

Assessment Report

What stage is this document in the process?

01 Initial Written Assessment

02 Definition Procedure

03 Assessment Procedure

04 Report Phase

P236: Compensation Claims for MVRN Parties arising from an Outage

[Section Q8 of the BSC](#) allows for a Party to claim compensation for losses incurred as a result of an Outage.

P236 seeks to amend the Q8 claims process so that where the affected BM Unit is subject to a Meter Volume Reallocation Notification, the Trading Charges and Avoidable Costs of both the Lead Party and the Subsidiary Party or Parties are considered.



Modification Group initially recommends **Approval** of Proposed Modification P236



Impacts: **Transmission Company, Generators and Parties** who enter into percentage-based Metered Volume Reallocations with Generators

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Any questions?

Contact:

Sherwin Cotta



sherwin.cotta@elexon.co.uk



0207 380 4361

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About this document:

This document is an Assessment Report, which ELEXON will present to the Panel on 9 July 2009, on behalf of the P236 Modification Group. The Panel will consider the recommendations on the final page, and agree an initial view on whether or not this change should be made.

There are 2 parts to this document. This is Part 1. It provides details of the solution, impacts, costs, benefits and the potential implementation activities associated with this change. Part 2 (attachment A) sets out the Modification Group's discussions, which resulted in this solution.

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Why Change?

Currently the Q8 claims process prevents Lead Parties from claiming for Trading Charges and Avoidable Costs incurred by Subsidiary Parties where an MVRN is in place.

Solution

Amend Section Q8 of the BSC, so that the 'Trading Charges and Avoidable Costs' of both the Lead and Subsidiary Party are considered by the Q8 claims committee.

Impacts & Costs

We believe that the impacts of the P236 solution would be minimal. There are no system impacts. However, Parties may have to update their internal processes.

The estimated implementation cost is £770 (3.5 man days of effort).

Implementation

P236 will be implemented 5 Working Days after an Authority Decision has been received.

The Case for Change

The Modification Group believe that P236 will provide equitable treatment for Parties who are subject to an MVRN. It will also ensure Parties are not exposed to Imbalance costs through no fault of their own.

Recommendations

The Modification Group recommend P236 be **APPROVED**

Introduction

Physical Notifications (PNs) are notifications sent by Parties to the Transmission Company to show the expected level of energy they will be adding to, or removing from, the Transmission System.

The Grid Code obligates Generators to provide their best estimate of power output through PN submissions. Generally, a Party's PN will be consistent with its contractual position. In the event of an Outage, Parties are unable to update their PNs and must subsequently follow their last valid PN submission. Such a restriction could potentially result in a difference between the metered output and the contract position of the Party, which will ultimately lead to Trading Charges.

However, the BSC allows Parties to claim compensation for such losses. The Outage compensation claims process is detailed in section Q of the BSC and is commonly referred to as the 'Q8 Claims process'.

What can be claimed?

Section Q states that following an outage compensation period, any Lead Party of a BM Unit (i.e. the Party registered to the BM Unit) that considers it has suffered material loss can claim. Lead Parties can claim compensation for losses incurred on:

- Trading Charges – typically this is the sum of the Imbalance costs and the Residual Cashflow Reallocation Cashflow (RCRC); and
- Avoidable Costs - costs that could be avoided if an Outage did not occur.

However, the Q8 claims process does not take into account costs where Lead Parties enter into a Metered Volume Reallocation Notification (MVRN).

Metered Volume Reallocation Notifications

MVRNs allow Lead Parties to allocate a percentage of their BM Unit's energy or a fixed volume of energy into the Energy Account of another Trading Party. This Trading Party is known as a Subsidiary Party.

When a MVRN is in place Subsidiary Parties take responsibility for the Trading Charges associated with the Energy volumes allocated to their account, as well as any associated liabilities under the BSC including Imbalance Costs.

The issue

As set out above, Section Q states that only a Lead Party can claim for compensation if there is an impact on their Trading Charges and Avoidable Costs. Under these rules Subsidiary Parties cannot claim. Neither can Lead Parties claim on behalf of Subsidiary Parties.

Where a MVRN is in place, the situation is created that:

1. the Lead Party cannot claim for any Trading Charges related to the Energy Volumes used in the MVRN as it has not incurred any losses; and
2. the Subsidiary Party, although potentially incurring losses in relation to the Metered Volumes, cannot claim as it is not registered to the respective BM unit.



What is an Outage?

A period where Lead Parties cannot submit PNs or Bid-Offer data because the Transmission Company's communication services have failed or withdrawn. Section Q 1.2.1 (c)



Outage Compensation Period

Not every Outage is eligible for compensation. Claims can only be made for an 'Outage Compensation Period'.

This is where National Grid has given less than 12 hours notice prior to the start of the Outage or the Outage lasts longer than 2 hours.

P236 seeks to amend the Q8 claims process so that, where the affected BM Unit is subject to MVRNs, the Trading Charges and Avoidable Costs of both the Lead Party and the Subsidiary Party or Parties are considered.

3 Solution

Significant Changes?

The P236 solution will not make significant changes to the current Q8 claims process.

Currently, the Lead Party must submit a claim within 10 Business days after an outage compensation period. The claim includes an explanation of how the Lead Party believes they have suffered loss, along with any supporting evidence. The Q8 committee then consider the claim, requesting further information from the impacted Party, BSCCo or Transmission Company if required. The Q8 committee not only take into account the financial impact on Trading Charges and Avoidable Costs, but if the Lead Party acted reasonably in submitting its original Notifications. Any compensation awarded is paid to the Lead Party.

P236 will not alter this process. It will however widen the remit of what the Q8 committee can consider as part of a claim and what a Lead Party can claim for.

How will it do this?

P236 will amend the Q8 claims process so that, where the affected BM Unit is subject to MVRNs, the Trading Charges and Avoidable Costs of both the Lead Party and the Subsidiary Party or Parties are considered by the Q8 claims committee.

This will not enable Subsidiary Parties to individually claim using the Q8 process. But it allows the Lead Party to have such financial loss considered by the Q8 committee as part of their claim.

Where a BM Unit is subject to an MVRN and the Lead Party makes a claim, the Lead Party will also be required to submit details of all MVRNs associated with the BM Unit(s). These details include:

- Details of the MVRN i.e. the % of energy or fixed volume being transferred;
- The name of the Energy Account the energy is being transferred to; and
- The name of the Trading Party (Subsidiary Party).

To assist the Q8 committee with progressing such a claim, BSCCo will contact the impacted Subsidiary Party/Parties. This is to highlight to the Q8 committee that the Subsidiary Party is aware of the claim and its contents. The Subsidiary party does not have to agree or fully support the claim, but to acknowledge that the Lead Party is claiming the costs. The Q8 committee will take this into account during the claim hearing.

As with the current claims process, any compensation will be issued to the Lead Party. The division of any received compensation is subject to individual bi-lateral contracts between the Lead and Subsidiary Parties.

The Modification Group did not develop an Alternative Modification.

P236 Q8 claims process

The Q8 claims process under P236 is detailed below. The current process is shown in black text, with the P236 amendments **highlighted**.

1. Within 10 Business Days of an outage compensation period the Lead Party submits a claim where it has, **or where a MVRN is in place any Subsidiary Party/Parties have**, incurred a net financial loss on Trading Charges and Avoidable Costs;
2. The claim must be accompanied by a statement and explanation of loss that has been incurred. **The Lead Party must include details of all MVRNs in place on their BM Unit(s) i.e. not just when there is an impact on a Subsidiary Party.**
3. **Within 10 Working Days of a claim being submitted, BSCCo will contact the impacted Subsidiary Party/Parties. This is to ensure that all affected Parties are aware that a claim is being submitted for an Outage Compensation Period.**
4. ELEXON provides analysis of the impact on **the net** Trading Charges and Avoidable Costs and presents a summary to the Q8 Committee.
5. The Q8 committee review the claim of the Lead Party. The committee take into account the financial impact on Trading Charges and Avoidable Costs of the Lead Party, **and any impacted Subsidiary Party/Parties**. They also consider if the Lead Party acted reasonably in submitting its original Notifications. Any compensation is awarded directly to the Lead Party.
6. Where appropriate, the Q8 committee can request for further information from the Lead Party, **Subsidiary Party**, BSCCo or Transmission Company during its evaluation of the compensation claim.
7. If the claim is upheld, the Lead Party will directly receive the total compensation amount. Where the committee believes it to be justifiable, it can instruct a different compensation amount.

Details of how the Group came to this solution is included in part 2 (Attachment A) of this Assessment Report.

Updated Solution

As a result of the Assessment Phase consultation responses received, the Group have slightly amended the initial P236 solution. **A new requirement for BSCCo to contact impacted Subsidiary Parties (Point 3 above)** has been added. This replaces the obligation on Lead parties to obtain letters of support from impacted Subsidiary Parties. Consultation respondents and the Group felt that the change was necessary as the need for letters of support could potentially allow Subsidiary Parties to veto valid claims.

Details of this change can be found in Sections 5 and 6 of the detailed assessment (Attachment A).

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Impacts and costs to industry and BSCCo

The impact and cost of implementing the P236 solution would be minimal. There are no BSC system impacts. However, Parties may have to update their internal processes and their contractual arrangements.

We do not anticipate that there will be a significant increase in BSCCo workload as a result of administering the revised claims process.

Materiality of the P236 solution

The Group considered the materiality of including Subsidiary Parties Trading Charges in the Q8 claims process and undertook some analysis.

The analysis used the assumption that an average Outage Compensation Period lasts for 4 hours. As such, for a sample of BM Units, the PNs received 4 hours before Gate Closure were compared with those received by Gate Closure. This highlights how a Party would be impacted if it couldn't update its PN should an Outage occur. This analysis was carried out for those BM Units with and without MVRNs in place. This allows a comparison between the compensation that could possibly be claimed under the current Q8 process, and the potential compensation amounts under a P236 regime. Further details on the analysis can be found in Section 6 of attachment A.

The results of the analysis indicate that there is an increase (around fourfold) in the number of Parties in imbalance who could make a claim. This is not surprising since around 60% of BM Units have MVRNs in place and therefore would not be able to claim under current arrangements. However, the analysis also shows that although the number of Parties able to claim is increased, the amount of potential compensation does not increase proportionally. In fact around 50% of the 'new' potential compensation amounts are below £1000.

Additionally, the analysis has indicated that over the last 12 months a number of MVRN BM units, that have been financially impacted due to an Outage, have not attempted to raise claims. This would suggest that Parties may not often consider the compensation amount under the Q8 process as being a significant financial loss.

This assumption is further supported by the majority of respondents to the P236 consultation who stated that they would not change the way they use MVRNs nor would they have raised a claim if the P236 solution was in use.

The Group considered these findings and concluded that, while the impact of the P236 solution was low as it does not alter how a Party would act, it should be implemented as it corrects an existing defect in the Code. It is believed that as MVRNs become more widely used, the materiality of P236 may increase, and addressing this defect sooner will avoid any issues and litigations that may arise due to an unclear claims process.

5 Implementation

The proposed implementation date is **5 Working Days** after an Authority Decision is received.



Recommendation

Modification Group recommends approval of the Proposed Modification P236

6 The Case for Change

Applicable BSC Objectives

The view of the Modification Group is that the Proposed Modification **WOULD** better facilitate the achievement of Applicable BSC Objectives (c) and (d) when compared to the current BSC baseline. The arguments made in support were as follows:

Applicable BSC Objective (c)

P236 would promote effective competition as:

- Parties would not be exposed to Imbalance costs which are caused by no fault of their own.
- Including 'Subsidiary costs' in the Q8 claims process means all Parties are treated equally.
- It would enable the intended consequences of MVRNs to be fully realised by all Parties impacted during an outage, through the Lead Party.
- Could reduce the potential for Parties to game within the market as the impacts of the Subsidiary Party would be taken into account if, for example, the Lead Party has made a loss in relation to Avoidable Costs and the Subsidiary Party has gained Trading Charges.

Applicable BSC Objective (d)

P236 would promote efficiency in the implementation of the balancing and settlement arrangements as:

- Removing uncertainty of what Parties can and cannot claim for helps the efficiency of the Q8 committee and removes the risk of escalation, or litigation, should a Party wish to claim for Subsidiary Party costs.

7 Industry Views

As part of the Assessment Phase, the P236 Modification Group issued a consultation to the industry. 5 responses were received, all of which were in unanimous support of the Modification Group's views and arguments.

Whilst there was unanimous support for the Modification Groups conclusions, a concern was raised by 2 respondents over the P236 solution. Respondents felt that the need to have letters of support from Subsidiary Parties, in order for a claim to be considered by the Q8 Committee, gave Subsidiary Parties the ability to block a valid claim.

The Group considered this argument and fully agreed with the industry responses. As such the initial P236 solution has been amended to remove this clause.

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Section 5 of the Detailed Assessment (attachment A) contains an overview of the responses. Full responses can be found on the [P236](#) webpage. Details on how the Modification Group came to their conclusions can be also be found in Section 6.

8 Recommendations

The P236 Modification Group invites the Panel to:

- AGREE an initial recommendation that Proposed Modification P236 should be made;
- AGREE an initial Implementation Date of 5 Working Days after an Authority decision is received
- AGREE the draft legal text;
- AGREE that P236 be submitted to the Report Phase; and
- AGREE that ELEXON should issue P236 draft Modification Report for consultation and submit results to the Panel to consider at its meeting on 13 August 2009.

9 Further Information

More information is available in:

Attachment A: Detailed Assessment

This information includes:

- An overview of Outages and PNs
- The roles of BSCCo and the Q8 Committee
- Modification Group Terms of Reference
- Modification Group discussions
- Impacts and costs
- Process followed for P236

Attachment B: Legal Text

All consultation and impact assessment responses are on the [P236](#) page of the ELEXON website.