they believe need to be met before moving Gate Closure closer to real time. These criteria were presented at a number of industry forums including the DISG and a NETA workshop held on the 3rd September 1999 and are set out below:

- Imbalance volumes resolved in the Balancing Mechanism are low;
- IPNs and FPNs are accurate;
- Sufficient bids and offers are being made available (with short notice times);
- Generator dynamics are rational; and
- NETA has operated successfully through periods where the system is under stress.

Whilst the first four criteria have been met to a greater or lesser extent, the definitive test of the fifth criterion has yet to be experienced.

Furthermore, the TC believe that the Proposer's perception of the preponderance of "just-in-time" balancing fails to take into account the time required to assimilate and analyse Bid/Offer data, and focuses solely on the duration of Bids and Offers once the decision has been made to accept them.

9 BSC AGENT ANALYSIS

No significant impacts on BSC Agents' processes and systems were identified. None of the processes run by BSC Agents are required to begin at Gate Closure and end before the start of real time. Therefore, no analysis was commissioned or sought from them. However, ELEXON identified two potential, but unlikely, areas of impact.

The calculation of the "Accepted Volume" (BSC T.3.4) during settlement is based on the Balancing Mechanism Window which would shorten under the Modification. However, it is thought unlikely that this would have any material impact or require a change to the relevant BSC Agent's systems. The issue would be investigated conclusively during an Assessment Procedure.

The credit checking carried out by the ECVAA begins after Gate Closure, but does not have to be completed by real time. During an Assessment Procedure, a detailed impact assessment would be commissioned on the ECVAA processes to confirm that there would be no impact on the credit checking process.

The diagram below provides an overview of the trading processes that occur prior to Settlement.

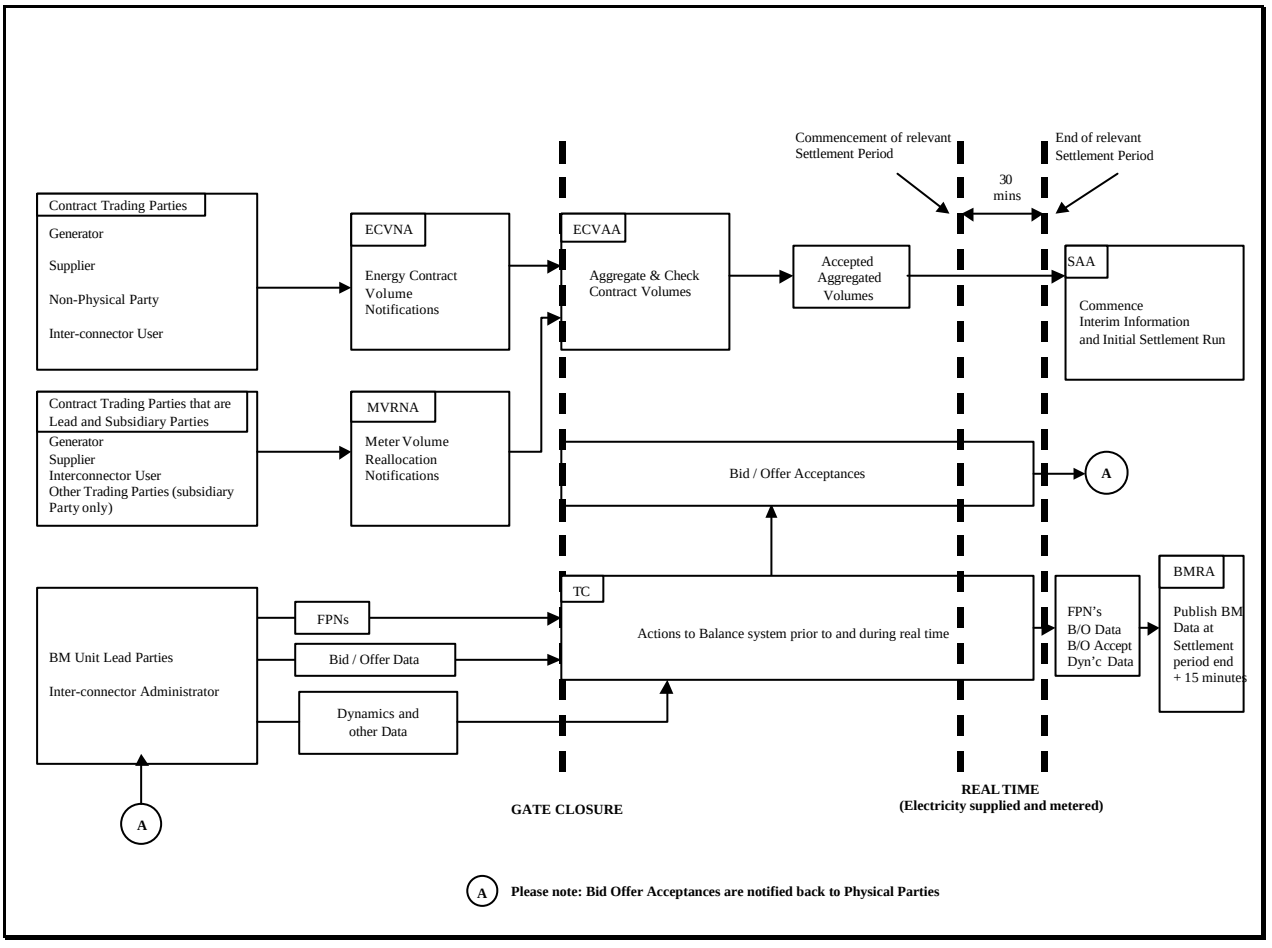


FIGURE: TRADING PROCESSES PRIOR TO SETTLEMENT

10 EXTERNAL ADVICE

No external consultation or advice was commissioned.

ANNEX 1 – SUPPORTING INFORMATION AND DATA

NGC circulated the following Bid/Offer Acceptance (BOA) data to the Group during the Definition Procedure:

BOA Headline Statistics for Period 27th March to 27th June	
Average BOAs (i.e. per hour)	20.5
Average BOA duration	48 minutes
Percentage of BOA durations greater than 60 minutes	26%
Percentage of BOA durations taken to Gate	2.3%

NGC added the following qualifications to the data supplied above:

- The analysis does not give any volume weighting to the BOAs (difficult to produce and unlikely to be available within reporting timescales of Definition Procedure);
- Believe volume weighted statistics would illustrate that early and lengthy BOAs are taken to bring the system close to balance whilst the smaller volume, more frequent and shorter notice BOAs are taken to manage frequency control;
- Since the Balancing Mechanism (BM) has been predominantly "long" thus far, NGC have not been required, as yet, to purchase significant numbers of generators onto the system;
- Periods of shortage in the BM would result in statistics showing larger weighted volume of BOAs spanning the majority of the Gate Closure period; and
- The analysis takes no account of data assimilation, BOA selection and EDL preparation times – because these times are not captured by any NGC systems.

ANNEX 2 – TRANSMISSION COMPANY ANALYSIS

National Grid Company 14 June 2001

NGC Comments on Modification Proposal P12
(Reduction of Gate Closure Time from 3.5 hours to 1 hour)

Introduction

This paper sets out National Grid's comments on Modification Proposal P12 - Reduction of Gate Closure time from 3.5 hours to 1 hour. It has been prepared in response to an invitation for views on both the original modification proposal and the Initial Assessment prepared by ELEXON on 24th May 2001.

Summary

NGC believes that a decision to shorten gate is premature for the following reasons:

* 10 weeks of NETA operation in late spring is insufficient time to gain experience and confidence that NETA processes and systems are capable of delivering continuous system balancing for the full range of operating conditions.
* Significant development of NGC despatch support tools are necessary to enable the more rapid assimilation of data and economic Bid/Offer selection required by a shorter gate closure.
* Adopting shorter gate closure arrangements before the appropriate tools are in place and experience gained will restrict our ability to meet our licence obligations and result in increased pre gate closure action and costs by NGC in order to manage the risks.

Background

In the development of the introductory NETA arrangements NGC argued that the setting of Gate Closure at 3.5 hours provided the right balance between facilitating market trading as close as possible to real time and ensuring that there was sufficient time to carry out system balancing actions. In reaching this position we also believed that in time, as Market Participants and NGC staff gained valuable operating experience, NETA systems became more robust and sophisticated, shorter Gate Closure would be possible.

In order to establish when we believed shorter gate closure would be possible a number of "confidence criteria" were identified which we believed needed to be met before making changes. These criteria were presented at a number of industry forums including the DISG and a NETA workshop held on the 3rd September 1999 and are set out below:

* imbalance volumes resolved in the Balancing Mechanism are low
* IPNs and FPNs are accurate
* Sufficient bids and offers are being made available (with short notice times)

* generator dynamics are rational
* the new trading arrangements have operated successfully through periods where the system is under stress

We also said that we needed an absolute minimum of 6 months operational experience, and preferably a full year before taking any decision to reduce gate closure further.

Areas of Insufficient Operating Experience

Winter Demand Shapes

The introduction of NETA in the early Spring rather than the originally planned Autumn season has meant that both Participants and NGC staff have as yet only gained experience in dealing with the more benign load shapes. Winter load shapes are characterised by two periods of very large rates of change of demand at around 0100 hours when off-peak storage heating is switched in and around 1700 hours when darkness, domestic and industrial/commerce peaks coincide.

Insufficient Generation Notified at Gate Closure

We have to date only issued one NISM (Notification of Insufficient Plant Margin) warning as generally Participants have taken positions, which result in a long system. As we move towards the winter months this situation may well change and require additional plant to be synchronised by earlier Bid/Offer acceptances together with pre-gate closure actions to ensure continuous system balance is achieved.

Major Plant Losses

To date we have only experienced one day during which a significant amount of generation (3000MWs) became unavailable due to breakdown on the run up to the breakfast peak. The losses were covered initially by taking Offers and subsequently reduced levels of Bids from the Balancing Mechanism (BM). Post event analysis suggests that as the length of the BM did not recover to its original position until the early hours of the following day, confidence that within day trading has developed sufficiently to cover this situation has not yet been achieved.

System Stress

As yet we have not yet experienced Gas/Electricity arbitrage activities nor have we had to manage the BM during times of transmission system disturbances.

Transmission Constraints

At this early stage in the outage programme season we have only had very limited experience in constrained operating under NETA arrangements.

Despatch Support Developments

The current 3.5 hour gate closure provides sufficient time over the expected full range of operating conditions for the FPN data including prices to be assimilated and viable, optimised schedules derived.

To aid this activity NGC has adapted its pre NETA despatch support tool to provide a number of point despatch solutions, subsequent preparation of the NETA style closed despatch instructions is still largely a manual process.

Any shortening of gate closure will require significant improvements to these processes and tools to ensure that derivation of the optimised despatch instructions is achieved with sufficient time left to issue instructions for timely delivery.

Development work is already underway but it is judged unlikely that production versions will be available in under nine months. Although other work is necessary to NGC systems to provide for a shorter Gate Closure(GC) it is judged that these changes can be implemented within the timescales of the required despatch tools development.

Careful consideration will have to be given to the extent to which any widespread changes to Participant and Central Systems are tested trialed and implemented. This issue may have a bearing on options to progressively move towards a shorter GC.

Taking More Actions Close to Real Time

Reducing gate closure is likely to have the following effects on the BM :

* Nearly all offers that involve synchronising plant onto the system will be precluded.
* We will therefore be forced into only using offers from synchronised plant, or from plant with very good dynamics. This would appear to result in more extreme prices, and creates the risk of insufficient balancing volume being available in some cases. This effect could also possibly raises more market power issues.
* By bringing the wall closer, there will inevitably be more bid/offer acceptances made that are not closed before the wall. This will make it more important to resolve how such plant should revert to its FPN and what payment if any, should be made.
* If Generators are submitting FPNs one hour ahead, the opportunities to exploit temporal and geographic monopolies become much greater. For example, if it becomes apparent that there is a plant shortage, BM offer prices can rise in 60-90 minutes.

None of the above points demonstrate that shorter gate closure is not possible. However, they do illustrate how it could reduce NGC's ability to meet our licence obligation to operate the system in a secure, economic, efficient and co-ordinated manner.

Pre Gate Closure Action

NGC currently has the freedom to utilise Balancing Service (Warming) contracts to ensure, if it judges necessary, that sufficient plant is always available in the BM to meet both energy and system needs. Reduction of Gate Closure to 1 hour will require the introduction of a new "part loading" contract as the majority of plant currently secured via Warming contracts would not be able to synchronise and deliver Offers in a 1 hour timescale. Contracts of this form will need to be developed and discussed with the industry, based on our pre NETA experience this will likely take at least six months to put in place.

Conclusions

NGC believes that a decision to shorten gate is premature for the reasons set out below and that therefore the modification as is currently proposed is not consistent with the applicable BSC objectives set out in the ELEXON Initial Assessment (P12) paper.

* 10 weeks of NETA operation in late spring is insufficient time to gain experience and confidence that NETA processes and systems are capable of delivering continuous system balancing for the full range of operating conditions.
* Significant development of NGC despatch support tools are necessary to enable the more rapid assimilation of data and economic Bid/Offer selection required by a shorter gate closure.
* Adopting shorter gate closure arrangements before the appropriate tools are in place and experience gained will restrict our ability to meet our licence obligations and result in increased pre gate closure action and costs by NGC in order to manage the risks.

ANNEX 3 – BSC AGENT ANALYSES

Implementing the Modification is judged to have no significant impact on any the BSC Agents. Therefore, no analysis was commissioned or sought from them.

ANNEX 4 – TERMS OF REFERENCE OF EXTERNAL CONSULTANTS/ADVISERS

No external consultation or advice was commissioned.

ANNEX 5 – RESPONSES TO INITIAL WRITTEN ASSESSMENT

Responses from P12 Definition Consultation

Representations were received from the following parties:

No	Company	File Number
1.	BP Gas Marketing	P12_DEF_001
2.	Enron Europe	P12_DEF_002
3.	European Power Source Co	P12_DEF_003
4.	Innogy	P12_DEF_004
5.	British Energy Power	P12_DEF_005
6.	Seeboard	P12_DEF_006
7.	Powergen	P12_DEF_007
8.	Northern Electric	P12_DEF_008
9.	ScottishPower	P12_DEF_009
10.	Edison Mission	P12_DEF_010
11.	London Electricity	P12_DEF_011
12.	Dynegy	P12_DEF_012
13.	NGC	P12_DEF_013
14.	Entergy	P12_DEF_014
15.	TotalFinaElf	P12_DEF_015

P12_DEF_001 –BP Gas Marketing

From: Simons, Mark C[SMTP:SIMONSMC@bp.com]
Sent: 12 June 2001 15:43
To: 'modifications@elexon.co.uk'
Subject: P12 Definition Comments

BP Gas Marketing Ltd and its three other associated BP BSC parties support modification P12 to reduce gate closure from 3.5 to 1 hour.

Since the start of NETA NGC have proved to be more than capable of balancing the system within the current 3.5 hour gate closure. It is evident from the two NGC operational seminars since the start of NETA that NGC are very successful at balancing the system within gate closure and, more importantly, take the majority of balancing actions very close to and during real time, rather than two or three hours ahead.

Reducing gate closure can only be a good thing for market participants as it will allow them to balance their positions much closer to real time. This will allow generators to reduce their technical risk, suppliers to fine tune their demand closer to real time, it will reward responsive plant and together with improved real time reporting (as pursued by Modification P4) it will help to stimulate greater within day liquidity. A one hour gate closure will also make system balancing for NGC more straightforward as the window in which positions can deviate from physical notifications is that much smaller.

A shorter gate closure will also reduce system prices. Given that imbalances of individual parties are likely to be increasingly smaller closer to real time the competition amongst parties who have submitted bids and offers should become more intense as a similar supply chase a reduced demand.

Based on Ofgem's intended desire to reduce gate closure and the much shorter windows in other power systems it seems highly appropriate for NETA's gate closure to be reduced as soon as possible. Once a hourly gate closure has been successfully implemented BP would welcome the introduction of half hourly gate closure.

Mark Simons

P12_DEF_002 – Enron Europe

Modification Proposal P12: Reduction of Gate Closure from 3.5 hours to 1 hour

Response by Enron Europe

14 June 2001

Enron's Recommended Solution

Gate Closure should remain unchanged at 3.5 hours ahead of real time. While we agree with the intent that imbalance risk should be addressed, we believe the price setting mechanism is the way to address this issue, eg, MP18. Once NGC has sufficient operating experience and with the appropriate pricing mechanisms in place, the merits of moving Gate Closure should be re-examined.

Rational for Enron's Recommendation

P12 proposes to reduce the time between Gate Closure and real time (we term this the "Gate Closure Period") from 3.5 hours to 1 hour. The proposer (Damhead Creek Limited) claims that this would be in the best interests of market participants because it would reduce energy imbalance risks (leading to a reduction in costs and a subsequent reduction in consumer prices).

Damhead's claim is incorrect. A reduction in Gate Closure Period would increase energy imbalance risk for most participants because it would only reduce imbalance volume risk for large portfolio generators and suppliers with controllable load and it would increase imbalance price risk for all.

By increasing imbalance risk, P12 would (i) further reduce within day liquidity; (ii) make the system even longer; (iii) increase industry costs; and (iv) further incentivise participants to generate away from their FPNs. It would also bias the market even more in favour of large participants, have serious and as yet unknown system security implications, and make NGC's balancing actions less transparent.

Energy Imbalance Volume Risk

P12 attempts to reduce energy imbalance risk by reducing participants' energy imbalance volume risk. In fact, as we show below, P12 would not reduce energy imbalance volume risk for the majority of participants.

Prior to Gate Closure, participants have two mechanisms for taking balancing actions:

1. Trade contracts. Participants may trade contracts in an attempt to manage their expected energy imbalance volumes.
2. Adjust planned output (or consumption). Participants may adjust their planned output or consumption in an attempt to manage their expected energy imbalance volumes.

Reducing the Gate Closure Period increases the amount of time available to participants to use the balancing actions identified above. In theory this should increase the ability of all participants to manage their expected energy imbalance volumes. As we explain in 2.1.1 and 2.1.2, the reality is quite different from the theory.

Trading is Difficult in an Illiquid Market

Participants are unwilling to take contract positions within the day because of the risk they will be exposed to imbalance prices that don't reflect fundamentals. This is why within day contract trading is illiquid. As a result, a generator whose unit trips within the day will find it difficult to adjust its contract position and if it can find a willing counter-party, it will be forced to pay a distressed price for energy.

Reducing Gate Closure Period to 1 hour gives suppliers and generators an extra 2.5 hours to trade contracts in respect of each settlement period. Suppliers gain little additional information about their physical position during those 2.5 hours. Therefore even if they could trade contracts, they would not know what position to trade. Although generators could gain additional information about their physical positions (ie, if a unit tripped) during this period, this information is of little use because generators would find it difficult to trade contracts in this period. The risk of paying a distressed price in the contracts market is little better than the risk of cashing out at imbalance prices.

Therefore, P12 does little to reduce volume risk for the majority. At best it simply moves imbalance volume risk to an illiquid and risky contracts market.

Only Portfolio Generators Can Self-Balance

Reducing Gate Closure Period to 1 hour gives participants an additional 2.5 hours to manage their expected energy imbalance volumes by adjusting planned output or consumption. Portfolio generators and suppliers with controllable load are best able to take advantage of this.

A generator with a single unit cannot adjust its output to offset an unexpected outage and a supplier without controllable load cannot adjust its consumption to offset an unexpected change in demand. A generator with more than one unit could in theory hold capacity in reserve, ready to produce in response to an unexpected outage. This is a prohibitively expensive strategy for a small generator. To self-provide reserve, a generator with 2 units would need to withhold one unit, forgoing 50% of its energy revenues. The cost of self-providing reserve falls with the number of units owned. A generator with 20 identical generating units would forego 5% of its energy revenues to self-provide the same level of reserve.

Reducing the Gate Closure Period would allow large portfolio generators and suppliers with controllable load to manage energy imbalance volumes by adjusting their physical output or consumption prior to Gate Closure. This opportunity reduces with size of the generation company as the cost of self-providing reserve increases. The competitive advantage thus gained by portfolio generators would not be based on any underlying cost savings they provide to the system. They would gain this advantage simply by being big. Clearly this contradicts the Applicable BSC Objective to promote effective competition in generation and supply.

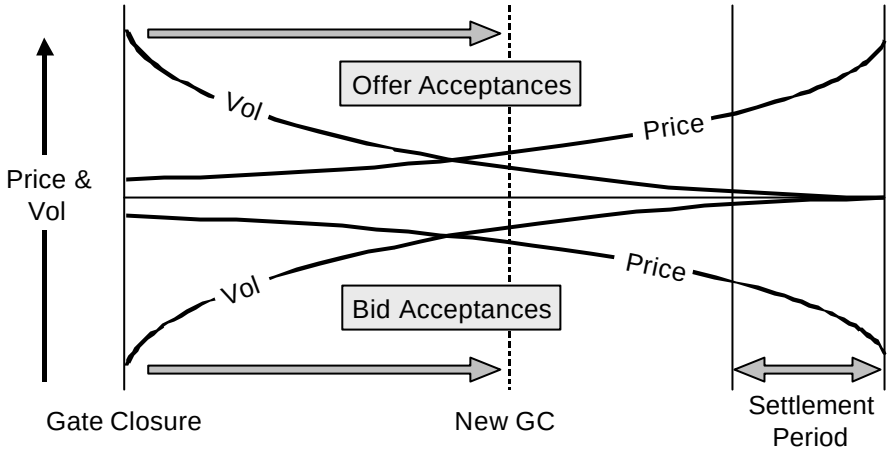
Imbalance Price Risk

Imbalance prices are calculated from a subset of bid/offer acceptances (BOAs) and the system operator's (SO) non-BM forward and option contracts. Moving Gate Closure to 1 hour ahead of real time will impact NGC's balancing actions and therefore will impact imbalance prices.

A Gate Closure Period of 3.5 hours gives the SO the flexibility to minimise expected balancing costs by considering the bid-offer prices, dynamic parameters and the risk of having to unwind a BOA. Reducing Gate Closure Period to 1 hour reduces the SO's flexibility to minimise the cost of balancing

actions because it removes the option of making advance notice BOAs in the BM. The direct impact on imbalance prices depends upon the BOA volume and price profile.

Reducing the Gate Closure Period would compress and truncate NGC's BOA volume/price profile. The diagram below shows a BOA profile with acceptance energy volumes (as opposed to the number of acceptances) declining and acceptance prices diverging from zero as real time approaches. If the SO's BOA profile is similar to that shown, P12 would widen the imbalance price spread because the average price of accepted offers would increase and the average price of accepted bids would decrease.



Moving Gate Closure to 1 hour ahead would have three further effects. Firstly, it could increase the ability for fast response BMUs to command high offer and low bid prices since BMUs requiring long notice periods could not be given notice in the BM. Secondly, to maintain sufficient control over the system NGC would increasingly rely on balancing actions outside the BM, ie, trades in power exchanges and bilateral option contracts. This reduces the transparency of NGC's balancing actions, which conflicts with the Applicable BSC Objective of promoting effective competition in generation and supply. Thirdly, increased reliance on forward contracts will impact energy imbalance prices through the price adjustors (BCA, BVA, BPA, SCA, SVA, SPA), which will have an unpredictable and opaque affect on cash-out prices.

In conclusion, moving Gate Closure to 1 hour ahead of real time would probably increase the spread of imbalance prices, which would increase imbalance price risks. The extent of the increase in price spread is unknown and should be analysed by NGC and Elexon. P12 would also reduce the transparency of NETA since NGC would be forced to undertake more non-BM balancing actions and fewer BM actions.

System Security

We are concerned about increasing balancing uncertainty immediately prior to real time before NGC has significantly more experience in operating under NETA.

To date NETA has provided NGC with relatively limited experience in balancing the system under the wide range of possible system conditions. NETA has seen a mild spring, few transmission outages, few unit trips, and a system typically long. Until NGC has experience in operating under NETA in a far wider range of system conditions (ie, during winter, when the system is short and during periods of transmission maintenance) P12 should be rejected. System security is too important an issue to leave to chance.

How to Address Imbalance Risk

We have explained that reducing Gate Closure Period does not reduce imbalance risk. Instead, imbalance risk should be addressed through the mechanism for calculating imbalance prices. Imbalance prices that do not reflect the underlying fundamentals of supply and demand create significant imbalance risk. Addressing this fundamental flaw in prices will be much more effective than P12 in addressing imbalance risk. A necessary requirement for a liquid within day contract trading is prices that reflect fundamentals, not a reduced Gate Closure Period.

Conclusions

Proposed modification P12 should be rejected on several grounds:

1. Moving Gate Closure to 1 hour ahead of real time will increase imbalance risk for the majority of participants because it will only reduce imbalance volume risk for portfolio generators and suppliers with controllable load and it will increase imbalance price risk for all. This conflicts with the Applicable BSC Objectives of efficient operation of the transmission system and promoting effective competition.

2. Until NGC has experience in operating the system under all conditions and until it can provide evidence that reduced Gate Closure Period will not adversely affect system security, a reduction in Gate Closure Period would be too risky to implement.

3. Addressing the way imbalance prices are calculated is the way to address imbalance risk – not moving Gate Closure.

In addition, a proper analysis of P12 requires NGC or Elexon to assess the likely impact of moving Gate Closure on NGCs BM and non-BM balancing actions, and imbalance prices.

P12_DEF_003 – European Power Source Company

The European Power Source Company (U.K.) Limited
Peterborough Court
133 Fleet Street
London EC4A 2BB

Dorcas Batstone
Head of Modifications
Elexon Ltd
3rd Floor
1 Triton Square
London, NW1 3DX
E-mail: modifications@elexon.co.uk

15th June 2001

Response to Consultation on Modification Proposal P12: Reduction of Gate Closure From 3.5 Hours To 1 Hour

Dear Madam,

Thank you for the opportunity to comment on Modification Proposal P12: Reduction of Gate Closure From 3.5 Hours To 1 Hour. The European Power Source Company (U.K.) Limited ("EPSCO") supports this modification proposal.

The reduction in Gate Closure from 3.5 hours to 1 hour will promote more effective competition in the generation and supply of electricity:
* By allowing BSC Parties to trade closer to real time and
* By enabling BSC Parties to more effectively manage their contractual and physical positions.

Yours faithfully,

Anthony J Gordon
Director
Registered in England No. 3997880\ Registered Office: Peterborough Court, 133 Fleet Street, London EC4A 2BB

P12_DEF_004 – Innogy

From: Ballard, Terry[SMTP:terry.ballard@npower.com]
Sent: 15 June 2001 14:14
To: 'Modifications@elexon.co.uk'
Subject: P12 Definition Comments

The Innogy Group of Companies broadly support the modification to shorten gate closure. We are unsure whether the proposal to move directly from the current arrangements to a 1hr Gate-Closure can be made in one step. We therefore agree that this modification should be subject of a definition phase.

The Initial Assessment recommends further research on the mechanisms used by NGC to balance the system under NETA. We believe this research should be carried out and made available to market participants at large regardless on how this modification is progressed.

Terry Ballard
01905-720943
07989-493038

P12_DEF_005 – British Energy Power
From: Ace Rachel[SMTP:rachel.ace@british-energy.com]
Sent: 15 June 2001 15:16
To: 'modifications@elexon.co.uk'
Subject: P12 Definition Comments

To: Modification Secretary, Elexon

From: Rachel Ace, British Energy, 15 June 2001

British Energy is generally in favour of moves to reduce the period over which participants are potentially exposed to risks which cannot be managed through the use of market instruments. A reduction in gate closure timescales is one approach to reducing the risk of exposure to extreme balancing mechanism cash-out prices, and merits serious consideration. However, we are concerned that initiating work on a change of this nature may of itself be damaging for market confidence and liquidity in the short term.

The proposal to reduce gate closure to 1 hour represents a fundamental change to the NETA framework. At this time the NETA arrangements should be allowed to bed down properly before such a significant change it contemplated. The question of gate closure timing was debated at great length during the design phase of NETA, and the early experience of NETA does not invalidate the arguments which led to the choice of 3.5 hours as the gate closure time. Nevertheless, a reduction in gate closure should be seen as a long term objective. In the longer tern such a change will reduce the extent of NGC's role in achieving energy balance and should therefore lower the impact of NGC action on energy prices which will be positive for the market.

We recognise that a change to gate closure timing will require significant changes to NGC's operational procedures and potentially to other NETA systems, including participants' systems. Such a change is therefore likely to take time to assess and subsequently implement so we would support work which is likely to lead to a sensible implementation timescale. To maintain market confidence, it is essential that a clear and realistic timetable for the introduction of a change of this nature is set out as soon as possible if the proposal is supported. Commitment to introduction of a change to gate closure must only be made on the basis of a full assessment of the costs and benefits.
Rachel Ace

For
British Energy Power and Energy Trading
British Energy Generation Ltd
Eggborough Power Ltd
P12_DEF_006 - Seeboard

From: Morton, David[SMTP:DMorton@seeboard.com]
Sent: 15 June 2001 15:40
To: 'Elexon Modifications'
Subject: P12 Definition Comments

Details of our comments on this modification proposal are given below. In general we support this modification with the proviso that NGC operation are not compromised.

This modification was expected shortly after NETA Go-Live as it was referred to in the Ofgem/DTI Conclusions Document in October 1999. DTI and Ofgem envisioned a reduction in Gate Closure six months after NETA Go Live. At that time NETA Go Live was planned to be at the end of October 2000 which would have placed the reduction at a point after operational experience of a winter period. We have no strong feelings as to if this change should await operational experience of a winter period.

The primary issue is that of system security. We would only support this modification if NGC was confident it would not impact their ability to efficiently discharge its obligations and to operate the Transmission System in an efficient, economic and co-ordinated manner.

A secondary, but still very important issue, is the risk that participants take in the period during gate closure when a physical failure cannot be traded out. A shorter gate closure period would produce a welcome reduction in this risk.

The suggestion that gate closure could be different for Final Physical Notifications and contract notifications could produce some benefits. However these would be limited by the effective freezing of the physical production side of the equation at gate closure for FPN's. A benefit could be gained by Suppliers and Traders continuing to close out their positions and to a lesser extent by Generators afflicted by a failure. As such we would welcome this as a useful first step which would avoid the issue of system security and could possibly be introduced relatively quickly.

The impact of improved supplier forecasts (presumably because they could be made 2.5 hours nearer to the event) is unlikely to be substantial. There are very few occasions where the primary short term driver (weather) changes significantly over a period as short as this.

Dave Morton
SEEBOARD
0190 328 3465

P12_DEF_007 - Powergen

15th June 2001
Dear Gareth

Proposed Variation to BSC - Modification Proposal No: P12

Powergen welcomes this opportunity to make initial comments on the modification proposed.

Powergen would like to raise the following points in relation to the proposal above :-

Powergen would in principle support a reduction in gate closure times, however Powergen would like to see further analysis regarding the points raised below:-

1 - This modification needs to be considered in line with the possible effects of modification P18 in relation to Imbalance prices.

2 - Powergen would like to see further analysis of the costs & likely timescales for implementation of such a change. We would estimate that a change to toward the 1 hour level proposed would take in the magnitude of 9 -12 months to prepare for and to implement.

3 - The ability for NGC to balance the system economically, efficiently and safely under a reduced gate closure will require further analysis. It seems a little early to make such decisions, particularly in light of how easy it has been for NGC to balance the system due to it being hugely long and the fact that we have only been in summer. The industry needs experience of how things go in a balanced short system at times of high underlying demand before making such a decision.

Yours Sincerely
James Hawkins.

Strategy & Regulation
Energy Trading
Powergen.

P12_DEF_008 – Northern Electric

15th June 2001

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

Dear Sir

Modification Proposal P12: Reduction of Gate Closure from 3.5 hours to 1 hour.

Northern Electric and Gas welcomes the opportunity to comment on modifications P12 'Reduction of Gate Closure from 3.5 hours to 1 hour'.

Having considered the options outlined in the 'Initial Assessment of Modification Proposal P12', Northern Electric does not support Modification Proposal P12. We believe that the current gate closure time of 3.5 hours is adequate and at present does not need any reduction, because the New Electricity Trading Arrangements (NETA) are still in the early stages of operation.

During the NETA consultation process, the DTI and Ofgem envisioned a potential reduction in Gate Closure time, six months after Go-Live. We agree with this six months time scale and believe that when NETA has been established, that it may be appropriate to consider a reduction in the gate closure time. However, when the time comes in the future to reconsider gate closure times, we would not support a reduction in gate closure to 1 hour, as we are content with a gate closure time of 3.5 hours.

We hope that these comments are helpful,

Yours faithfully

Lesley Mulley
Industry Communications Manager
Northern Electric and Gas
Northern Electric

P12_DEF_009 - ScottishPower

15th June 2001

Mr Gareth Forrester

P12 Definition Comments from ScottishPower

Dear Mr Forrester,

ScottishPower is pleased to provide our comments on Modification Proposal P12: Reduction of Gate Closure Time from 3.5 to 1 Hour. Please note that these comments are provided on behalf of ScottishPower plc, Manweb plc and Manweb Services Ltd. Please also be aware that ScottishPower has not undertaken a full review of this proposal at this stage, and that the points raised below may be superseded by subsequent analysis as the proposal progresses to Report Phase.

In general terms, ScottishPower supports the intent of this Modification Proposal but we have concerns over whether the timing is right. As yet the new arrangements have not been proven in a Winter season, and it is not possible to judge how a market system based on an economic ideology will operate under conditions where high energy volumes are traded.

One of the drivers for this proposal is the volatile imbalance prices which have been a feature of the new arrangements. The proposal is an attempt to minimise Parties' exposure to high imbalance prices. If these prices are addressed by other means, then the need to reduce exposure through this route would be reduced and the risk to system security or increase in system operating costs which would be caused by a reduced gate closure time is avoided. We would wish to see a fuller assessment made of alternative proposals to reduce high imbalance prices.

I hope you find these comments helpful, and that they can be considered by the Modification Group during the further assessment of P12. If you have any questions on this response, please do not hesitate to contact me.

Yours sincerely,

Steve Field
ScottishPower Cathcart Business Park Spean Street Glasgow G44 4BE
Telephone 0141 568 2000

P12_DEF_010 – Edison Mission

15 June 2001

Dear Sirs

Comments on Modification P12: Reduction of Gate Closure from 3.5 Hours to 1 Hour

Edison Mission Energy is strongly supportive of the proposal to reduce gate closure to 1 hour.

In common with other proposals (P15 and P18) this proposal is motivated by a desire to avoid imbalance prices. However, P12 differs from these other proposed modifications in that it suggests a market solution to the issue, rather than an expeditious and somewhat arbitrary 'fix' of the symptoms.

Whereas P15 and P18 attempt to reduce imbalance cashout exposure simply by weakening the pricing signal, without addressing the underlying trading mechanisms and incentives, P12 will facilitate BSC Parties trading out of imbalance in a more economically efficient manner. This should ultimately lead to lower system balancing costs and consequently lower end prices to consumers.

The intention to conduct a full analysis of the proposal is also very much to be welcomed and contrasts with the treatment of other proposals which have bypassed the definition stage.

Edison Mission Energy has just two areas of concern with regard to the proposal as so far outlined:

Firstly, it is important that a consideration of reduction in Gate Closure is not prejudiced by decisions on other proposals (P15 and P18) which are designed to weaken imbalance signals and may therefore lessen BSC Signatories motivation to improve market efficiency. Indeed, our strong preference, as stated in our response to P15 and P18, is that these proposed changes should not be addressed in isolation but should be considered in parallel with, and with the same analytical rigour as, P12.

Secondly, we do not agree that it is appropriate to consider a different gate close for FPNs and contract notification. Again, this ignores the fundamental objective of achieving a liquid and efficient market-based solution to the physical problem of imbalance.

We look forward to being involved in further discussions.

Yours faithfully, Phil Edgington

P12_DEF_011 – London Electricity

Modifications Secretary
Elexon Limited

Dear Sir,

Thank you for the opportunity to comment on Modification Proposal P12, which proposes the shortening of gate closure from 3.5 hours to 1 hour.

Currently many participants are not even, in terms of their trading and notification activities, operating to a gate closure of 3.5 hours, due to notification process risks. This could limit the immediate benefits of a reduction in gate closure.

We believe that the impact of this change on NGC's balancing systems and activities is likely to be substantial and that, if enacted too quickly, the modification would be likely to lead to inefficiencies in the assessment of bids and offers by NGC for a period of time. This in turn means that the target in the existing NGC incentives scheme would be liable, in its renegotiation, to be moved in a way that is deleterious to our customers' interests.

Were modification 12 to be implemented during the coming 12 months, there would be further difficulties with participants' own systems and procedures. Many of these systems and procedures are still subject to a raft of changes and improvements to enable them to be operated more robustly under the existing arrangements; we lack the necessary stability to contemplate a rapid implementation of modification P12. We do accept that the central systems changes that would be required may well not be substantive and do not constitute an obstacle.

Having said the above, we are in principle in favour of shortening gate closure to something considerably nearer real time than 3.5 hours. This was a publicly accepted aim during the design phase. It would ameliorate the effects of generator plant breakdown risk, particularly for newly commissioning generators. By limiting to duration of SBP exposure when a plant unexpectedly fails, a risk will be reduced without creating offsetting risks elsewhere. This must be to the ultimate benefits of consumers in our competitive market. By reducing the substantial difficulties that exist in commissioning a new plant under NETA - difficulties that did not occur under the Pool, where such plant was simply granted pool price for as much as it was able to generate, and not subject to sometimes-large penalties for failures - new entry, and hence the growth of competition, will be encouraged. This would assist in meeting BSC objective (c) Promoting effective competition in the generation and supply of electricity, and (so far as consistent therewith) promoting such competition in the sale and purchase of electricity.

As a result of the modification NGC may have to contract for more reserve, as a result of foreshortened gate closure. However, given the extent to which NGC is already issuing acceptances close to real time, the likelihood that long-term longer-notice reserve contracts should occur at a similar or lesser cost to that of offer acceptances, and NGC's growing operational experience under NETA generally, it is our judgement that if this cost arises it will be relatively small compared to the value of the high risks described above that are faced by generators as a result of the current gate closure time.

Regarding the question of differential gate closure times for FPNs and for contract notifications, this arrangement would be more complex and more systems changes both locally and centrally would be required, as gate closure had always been envisaged as a single event. It is not consistent with the widely-stated aim of simple trading arrangements.

The mechanisms used by NGC to balance the system need to be researched further. There is general concern that the nature of NGC's incentives arrangements means that NGC can accept offers and bids in certain circumstances knowing for certain that it will not be exposed in those arrangements to the cost of accepting those offers or bids. There may well be issues regarding the way in which NGC are operating and there needs to be a forum to raise and discuss these - OFGEM should give this its urgent consideration.

Conclusions

We recognise that it has always been the longer-term intention to shorten gate closure, but due account does need to be taken of systems and process implications. A substantial shortening of gate closure would be beneficial given this caveat - which for our part translates into a need for about 9 to 12 months' notice of the change - as we believe that it would remove risks from both generators and suppliers, and therefore would lead to lower costs to consumers.

We also note the need for some arrangements to make commissioning new generation a less painful / risky experience under NETA - this modification alone is unlikely to be sufficient in this regard.

We are opposed to a split gate closure time due to the increased complexity.

Liz Anderson(London Electricity, South Western Electricity, Jade Power and Sutton Bridge Power)

P12_DEF_012 - Dynegy

Mr G Forrester
Elexon
15 June 2001

Dear Gareth,

Modification Proposal P012: Reduction in gate closure from 3.5 hours to 1 hour.
Dynegy supports the modification proposal to reduce gate closure from 3.5 hours to 1 hour ahead of real time. More accurate demand forecasts can take place due to suppliers only being required to forecast 1 hour ahead, rather than the present 3.5 hours ahead of real time. The use of accurate demand forecasts produced by suppliers will increase efficiency through NGC being required to take minimum action in the Balancing Mechanism (BM), due to operating closer to real time, reducing costs to suppliers therefore a price reduction to customers.

Dynegy believe the implementation of an hourly gate closure is unlikely to create a huge impact upon NGC's role as System Operator (SO). NGC is currently undertaking "just in time" balancing action, therefore is familiar with a real time environment through its present behaviour. NGC are taking the majority of actions within the 'balancing period' rather than 3.5 hours ahead and NGC is therefore capable of fulfilling its role as SO with a reduction in gate closure from the experience it has to date. It must be clear that NGC is still able to complete as much trading as it wishes ahead of gate closure if for example imbalance prices appear.

There are complementary measures that could be considered by NGC, if it believes the present environment is unsuitable to operate an hourly gate closure policy. For example, the reduction in gate closure may place a greater dependency upon NGC for accurate IPN information. NGC could undertake an investigation to analyse how severely Final Physical Notifications (FPNs) differ in relation to IPNs submitted by parties. If the results clearly state there is a huge discrepancy between notified IPNs and FPNs, then incentives to improve the accurately of IPN could be created. At present IPNs are submitted the day ahead at 11 o'clock which maybe too early a submission to be accurate in relation to FPN. One means to achieve a soft landing to incentivise participants to submit accurate IPNs, is at 4 hours ahead of real time notified IPNs turn semi-firm and can only be altered by 5-10% before they become FPNs. Obviously a drop date will be incorporated. In the longer term, if necessary, to encourage participants to submit accurate IPN, NGC could introduce scheduling charges (information imbalance charge) through provisions within the Grid Code. NGC may feel more confident with the implementation of a reduction in gate closure if additional tools are provided like accurate IPNs submissions.

The reduction in gate closure to 1 hour ahead of real time will promote competition in generation and supply, and the sale and purchase of electricity. At present, as a consequence of gate closure being 3.5 hours ahead of real time, participants are unable to take balancing actions for uncontrollable changes in demand and generation capacity. A reduction in gate closure will reduce participant's exposure to volatile imbalance cash-out prices from 4 hours to 1.5 hours, encouraging reluctant parties to participant in the BM thus increasing competition.

Finally, NGC were always aware that a reduction in gate closure would be implemented. One of the important objectives of the design of NETA was to ensure that it facilitated the trading of electricity close to real time. NGC should have been undertaking internal operating measures to accommodate for this change.

Yours sincerely,

Rekha Patel

Power Regulatory Analyst.

P12_DEF_013 - NGC
National Grid Company 14 June 2001

NGC Comments on Modification Proposal P12
(Reduction of Gate Closure Time from 3.5 hours to 1 hour)

Introduction

This paper sets out National Grid's comments on Modification Proposal P12 - Reduction of Gate Closure time from 3.5 hours to 1 hour. It has been prepared in response to an invitation for views on both the original modification proposal and the Initial Assessment prepared by ELEXON on 24th May 2001.

Summary

NGC believes that a decision to shorten gate is premature for the following reasons:
* 10 weeks of NETA operation in late spring is insufficient time to gain experience and confidence that NETA processes and systems are capable of delivering continuous system balancing for the full range of operating conditions.
* Significant development of NGC despatch support tools are necessary to enable the more rapid assimilation of data and economic Bid/Offer selection required by a shorter gate closure.
* Adopting shorter gate closure arrangements before the appropriate tools are in place and experience gained will restrict our ability to meet our licence obligations and result in increased pre gate closure action and costs by NGC in order to manage the risks.

Background

In the development of the introductory NETA arrangements NGC argued that the setting of Gate Closure at 3.5 hours provided the right balance between facilitating market trading as close as possible to real time and ensuring that there was sufficient time to carry out system balancing actions. In reaching this position we also believed that in time, as Market Participants and NGC staff gained valuable operating experience, NETA systems became more robust and sophisticated, shorter Gate Closure would be possible.

In order to establish when we believed shorter gate closure would be possible a number of "confidence criteria" were identified which we believed needed to be met before making changes. These criteria were presented at a number of industry forums including the DISG and a NETA workshop held on the 3 September 1999 and are set out below:

* imbalance volumes resolved in the Balancing Mechanism are low
* IPNs and FPNs are accurate
* Sufficient bids and offers are being made available (with short notice times)
* generator dynamics are rational
* the new trading arrangements have operated successfully through periods where the system is under stress

We also said that we needed an absolute minimum of 6 months operational experience, and preferably a full year before taking any decision to reduce gate closure further.

Areas of Insufficient Operating Experience

Winter Demand Shapes

The introduction of NETA in the early Spring rather than the originally planned Autumn season has meant that both Participants and NGC staff have as yet only gained experience in dealing with the more benign load shapes. Winter load shapes are characterised by two periods of very large rates of change of demand at around 0100 hours when off-peak storage heating is switched in and around 1700 hours when darkness, domestic and industrial/commerce peaks coincide.

Insufficient Generation Notified at Gate Closure

We have to date only issued one NISM (Notification of Insufficient Plant Margin) warning as generally Participants have taken positions which result in a long system. As we move towards the winter months this situation may well change and require additional plant to be synchronised by earlier Bid/Offer acceptances together with pre-gate closure actions to ensure continuous system balance is achieved.

Major Plant Losses

To date we have only experienced one day during which a significant amount of generation (3000MWs) became unavailable due to breakdown on the run up to the breakfast peak. The losses were covered initially by taking Offers and subsequently reduced levels of Bids from the Balancing Mechanism (BM). Post event analysis suggests that as the length of the BM did not recover to its original position until the early hours of the following day, confidence that within day trading has developed sufficiently to cover this situation has not yet been achieved.

System Stress

As yet we have not yet experienced Gas/Electricity arbitrage activities nor have we had to manage the BM during times of transmission system disturbances.

Transmission Constraints

At this early stage in the outage programme season we have only had very limited experience in constrained operating under NETA arrangements.

Despatch Support Developments

The current 3.5 hour gate closure provides sufficient time over the expected full range of operating conditions for the FPN data including prices to be assimilated and viable, optimised schedules derived. To aid this activity NGC has adapted its pre NETA despatch support tool to provide a number of point despatch solutions, subsequent preparation of the NETA style closed despatch instructions is still largely a manual process.

Any shortening of gate closure will require significant improvements to these processes and tools to ensure that derivation of the optimised despatch instructions is achieved with sufficient time left to issue instructions for timely delivery.

Development work is already underway but it is judged unlikely that production versions will be available in under nine months. Although other work is necessary to NGC systems to provide for a shorter Gate Closure(GC) it is judged that these changes can be implemented within the timescales of the required despatch tools development.

Careful consideration will have to be given to the extent to which any widespread changes to Participant and Central Systems are tested trialed and implemented. This issue may have a bearing on options to progressively move towards a shorter GC.

Taking More Actions Close to Real Time

Reducing gate closure is likely to have the following effects on the BM :

* Nearly all offers that involve synchronising plant onto the system will be precluded.
* We will therefore be forced into only using offers from synchronised plant, or from plant with very good dynamics. This would appear to result in more extreme prices, and creates the risk of insufficient balancing volume being available in some cases. This effect could also possibly raises more market power issues.
* By bringing the wall closer, there will inevitably be more bid/offer acceptances made that are not closed before the wall. This will make it

more important to resolve how such plant should revert to its FPN and what payment if any, should be made.
* If Generators are submitting FPNs one hour ahead, the opportunities to exploit temporal and geographic monopolies becomes much greater. For example, if it becomes apparent that there is a plant shortage, BM offer prices can rise in 60-90 minutes.

None of the above points demonstrate that shorter gate closure is not possible. However, they do illustrate how it could reduce NGC's ability to meet our licence obligation to operate the system in a secure, economic, efficient and co-ordinated manner.

Pre Gate Closure Action

NGC currently has the freedom to utilise Balancing Service (Warming) contracts to ensure, if it judges necessary, that sufficient plant is always available in the BM to meet both energy and system needs. Reduction of Gate Closure to 1 hour will require the introduction of a new "part loading" contract as the majority of plant currently secured via Warming contracts would not be able to synchronise and deliver Offers in a 1 hour timescale. Contracts of this form will need to be developed and discussed with the industry, based on our pre NETA experience this will likely take at least six months to put in place.

Conclusions

NGC believes that a decision to shorten gate is premature for the reasons set out below and that therefore the modification as is currently proposed is not consistent with the applicable BSC objectives set out in the ELEXON Initial Assessment (P12) paper.

* 10 weeks of NETA operation in late spring is insufficient time to gain experience and confidence that NETA processes and systems are capable of delivering continuous system balancing for the full range of operating conditions.
* Significant development of NGC despatch support tools are necessary to enable the more rapid assimilation of data and economic Bid/Offer selection required by a shorter gate closure.
* Adopting shorter gate closure arrangements before the appropriate tools are in place and experience gained will restrict our ability to meet our licence obligations and result in increased pre gate closure action and costs by NGC in order to manage the risks.

P12_DEF_014 - Entergy

15 June 2001

MODIFICATION PROPOSAL P12
Reduction of Gate Closure from 3.5 hours to 1 hour

Entergy Wholesale Operations (EWO) strongly supports modification proposal P12 to reduce Gate Closure to 1 hour and urges the Modification Group to recommend that the Panel takes the decision at its meeting on 26 July to proceed with a detailed evaluation of P12 under the Assessment Procedure. The following comments are offered to assist the Modification Group in its work under the Definition Procedure.

It has long been understood by market participants and governing bodies that a key objective of NETA would be to reduce Gate Closure and move closer to real-time trading. As presented in P12, Gate Closure was set as a trade off recognising both the concerns of the System Operator with regard to planning balancing actions and the need for gas-fired plant to respond to gas supply interruptions. During the final consultation on NETA, DTI/Ofgem concluded that the intention would be to reduce Gate Closure six months after Go-live. It is important to note that this design decision was taken before the System Operator was given the flexibility to trade outside the Balancing Mechanism. EWO would contend that this freedom in trading fundamentally alters the rationale for a 3.5 hour Gate Closure period.

One of the striking characteristics of operational experience under NETA has been the 'just-in-time' balancing actions taken by the System Operator. The market has seen Bid/Offer instructions issued very close to real-time. Indeed, at the Operational Forum on 11 May it was stated, by the System Operator, that of the some 20,000 instructions issued by that time around 60% were for less than 1 hour. Up to 25 May, of the 842 instructions received by Damhead Creek power station only 18 were for a duration of more than 90 minutes. This means that all but 2% of Damhead Creek's instructions could have been accommodated within a Gate Closure of 1 hour (including the half hour period itself).

EWO has serious concerns over the extreme volality in imbalance prices and believes that the imbalance risk is having a negative impact on liquidity in the short-term markets. It is recognised that there are a number of modification proposals seeking to address the effects of the imbalance prices witnessed, and EWO believes that there is a need for all such modifications to be considered collectively and the full implications of the various modification permutations explored. However, it should be remembered that P12 does nothing more than meet with DTI/Ofgem's and market participants' expectations on reducing Gate Closure, and therefore should be proceeded on this basis alone.

The System Operator has expressed its view that it would prefer to have experience of a Winter period under NETA before Gate Closure is reduced. EWO would argue that with more plant on the system during the Winter months Bid/Offer depth should increase. It is also believed that overall demand patterns will be more predictable and frequency response actions less likely. Further, it should be noted that 'Winter experience' was not considered to be an important issue in DTI/Ofgem's final conclusions on NETA. These conclusions were made on the basis of a target Go-live date of April 2000, therefore if Gate Closure were reduced six months later as intended the System Operator would not have had any Winter operational experience.

EWO believes there are compelling reasons why P12 should be further evaluated under the Assessment Procedure and urges the Modification Group to recommend that the Panel takes this decision at its meeting on 26 July. Following this process will allow a timely reduction to Gate Closure in line with the intended six months. The Panel should be encouraged to focus on a timetable for implementing a reduced Gate Closure.

Melanie K Wedgbury
Senior Manager, Regulatory Affairs

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P12_DEF_015 – TotalFinaElf

Mr Gareth Forrester
Modifications Manager
ELEXON Ltd

Friday, 15 June 2001

Dear Gareth,

Re: Modification Proposal P12 - Reduction of Gate Closure from 3.5 Hours to 1 Hour

TotalFinaElf Gas and Power welcome the opportunity to respond to this modification. We recommend this modification not be implemented for the following reasons.

TFE sympathise with the proposers concerns regarding NGC's just-in-time actions within the Balancing Mechanism and agree these have contributed to the high level and volatility within imbalance prices observed to date. We therefore understand within the present 'climate' of volatile imbalance prices the desire to potentially mitigate cashout exposure by accessing secondary markets closer to real-time delivery.

However, TFE recommend our efforts should be focussed upon ensuring the SO incentive mechanism is structured appropriately such that it deters NGC from relying upon last-minute actions within the BM to resolve energy imbalances. An appropriately structured SO incentive scheme alongside present gate closure time-scales should in theory, despite NGC reported inability to forecast to within 500 MW beyond half an hour, lead to more innovative contracting forms and strategies from NGC and by inference less counter-intuitive prices

Whilst reluctant to support 'quick fixes' we accept some short-term measures are likely to be required within the interim and this would appear to be most sensibly achieved by Modification Proposal 18a. Thus if Imbalance Prices stabilise at a level which provide 'reasonable' incentives for participants to balance (and not overcontract) this would appear to address the primary concerns specified within the justification for Mod P12.

Consideration of Modification P12 should also note the constraints likely to be experienced by CCGT plant through Gate Closure reduction. All sites, including CCGTS, connected to the high-pressure national gas transmission system (NTS) must have a Network Exit Agreement (NexA). This is an ancillary agreement to the Network Code and defines the conditions a site may offtake gas from the NTS. These agreements are signed with Transco who have an obligation to agree non-discriminatory terms. Typically most NExAs require a lead time notice, of between two to four hours, to be provided to Transco

before any increase in gas flow offtake rates. This is clearly at odds with the proposed reduction.

If gate closure is reduced to one hour prior to the start of the balancing period this would seriously compromise the ability of CCGT plant to provide flexible products within those same markets where participants will be seeking to reduce their imbalance exposure. Given, according to NGC's seven year atatement, CCGT plant comprise approximately 33% of installed capacity this would have significant implications for liquidity within those secondary markets closer to delivery. If CCGT plant are effectively excluded from these markets this may also lead to greater market power for coal plant that would have fewer competitors to compete on price.

Therefore, it is questionable whether gate closure reduction alone can substantially improve the current situation. In the absence of greater flexibility being provided to CCGT plant in gas offtake rates this situation can only be expected to become worse. This expectation is based upon NGC forecasts where it is suggested that CCGT plant will comprise 48% of installed capacity by 2007/8.

In summary, TFE recommend modification P12 be rejected. We consider the stated objectives of modification P12 to be better achieved by improving the SO incentive mechanism and implementing modification P18. Furthermore, modification P12 poses significant concerns for the ability of CCGT to compete within short term markets closer to delivery. We support the original six-month stable running objective, discussed prior to NETA implementation, before Gate Closure reduction is considered. Also, prior to the implementation of any new period we would prefer a holistic review of the commercial issues associated with gate closure reduction and better recognition of the potential gas-electricity interactions.

Please contact me on the following number, 020 7318 6880, if you would like to discuss any of the issues raised within this letter. We hope these comments prove to be constructive.

Yours sincerely

Sharif Islam
Energy Regulation Manager

ANNEX 6 – MODIFICATION GROUP TERMS OF REFERENCE

TERMS OF REFERENCE
(Version 1.0)

PRICING ISSUES MODIFICATION GROUP

1. ESTABLISHMENT OF GROUP

1.1 Establishment

1.1.1 The Group is established by the BSC Panel as a Modification Group pursuant to Section F2.4 of the Balancing and Settlement Code (BSC).

1.1.2 The Group will continue until such time as it is dissolved by the Panel.

1.1.3 The Group shall not be a Panel Committee for the purposes of Section B5 of the BSC.

1.2 Role and Objectives

1.2.1 The Group is established in order to carry out a Definition Procedure and/or Assessment Procedure in respect of a single Modification Proposal or a number of Modification Proposals pursuant to section F2.5 and/or F2.6 of the BSC. The details of the Modification Proposal(s) to be considered by the Group, together with any special instructions or guidance from the Panel to be taken into account during its consideration of such Modification Proposal(s) are set out in Annex 1. Those areas of the Group's powers or activities that shall require the prior approval of the Panel are also set out in Annex 1. The Group shall also seek such instructions, clarification or guidance from the Panel as detailed in Annex 1.

1.2.2 In conducting its business, the Group shall have due regard to the following objectives (as if references to the Panel were references to the Group):

- *The Panel shall endeavour at all times to operate the Modification Procedures:*

  (a) in an efficient, economical and expeditious manner, taking account of the complexity, importance and urgency of particular Modification Proposals; and

  (b) with a view to ensuring that the Code facilitates achievement of the Applicable BSC Objective(s).

2. COMPOSITION AND APPOINTMENT OF THE GROUP

2.1 Group Chairman

2.1.1 The Panel shall appoint one of the members of the Group to act as chairman of the Group, and the Panel may change the chairman of the Group from time to time as it sees fit.

2.2 Group Members

2.2.1 The Group shall comprise at least 5 members selected by the Panel for their relevant experience and/or expertise in the areas forming the subject-matter of the Modification Proposal(s) to be considered by such Modification Group (and the Panel shall ensure, as far as possible, that an appropriate cross-section of experience, interests and expertise is represented on such Modification Group).

2.2.2 In addition to the members appointed by the Panel pursuant to paragraph 2.1.1:

(a) the Proposer of each Modification Proposal to be considered by the Group shall be entitled to appoint one member of the Group;

(b) the Transmission Company shall be entitled to appoint one member of the Group (unless the Transmission Company is the Proposer, in which case paragraph (a) applies); and

(c) unless the Panel otherwise determines, the Panel shall appoint at least one additional member of each Modification Group who shall be an employee of BSCCo, and BSCCo shall make appropriately qualified BSCCo staff available for this purpose.

2.2.3 The Panel may add further members to the Group at any time.

2.2.4 The Panel may (but shall not be obliged to) replace any member of the Group at any time if, in the Panel's opinion, such member is unwilling or unable for whatever reason to fulfil that function and/or is deliberately and persistently disrupting or frustrating the work of the Group.

2.3 Group Secretary

2.3.1 There shall be a secretary to the Group who shall be a person nominated and provided by BSCCo and approved by the Group chairman.

2.4 Representative of the Authority

2.4.1 A representative of the Authority may attend and speak any meeting of the Group.

3. DUTIES OF GROUP MEMBERS

3.1 General

3.1.1 Members of the Group shall act in accordance with these Terms of Reference as determined (and, if applicable, changed) by the Panel.

3.2 Impartiality

3.2.1 Members of the Group shall act impartially and shall not be representative of a particular person or class of persons (and, accordingly, no member shall agree to follow or be bound by the instructions of any person or body, other than the Panel pursuant to Section F of the BSC, in the exercise of his functions as a member of the Group).

3.3 Availability

3.3.1 Prior to being appointed as a member of the Group:

(a) each proposed member of the Group shall be required to confirm to the Panel that he will be available as required throughout the relevant Definition Procedure or Assessment Procedure to attend Modification Group meetings and to carry out work to be undertaken outside those meetings as necessary;

(b) where the proposed member is employed, he shall provide to the Modification Secretary a letter from his employer agreeing that he may act as a member of a Modification Group, and that the requirements of paragraph 3.1 shall prevail over his duties as an employee.

4. INDEMNITY OF AND PROTECTIONS FOR GROUP MEMBERS AND OTHERS

4.1 BSCCo shall indemnify and keep indemnified the Members and Secretary of the Group, in accordance with Section B2.9 of the BSC.

7. EXPENSES

5.1 Each Group Member shall be entitled to be reimbursed by BSCCo for the reasonable expenses properly incurred by such Group Member in attending meetings of or otherwise in the conduct of the business of the Group.

6. APPROVAL OF EXPENDITURE

6.1 In addition to any staff made available to act as members of the Group, BSCCo shall provide such staff, facilities and support to the Group (including the engagement of external consultants and advisers) as the Group may reasonably require to assist with the administration and operation of its business provided that any expenditure over £10K, up to a value of £50K, shall require the prior approval of the Panel Chairman (in consultation with BSCCo). Any expenditure over £50K shall require the prior approval of the Panel (in consultation with BSCCo).

6.2 Prior to the taking of any steps in an Assessment Procedure which would result in the incurring of costs greater than £10K for BSCCo, the Modification Group shall seek and comply with the views of the Panel Chairman as to whether to proceed with such steps and, in giving its views, the Panel Chairman may consult with the Authority in respect thereof. Prior to the taking of any steps in an Assessment Procedure which would result in the incurring of costs greater than £50K for BSCCo, the Modification Group shall seek and comply with the views of the Panel as to whether to proceed with such steps and, in giving its views, the Panel may consult with the Authority in respect thereof.

6.3 For the purposes of paragraph 6.2, the steps include:

(a) the commissioning of detailed impact assessments;

(b) the commissioning of legal text to modify the BSC in order to give effect to a Proposed Modification and/or an Alternative Modification.

7. POWERS AND FUNCTIONS OF THE GROUP

7.1 Definition Procedure

7.1.1 The provisions of this paragraph 7.1 shall apply if the Panel decides to submit a Modification Proposal to the Group under the Definition Procedure.

7.1.2 The purpose of the Definition Procedure is to define the issues raised by a Modification Proposal in sufficient detail to enable the Panel to determine which of the options set out in paragraph F2.5.9 of the BSC is the most appropriate in all the circumstances.

7.1.3 The Group shall review the Modification Proposal for the purpose set out above and shall prepare a written report for the Panel (in accordance with the timetable determined by the Panel) which shall set out, in relation to the Modification Proposal, the following matters:

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

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

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

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

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

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

(g) such other matters as the Panel may require

7.1.3 In preparing its report, the Modification Group shall:

(a) analyse the representations made in response to the consultation instigated by the Modification Secretary pursuant to Section F2.2.6 of the BSC;

(b) conduct such further consultation with Parties and interested third parties as may be required by these terms of reference or, subject to the Panel's prior approval, as it considers necessary;

(c) where appropriate (and subject to any requirement for Panel approval as set out in these terms of reference), request BSCCo to commission an analysis from BSC Agents and/or external consultants and/or advisers with relevant specialist knowledge;

(d) where such views have been obtained, consider the views expressed by those referred to in paragraphs (a) to (c) and by those referred to in paragraph 7.1.5 (a) to (c) below.

7.1.4 In respect of each Definition Procedure, BSCCo shall (after appropriate consultation with the Modification Group):

(a) commission an analysis from the Transmission Company;

(b) if requested by the Modification Group, commission an analysis from relevant BSC Agents;

(c) if requested by the Modification Group, commission an analysis from external consultants and/or advisers with relevant specialist knowledge.

7.2 Assessment Procedure

7.2.1 The provisions of this paragraph 7.2 shall apply if the Panel decides to submit a Modification Proposal to the Group under the Assessment Procedure.

7.2.2 The purpose of the Assessment Procedure is to evaluate whether the Proposed Modification identified in a Modification Proposal better facilitates achievement of the Applicable BSC Objective(s) and whether any alternative modification would, as compared with the Proposed Modification, better facilitate achievement of the Applicable BSC Objective(s) in relation to the issue or defect identified in the Modification Proposal.

7.2.3 The Modification Group shall:

(a) evaluate the Modification Proposal for the purpose set out above;

(b) where appropriate, develop an alternative proposed modification (the "Alternative Modification") which, as compared with the Proposed Modification, would better facilitate achievement of the Applicable BSC Objective(s);and

(c) prepare a report for the Panel (in accordance with the timetable determined by the Panel) which shall set out, in relation to the Proposed Modification and any Alternative Modification, the matters referred to in Annex F-1 of the BSC, to the extent applicable to the proposal in question.

7.2.4 In preparing its report, the Modification Group shall:

(a) analyse the comments made in response to the consultation instigated by the Modification Secretary pursuant to section 2.2.6 of the BSC;

(b) conduct such further consultation with Parties and interested third parties as may be required by these terms of reference or, subject to the Panel's prior approval, as it considers necessary;

(c) where appropriate (and subject to any requirement for Panel approval as set out in its terms of reference), request BSCCo to commission an analysis from BSC Agents and/or external consultants and/or advisers with relevant specialist knowledge;

(d) where such views have been obtained, consider the views expressed by those referred to in paragraphs (a) to (c) and by those referred to in paragraph 7.2.5 (a) to (c) below.

7.2.5 In respect of each Assessment Procedure, BSCCo shall (after appropriate consultation with the Modification Group):

(a) commission an analysis and impact assessment from the Transmission Company;

(b) if requested by the Modification Group, commission an impact assessment from relevant BSC Agents;

(c) if requested by the Modification Group, commission an analysis from external consultants and/or advisers with relevant specialist knowledge;

(d) if requested by the Modification Group, commission an analysis from relevant Core Industry Document Owners;

(e) prepare a project brief for the implementation of the Proposed Modification and any Alternative Modification setting out the proposed steps, timetable and programme plan for such implementation consistent with the proposed Implementation Date in accordance with the BSC, BSCP 40 and the IS Policies.

7.2.6 At any stage during an Assessment Procedure:

(a) the Panel may request the Modification Group to prepare an interim report setting out its provisional findings; and

(b) the Panel may seek the views of the Authority as to whether the findings of such report are consistent with the Authority's provisional thinking in respect thereof; and

(c) the Panel may issue such directions as it sees fit to the Modification Group in consequence of the Authority's views.

7.3 Delegation

7.3.1 The Group shall not further delegate to any person any of its powers, responsibilities and functions except to the extent so permitted by the Panel.

7.4 Provisions relating to data

7.4.1 The Group may use and disclose such data in line with the provisions contained in BSC, Section C, 3.3 for the purposes of discharging its functions and duties.

8. PROCEEDINGS OF THE GROUP

8.1 Open Meetings

8.1.1 Unless otherwise determined by the Group Chairman (in consultation with the Panel Chairman) all meetings of the group shall be shall be open to attendance by a representative of any Party and any other person entitled to receive notice of Panel Meetings under Section B4.1.6 of the BSC; and any person so attending such a meeting may speak if invited to do so by the Group Chairman.

8.2 Frequency of Meetings

8.2.1 Meetings of the Group shall be held as required, at a time and place agreed by the Chairman. It is anticipated that Group meetings will be predominantly London based.

8.3 Convening Meetings

8.3.1 Any meeting of the Group shall be convened by the Group Secretary by notice to each Group Member setting out the date, time and place of the meeting and accompanied any supporting papers available to the Group Secretary at the time the notice is given (and the Group Secretary shall circulate to Group Members any late papers as and when they are received by him).

8.3.2 Where the Group Chairman considers it appropriate a meeting of the Group may be validly held by telephone conference call (or other similar means) where all the Group members present at such meeting can speak to and hear each other; and any decision taken at such meeting shall be valid.

8.3.3 Where the Group Secretary considers that any BSC Agent is or may be required to attend a meeting of the Group, the Group Secretary shall, with agreement of the Group chairman, send to that BSC Agent a copy of the notice convening the meeting, and such part of the agenda and such accompanying papers as in the Group Secretary's opinion concern that BSC Agent, at the same time at which the notice is given to Group Members.

8.3.4 The proceedings of a meeting of the Group shall not be invalidated by the accidental omission to give, or send, notice of the meeting or a copy thereof or any of the accompanying agenda or papers to, or any failure to receive the same by, any person entitled to receive such notice, copy, agenda or paper.

8.3.5 If the Group Secretary considers that it may not be appropriate for the agenda for any meeting of the Group or any accompanying paper to be made available to persons on request as provided in the BSC, Section H, 4.9:

(a) such agenda or paper shall not be sent to persons of such class or made available, on request, to third parties at the time at which it is sent to Group Members;

(b) the Group shall consider at the meeting whether it is for such agenda or paper so to be sent or made available;

(a) unless the Group decides that it is not appropriate, such agenda or paper shall made available on request promptly following the meeting.

8.4 Submission of Papers

8.4.1 For the avoidance of doubt any BSC Party, designated body, BSCCo or Group Member may submit papers to the Group. Other bodies wishing to submit papers to the Group will need to submit their papers to a Group Member or BSCCo for sponsorship. All papers should be submitted (in electronic form wherever possible) to the Group Secretary in advance of the meeting at which the paper is to be considered.

8.4.2 On receipt of a paper the Group Secretary in conjunction with the chairman shall determine whether the subject of the paper is within the remit of the Group and at which meeting the paper will be tabled. Papers not addressed by the Group will, where practicable, be forwarded to the appropriate body and in all events be reported to the Panel.

8.4.3 Other bodies wishing to submit papers to the Group will need to submit their papers to a Group Member or BSCCo for sponsorship.

8.5 Chairmanship of Meetings

8.5.1 If the Group Chairman or their agreed alternate is not present after the time for which a Group Meeting has been convened, the Group Members present may appoint one of their number to chair the meeting.

8.6 Reports of Meetings

8.6.1 The business day following each meeting of the Group, or as soon as reasonably practicable following each meeting of the Group, the Group Secretary shall prepare and send to Group Members a report outlining the matters conducted at the meeting. This report will exclude any matter that the Group decided was not appropriate for such publication. The Group Secretary shall make such a report available on the BSC Website.

8.7 Publication of Items on the BSC Website

8.7.1 In order to promote transparency, the Group Secretary shall make available on the BSC Website the following items relating to each Group Meeting (except where the Group Members decide that a particular item was not appropriate for such publication):

a) The details of forthcoming meeting (agendas, time, location etc.)

b) Papers relating to a forthcoming meeting of the Group;

c) The headline, day after, report outlining the matters conducted at the meeting.

8.8 Decisions of the Group

8.8.1 The Group should seek to reach a consensus view on matters that it considers. If the Group is unable to reach agreement on any matter, the report of the Modification Group shall instead include a summary of the views of the members of the Modification Group.

ANNEX 1 – SPECIFIC DETAILS OF MODIFICATION PROPOSAL(s) TO BE CONSIDERED BY THE GROUP

The Pricing Issues Modification Group will be considering:

- P8: Introduction of a Price Adjuster to Reflect Option Fees for Balancing Svs Contracts in Setting System Buy and System Sell Price
- P10: Eliminating Price Spikes Caused by Truncating Effects
- P15: Removal of Price Spikes (System Balancing from System Prices)
- P18: Removing/Mitigating Effect of System Balancing Actions

POWERS OR ACTIVITIES REQUIRING THE PRIOR APPROVAL OF THE PANEL.

The following areas of the Group's powers or activities shall require the prior approval of the Panel:

[/]

INSTRUCTIONS, CLARIFICATION OR GUIDANCE REQUIRED FROM THE PANEL

The Group shall seek instructions, clarification or guidance from the Panel in respect of the following matters:

[/]