

MODIFICATION REPORT for Modification Proposal P171

Modification Proposal P171 Retrospective removal of Emergency Instructions taken for System reasons from Imbalance Price

Prepared by: ELEXON on behalf of the BSC Panel (the 'Panel')

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RECOMMENDATIONS

Having considered and taken into due account the contents of draft P171 Modification Report, the Balancing and Settlement Code Panel recommends:

- **that Proposed Modification P171 should be made;**
- **that Alternative Modification P171 should not be made;**
- **an Implementation Date for the Proposed and Alternative Modification P171 of 5 Working Days after an Authority decision; and**
- **the proposed text for modifying the Code, as set out in the Modification Report.**

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¹ The current version of the Balancing and Settlement Code (the 'Code') can be found at <http://www.elexon.co.uk/bscrelateddocs/BSC/default.aspx>

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SUMMARY OF IMPACTED PARTIES AND DOCUMENTS

The following parties/documents have been identified as being potentially impacted by Modification Proposal P171.

Parties	Sections of the BSC	Code Subsidiary Documents	
Suppliers <input checked="" type="checkbox"/>	A <input type="checkbox"/>	BSC Procedures <input checked="" type="checkbox"/>	
Generators <input checked="" type="checkbox"/>	B <input type="checkbox"/>	Codes of Practice <input type="checkbox"/>	
Licence Exemptable Generators <input checked="" type="checkbox"/>	C <input type="checkbox"/>	BSC Service Descriptions <input checked="" type="checkbox"/>	
Transmission Company <input checked="" type="checkbox"/>	D <input type="checkbox"/>	Service Lines <input type="checkbox"/>	
Interconnector <input checked="" type="checkbox"/>	E <input type="checkbox"/>	Data Catalogues <input checked="" type="checkbox"/>	
Distribution System Operators <input type="checkbox"/>	F <input type="checkbox"/>	Communication Requirements Documents <input type="checkbox"/>	
Party Agents			
Data Aggregators <input type="checkbox"/>	G <input type="checkbox"/>	Reporting Catalogue <input checked="" type="checkbox"/>	
Data Collectors <input type="checkbox"/>	H <input type="checkbox"/>	MIDS <input type="checkbox"/>	
Meter Operator Agents <input type="checkbox"/>	I <input type="checkbox"/>	Core Industry Documents	
ECVNA <input type="checkbox"/>	J <input type="checkbox"/>	Grid Code <input type="checkbox"/>	
MVRNA <input type="checkbox"/>	K <input type="checkbox"/>	Supplemental Agreements <input checked="" type="checkbox"/> ²	
BSC Agents			
SAA <input checked="" type="checkbox"/>	L <input type="checkbox"/>	Ancillary Services Agreements <input type="checkbox"/>	
FAA <input type="checkbox"/>	M <input type="checkbox"/>	Master Registration Agreement <input type="checkbox"/>	
BMRA <input type="checkbox"/>	N <input type="checkbox"/>	Data Transfer Services Agreement <input type="checkbox"/>	
ECVAA <input type="checkbox"/>	O <input type="checkbox"/>	British Grid Systems Agreement <input type="checkbox"/>	
CDCA <input type="checkbox"/>	P <input type="checkbox"/>	Use of Interconnector Agreement <input type="checkbox"/>	
TAA <input type="checkbox"/>	Q <input checked="" type="checkbox"/>	Settlement Agreement for Scotland <input type="checkbox"/>	
CRA <input type="checkbox"/>	R <input type="checkbox"/>	Distribution Codes <input type="checkbox"/>	
Teleswitch Agent <input type="checkbox"/>	S <input type="checkbox"/>	Distribution Use of System Agreements <input type="checkbox"/>	
SVAA <input type="checkbox"/>	T <input checked="" type="checkbox"/>	Distribution Connection Agreements <input type="checkbox"/>	
BSC Auditor <input type="checkbox"/>	U <input type="checkbox"/>	BSCCo	
Profile Administrator <input type="checkbox"/>	V <input type="checkbox"/>	Internal Working Procedures <input checked="" type="checkbox"/>	
Certification Agent <input type="checkbox"/>	W <input type="checkbox"/>	Other Documents	
MIDP <input type="checkbox"/>	X <input checked="" type="checkbox"/>	Transmission Licence <input type="checkbox"/>	
Other Agents			
SMRA <input type="checkbox"/>		System Operator-Transmission Owner Code <input type="checkbox"/>	
Data Transmission Provider <input type="checkbox"/>			

² Were P171 approved consequential changes may be made to Condition C16 Statements (specifically the Balancing Principles Statement). The Transmission Company have taken an action to progress this change. However, it should be noted that P171 is not dependent on these changes being approved.

1 DESCRIPTION OF PROPOSED MODIFICATION AND ASSESSMENT AGAINST THE APPLICABLE BSC OBJECTIVES

1.1 Modification Proposal

Modification Proposal P171 'Retrospective removal of Emergency Instructions taken for System reasons from Imbalance Price' (P171, Reference 1) was raised on 25 August 2004 by British Gas Trading (BGT). P171 seeks to remove Emergency Instructions issued for System balancing reasons from Energy Imbalance Prices. It is the intention of the Proposer that P171 would apply on a retrospective basis (i.e. would apply to Emergency Instructions issued both prior and post implementation).

1.1.1 Current Arrangements

Under the current baseline, in accordance with Section Q5.1.3 (b) of the Code, an Emergency Instruction issued in respect of a BM Unit under the Grid Code is classed as an Acceptance for the purpose of Settlement. The Code does not contain provisions for applying an alternative price to Acceptances issued as a result of an Emergency Instruction. Therefore, the Lead Party of the affected BM Unit will be paid (or pay) for the Acceptance resulting from an Emergency Instruction at the prevailing Bid or Offer price.

In accordance with the Balancing Principles Statement (Reference 2), the Transmission Company issues Acceptances on an economic basis (i.e. by selecting Bids or Offers in order of relative cost to the Transmission Company until the required balancing volume has been obtained). However, in extreme situations, such as in the case of an Emergency Instruction, it is necessary for the Transmission Company to consider factors other than cost. As a result, it is possible that the Acceptance associated with an Emergency Instruction may be at a prevailing Bid or Offer price which is significantly higher (in terms of relative cost to the Transmission Company) than would have been selected under normal operation.

Currently Acceptances resulting from Emergency Instructions are not distinguished within Settlement, therefore the Acceptance Volume resulting from an Emergency Instruction will have the following effect:

- The Lead Party of the affected BM Unit will either be paid (or pay) for the Acceptance at the prevailing Bid or Offer price via the Period BM Unit Cashflow;
- As a result of the impact on the Period BM Unit Cashflow for the Lead Party of the affected BM Unit, there will be an impact on Balancing System Use of System (BSUoS) charges for all Parties; and
- The Acceptance Volume will feed into the Imbalance Price calculation at the prevailing Bid or Offer price. This may, subject to the existing tagging rules, impact imbalance payments and consequentially Residual Cashflow Reallocation Cashflow (RCRC) for all Parties.

1.1.2 Proposed Changes

Under Proposed Modification P171, Acceptances resulting from Emergency Instructions would be distinguished within Settlement in the following way:

- The Lead Party of the affected BM Unit would continue to be paid (or pay) for the Acceptance at the prevailing Bid or Offer price via the Period BM Unit Cashflow;
- As a result of the impact on the Period BM Unit Cashflow for the Lead Party of the affected BM Unit, there would continue to be an impact on BSUoS payments for all Parties; and

- Where the Emergency Instruction was issued for System balancing reasons, the associated Acceptance would feed into the Imbalance Price calculation as an un-priced volume.

Under this approach the Acceptance Volume would still be used in the derivation of the Net Imbalance Volume (NIV), thereby contributing to the determination of which balancing actions set the Energy Imbalance Price. However, as an un-priced volume, the Acceptance would not contribute to the derivation of Energy Imbalance Price (based on the weighted average of priced Acceptance Volumes which are not NIV tagged). P171 proposes that the treatment of Emergency Instructions issued for energy purposes would be unchanged.

1.1.3 History

The first Emergency Instruction was issued under NETA on 19 May 2004, details of this incident were outlined in ELEXON Circular (EL01201) and are summarised here.

On 19 May 2004, it was determined that a piece of high voltage equipment was showing signs of distress and needed to be taken out of service as soon as possible in order to prevent an unsafe situation. The location of the distressed equipment meant that it was necessary to stop Damhead Creek Power Station exporting to the Transmission System. At 12:51 BST on 19 May 2004, NGC issued an Emergency Instruction to Damhead Creek Power Station to perform a controlled shutdown and desynchronise the BM Unit as quickly as possible. The power station complied with the instruction and the equipment was isolated safely.

In this case, the prevailing Bid Price for a large proportion of the Acceptance Volume was £-9,999/MWh. NGC initially postponed submitting the Acceptance Data due to the likely Settlement implications for Market Participants. A Trading Dispute was eventually raised by Damhead Creek Power Station in order to include the Acceptance in Settlement.

The Trading Disputes Committee (TDC) heard the Trading Dispute on 19 August 2004 and agreed that a Settlement Error had occurred. The TDC directed that a Bid Acceptance should be entered into Settlement in the R3 Reconciliation Run on 15 December 2004. Inclusion of the Acceptance Data will impact the calculation of System Sell Price (SSP) for the relevant periods. ELEXON's estimate of the revised SSPs which will result from the inclusion of the Bid Acceptance is:

- -£96.68/MWh in Settlement Period 27³; and
- -£5,870.87/MWh in Settlement Period 28.

NGC has also indicated that the £3.55M cost of the Bid Acceptance and the associated impact on Incentivised Balancing Costs will result in changes to BSUoS charges for the relevant periods.

As a retrospective Modification Proposal, P171 would apply to the Damhead Creek incident and any subsequent Emergency Instruction issued.

1.1.4 Process Followed

ELEXON presented the Initial Written Assessment (IWA) for P171 (Reference 3) to the Balancing & Settlement Code Panel ('the Panel') at its meeting on 9 September 2004. The Panel agreed with the recommendation that P171 be submitted to a three month Assessment Procedure to be carried out by the Pricing Standing Modification Group (PSMG).

The PSMG met four times, on the 14 September 2004, 11 October 2004, 12 November and the 22 November 2004. The Modification Proposal was issued for industry consultation to seek the views of

³ NB: A negative SSP will mean that a Party who was 'long' during the Settlement Period will pay the absolute value of SSP for its imbalance volume (rather than receive it).

industry participants on the issues discussed and to support the Group's assessment against the Applicable BSC Objectives. BSC Agent, Transmission Company and participant impact assessment was conducted.

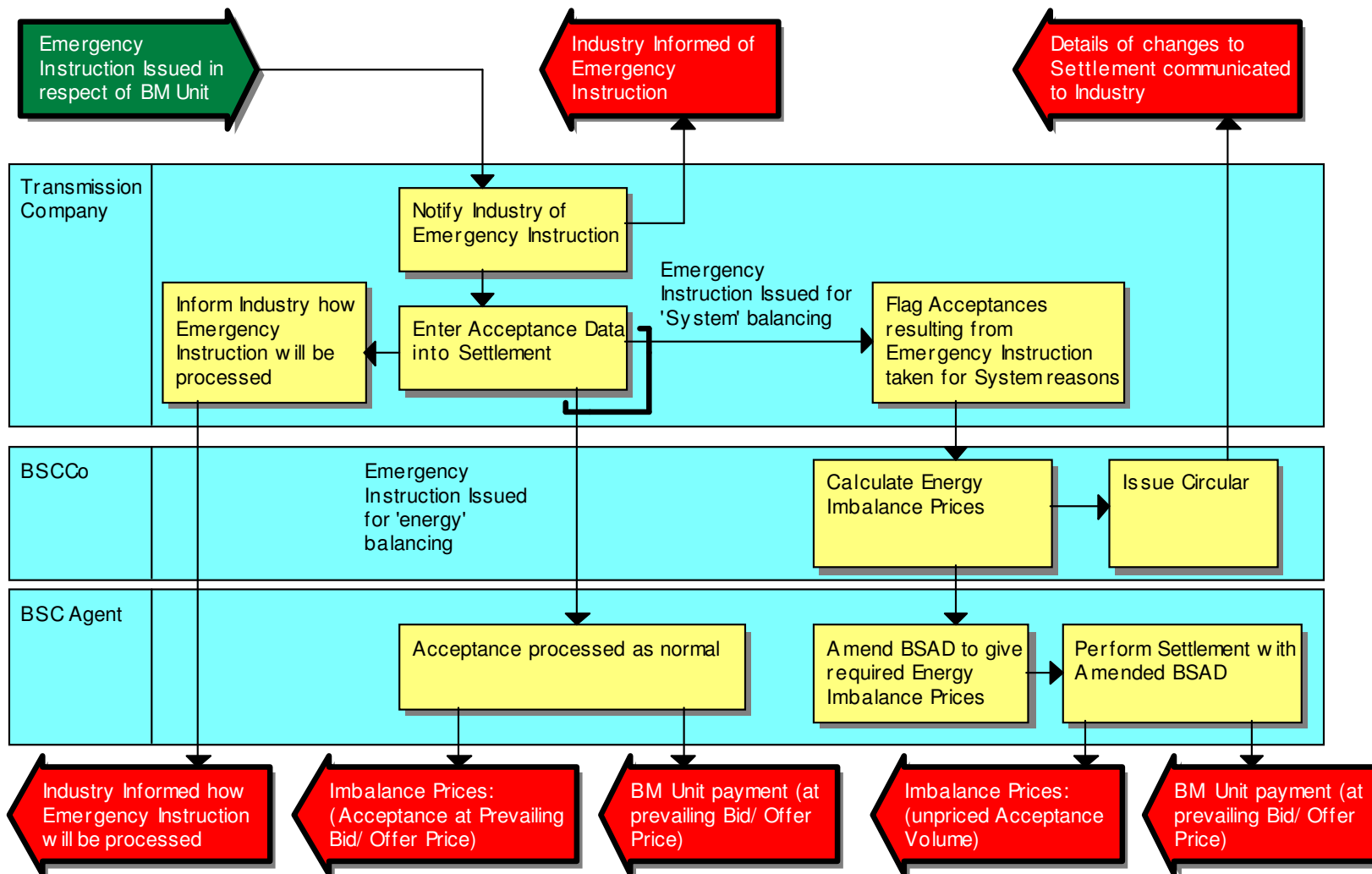
The Assessment Report for P171 (Annex 3) was considered by the Panel at its meeting on 9 December 2004. The Panel determined that P171 should proceed to the Report Phase, in accordance with paragraph F2.7 of the Code. Accordingly a draft Modification Report and legal text were issued for industry consultation on the 16 December 2004, with responses due by 23 December 2004. The provisional recommendation contained within the draft Modification Report was that neither the Proposed nor the Alternative Modification should be made.

Having considered the draft Modification Report for P171 and Report Phase consultation responses at its meeting 13 January 2005, the Panel recommends that Proposed Modification P171 should be made.

It should be noted that Modification Proposal P172 'Retrospective removal of Emergency Instructions taken for System reasons from Imbalance Price' (P172, Reference 4), Modification Proposal P173 'Revised Settlement Arrangements for Emergency Instructions' (P173, Reference 5) and Modification Proposal P175 'Development of Provisions Related to Certain Bid-Offer Acceptances Issued Pursuant to the Grid Code (e.g. BC2.9 and BC2.10)' (P175, Reference 6) also seek to amend the treatment of Emergency Instructions within Settlement and were considered by the PSMG in parallel with P171. P172, P173 and P175 are considered in separate documents.

1.2 Proposed Modification

The PSMG developed and refined the Modification Proposal into a full end-to-end solution. The diagram below provides an overview of each of the elements in the Proposed Modification. Details of each element are provided in the Assessment Report.



1.3 Issues raised by the Proposed Modification

The following issues were considered during the Assessment of Proposed Modification P171:

- Circumstances when an Emergency Instruction may be issued under the Grid Code;
- Impact on Energy Imbalance Prices;
- Process or mechanism for differentiating between the energy and System balancing elements of Emergency Instructions;
- Potential Alternative Modifications;
- Estimated materiality on historic occurrences;
- Solution development;
- Retrospection;
- Implementation Approach; and
- Interaction with other Modification Proposals.

With the exception of the considerations in relation to retrospective implementation of P171 and interaction with other Modification Proposals, these issues are discussed in the Assessment Report (Annex 3) and are not covered further here.

1.3.1 Interaction with other Modification Proposals

This section outlines at a high level the similarities and differences between the key elements of P171, P172, P173, P175 and the Alternative Modifications considered by the PSMG.

	P171 & P172	P173	P175
Implementation	Retrospective (P171) Prospective (P172)	Prospective	Prospective
Scope	Emergency Instructions (Proposed & Alternative)	Emergency Instructions (Proposed & Alternative)	Emergency Instructions & Intertrips
Prevailing Acceptance price within Imbalance Price Calculation	BOA un-priced in cash out (Proposed)	BOA at Avoided Costs (Proposed)	BOA replaced by BOA that would have been taken in absence of action
	BOA replaced by BOA that would have been taken in absence of action (Alternative)	BOA priced at amended Avoided Costs (Alternative)	
Volume within Imbalance Price Calculation	Included as "System" volume (Proposed)	BOA volume in cash out (Proposed & Alternative)	BOA volume in cash out
	BOA volume in cash out (Alternative)		
Payment to affected Party under BSC	Party paid (pays) prevailing Bid/ Offer Price (Proposed & Alternative)	Party paid (pays) for BOA at Avoided Costs (Proposed)	Party may claim costs
		Party paid (pays) for BOA at amended Avoided Costs (Alternative)	

Compensation	N/A	N/A	Affected Party able to make compensation claim under BSC (when not able to under other arrangements)
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Table 1: Interactions

The PSMG noted that there were elements of each proposal which were similar and result in a number of combinations which, depending on the legal drafting developed, could in theory be implemented together. These were considered by the PSMG as follows:

P171 and P172 (Proposed and Alternatives)

P171 and P172 have the same requirements, with the element of retrospection the only difference between the two proposals; hence the possibility of both proposals being implemented together has not been considered.

Retrospective Element of P171

It was noted that P171 has a retrospective element; the PSMG considered whether it would be possible to implement P171 for historic Emergency Instructions only, whilst implementing another proposal as an ongoing solution (effectively 'turning off' P171 prospectively). However, it was recognised that in order to do this the enduring change would need to amend the P171 baseline (effectively amending or overwriting sections of the Code which do not currently exist), since the legal drafting of a Modification Proposal must be against the current baseline this approach is not feasible. Therefore, in order to achieve this outcome, a Modification Proposal would have to be raised against the P171 baseline following an Authority decision on P171.

P171/P172 Proposed and P175

Proposed Modifications P171 and P172 require that Acceptances resulting from Emergency Instructions be tagged as un-priced in the Energy Imbalance Price calculation. P175 requires that the same Acceptances are replaced, for the purpose of the Energy Imbalance Price calculation, with Acceptances that would have been taken in the absence of the Emergency Instruction. This different treatment within the Energy Imbalance Price calculation is incompatible; therefore P171/2 Proposed Modifications are incompatible with P175. In addition the scope of P175 extends to intertrips.

P173 Proposed/Alternative and P175

P173 requires that Parties affected by an Emergency Instruction would receive Avoidable Costs (or amended Avoidable Costs under the Alternative) incurred in responding to the instruction. Under P175 affected Parties would recover cost incurred via a claim for compensation. Therefore, P173 Proposed and Alternative Modifications are incompatible with P175. In addition the scope of P175 extends to intertrips.

P171/P172 Alternative and P175

Alternative Modifications P171 and P172 require that Acceptances resulting from Emergency Instructions are replaced, for the purpose of the Energy Imbalance Price calculation only, with Acceptances that would have been taken in the absence of the Emergency Instruction. P175 requires the same treatment of Emergency Instructions within the Energy imbalance Price calculation but includes additional elements (such as removal of the BM Unit Cashflow for the instruction and introduction of a compensation claim process). Since P175 would deliver the changes to the Energy Imbalance Price calculation proposed under P171/2 Alternative, with the exception of the retrospective element of P171 as considered above, there is no logical reason for implementing both P175 and P171/2 Alternative Modifications. In addition the scope of P175 extends to intertrips.

P173 Proposed/ Alternative and P171/P172 Alternative

P173 proposes that the prevailing Bid/Offer price of an Acceptance resulting from an Emergency Instruction is adjusted to represent the Avoidable Costs incurred in responding to that Emergency Instruction. Alternative Modifications P171 and P172 require that Acceptances resulting from Emergency Instructions are replaced, for the purpose of the Energy Imbalance Price calculation only, with Acceptances that would have been taken in the absence of the Emergency Instruction. These replacement processes would be applied to separate elements of the Settlement Process and are theoretical compatible. However, in order to create a solution which was robust to either of the proposals being implemented in parallel or individually, the drafting would need to specify which proposal took precedence in certain calculations (for example where to use the P173 Avoidable Cost based replacement price and when to use the P171/P172 replacement Acceptances). The PSMG considered a number of approaches which would allow this to be achieved. However, it was not possible to identify an approach which would not jeopardise P173 as a standalone Modification. Therefore, the legal drafting developed for P173 does not allow parallel implementation with Alternative Modifications P171/2.

P173 Proposed/ Alternative and P171/P172 Proposed

P173 proposes that the prevailing Bid/Offer price of an Acceptance resulting from an Emergency Instruction is adjusted to represent the Avoidable Costs incurred in responding to that Emergency Instruction. Proposed Modifications P171 and P172 require that the same Acceptances be tagged as un-priced in the Energy Imbalance Price calculation. These two individual changes would be achieved via amendment of separate sections of the Code. It is possible that both changes could be made with the following effect:

- Acceptance price is amended to reflect Avoidable Costs;
- For the purpose of the BM Unit Cashflow the Acceptance is priced to reflect Avoidable Costs, affected Parties therefore receive Avoidable Costs as payment for the Bid/ Offer; and
- For the purpose of the Energy Imbalance Price calculation the Acceptance is tagged as un-priced. As a result the Acceptance is not included in the weighted average which sets the Energy Imbalance Price.

Therefore, P171/2 Proposed Modifications are theoretically compatible with P173 and the legal drafting developed allows the changes to be implemented in parallel.

Conclusion:

Table 2 below illustrates the feasible combinations of Modification Proposals as identified by the PSMG and reflected in the legal drafting developed.

	P171 Pro	P171 Alt	P172 Pro	P172 Alt	P173 Pro	P173 Alt	P175
P171 Pro					Y	Y	N
P171 Alt					N	N	N
P172 Pro					Y	Y	N
P172 Alt					N	N	N
P173 Pro	Y	N	Y	N			N
P173 Alt	Y	N	Y	N			N
P175	N	N	N	N	N	N	

Table 2: Compatible proposals

The PSMG developed legal text which allows certain combinations of proposals as set out in table 2. However, it was the view of the PSMG that, whilst certain combinations of Modifications Proposals may be possible, it could not be considered that such a combination had been fully assessed (since a

combination of proposals presents an entirely different outcome than any of the proposals when considered independently as required by the Modification Procedures). As such, it was the view of the PSMG that all the Modification Proposals should be viewed as mutually exclusive.

1.3.2 Retrospective Implementation under P171

P171 would be implemented as a retrospective change and would therefore apply to historic Emergency Instructions. The PSMG noted that the one Emergency Instruction issued under NETA had occurred on the 19 May 2004 and therefore agreed that P171 take effect from this date.

The PSMG noted that there is a principle of legal policy such that an amending rule should generally change the relevant matter only from the time the rule change commences. In other words, changes to rules that potentially impact the character of past transactions completed on the basis of then existing rules should be avoided. Furthermore, the PSMG noted that the Authority has indicated (via previous decision letters) that only limited circumstances would give rise to the need for a retrospective Modification of this type.

Hence, the PSMG has considered whether the retrospective changes to the treatment of Emergency Instructions proposed under P171 could be justified.

On consideration of whether a retrospective rule change could be justified in order to address the defect identified under P171, the PSMG noted Authority comments on retrospective rule changes indicated in previous decision letters. In the decision letter for Modification Proposal P19 'To provide for the remedy of errors in Energy Contract Volume Notifications and in Metered Volume Reallocation Notifications' (P19) (Reference 8) the Authority laid down certain criteria, which if satisfied, might, in its view, give rise to the need for a retrospective rule change. This test was subsequently repeated by the Authority in its decision letter on P37 (Reference 9). The Authority stated as follows:

"Ofgem is, in general, against approving modifications which have retrospective effects. However, despite the general principle against retrospective rule changes, Ofgem believes that there may be small number of particular circumstances that could give rise to the need for a modification which would have a retrospective effect as evidenced in a small number of modifications approved for the Network Code. The particular circumstances which could give rise to the need for a retrospective rule change could, for instance, include:

- a situation where the fault or error occasioning the loss was directly attributable to central arrangements;*
- combinations of circumstances that could not have been reasonably foreseen; or*
- where the possibility of a retrospective action had been clearly flagged to the participants in advance, allowing the detail and the process of the change to be finalised with retrospective effect."*

The PSMG has considered whether the perceived defect identified under P171 is an example of the particular circumstances (indicated in the P19 decision letter, Reference 8) which could give rise to the need for a retrospective rule change:

- Clearly Flagged to the Participants**

The PSMG unanimously agreed that the circumstances addressed under P171 are not an example of a situation where the possibility of retrospective action had been clearly flagged to participants in advance.

- **Fault or error directly attributable to central arrangements**

Arguments were made for and against the view that the circumstances addressed by P171 were a fault or error directly attributable to central arrangements. Some members of the PSMG were of the view a fault or error could only be considered directly attributable to central arrangements if central systems and or processes had produced results which were not in accordance with the then existing Code baseline. These members of the Group noted that, in the case of Damhead Creek, the Emergency Instruction had been processed in accordance with the Code and, as such, no fault or error could be directly attributed to central arrangements. However, other members of the PSMG were of the view that the central arrangements could be considered to have a wider scope. These members were of the view that, in the case of the Damhead Creek incident, it could be considered that central arrangements had failed since a System balancing action had clearly influenced the Energy Imbalance Prices. As such, it could be considered that a fault or error could be directly attributable to central arrangements.

- **Circumstances not Reasonably Foreseen**

Arguments were made for and against the view that the circumstances addressed by P171 could not be reasonably foreseen. Some members of the PSMG were of the view that the industry is aware that high 'sleeper' Bids and Offers exist. It is also clear under the Code baseline that, where an Emergency Instruction is issued this could have a significant impact on Settlement. As such, the circumstances addressed under P171 could be reasonably foreseen. Other members of the Group were of the view that the combination of circumstances that led to the significant impact on Energy Imbalance Prices could not be reasonably foreseen i.e. that Emergency Instructions themselves are an unusual event, and that it would be expected that an Emergency Instruction which is a System action would be tagged out of the Energy Imbalance Price. In addition some members of the Group were of the view that there is an ambiguity surrounding the processing of Emergency Instructions which is apparent from the delay observed in entering the associated Acceptance into Settlement following the one previous Emergency Instruction.

The PSMG also noted that the circumstances indicated in the P19 decision letter directly related to the particular issues considered under P19 (i.e. retrospective changes to contract notifications). Furthermore, they noted that the Authority had indicated that any retrospective Modification Proposal should be considered independently, as indicated in the P19 decision letter (Reference 8) as follows:

"Ofgem considers that, in general, it is more appropriate to consider any retrospective modifications on a case by case basis, in the light of the circumstances relevant to the particular event and the proposals and reasons for rectification. Even if only one company was affected, this would not, of itself, mean that an appropriate Modification Proposal could not better facilitate the BSC objectives or be inconsistent with the Authority's duties under Sections 3A-C of the Electricity Act 1989."

One member of the PSMG noted that a number of Parties experienced material losses as a result of the Settlement implications of the Emergency Instruction issued on 19 May 2004 and that the P19 decision letter mentioned that materiality of losses was a potential consideration in retrospection.

Considering P171 aside from previous Authority decisions on Modification Proposals, some members of the PSMG noted that, whilst it is clear that Settlement had been conducted correctly and that the existing tagging processes had been correctly applied, it was fundamentally wrong that Parties should be exposed to significant Energy Imbalance Prices as a result of an action which was taken primarily for System purposes.

However, other Group members believed that it was clear in the Code how Emergency Instructions should be processed. As the Emergency Instruction on 19 May 2004 was the first Emergency

Instruction under NETA, NGC chose to proceed with care given the effect that this Emergency Instruction had on Energy Imbalance Prices. This included notifying the regulator and consultation with the counterparty (the ownership of which changed part way through).

In summary, views within the PSMG and within responses to the assessment consultation were split as to whether a retrospective change as proposed by P171 could be justified. Those against P171 raised the following arguments:

- Market confidence would be undermined by a retrospective change, hence P171 would be detrimental to the achievement of Applicable BSC Objective c);
- A precedent would be set for reopening all cases involving high prices, which would be detriment of Applicable BSC Objective d);
- The Code requirements in relation to the process of Emergency Instructions are unambiguous and Central Systems have delivered these requirements appropriately. Therefore, the circumstances addressed by P171 cannot be considered a fault or error directly attributable to central arrangements; and
- The Code rules are unambiguous and extreme-priced Bids are known to exist, therefore the circumstances were foreseeable – be they unusual or not.

Some members of the PSMG not in support of P171 did not feel in a position to comment on the materiality of the situation (noting that materiality has been a factor previously considered when determining whether or not a retrospective change could be justified). One member had sympathy with the fact that small Parties would be significantly affected.

Those in favour of P171 raised the following arguments:

- Investors and small Parties would be less likely to join the market after seeing the effects of the Damhead Creek incident and market confidence would be undermined. Retrospectively amending the outcome of the incident, as proposed by P171, would address these concerns and better facilitate achievement of Applicable BSC Objective c);
- The Emergency Instruction was issued for System reasons hence Parties should not be impacted by the cost of the action via Energy Imbalance Prices;
- The circumstances were extremely unusual and hence could not have been reasonably foreseen, thus a retrospective change is applicable in this situation;
- The events following the situation were under the control of central systems (i.e. arose as a result of an issue on the Transmission System) and not as a result of Parties own actions, and given the extreme nature of the events, a retrospective change is justified; and
- The Damhead Creek incident resulted in a significant materiality for small Parties. If the Bid Price had been £99,999 as opposed to £9,999, many small Parties would have left the market.

On balance, it was the majority view of the PSMG that a retrospective change could not be justified in the circumstances addressed by P171. It should be noted that Panel further considered the arguments for and against a retrospective change under P171 as detailed in section 1.4.2.

1.4 Assessment of how the Proposed Modification will better facilitate the Applicable BSC Objectives

1.4.1 PSMG Views

The Panel noted the arguments for and against achievement of the Applicable BSC Objectives under Proposed Modification P171 considered by the PSMG as follows:

- Energy Imbalance Prices are intended to represent the cost of energy balancing actions. The processing, under the current Code baseline, of Emergency Instructions may result in actions taken for System reasons significantly distorting Energy Imbalance Prices. This has the potential for Parties to be exposed to Imbalance Prices that are unrepresentative of the energy balancing actions taken by the Transmission Company. P171 would reduce this potential exposure to unrepresentative Energy Imbalance Prices. It was the view of the PSMG that this benefit in terms of the calculation of Energy Imbalance Prices would better facilitate achievement of Applicable BSC Objective (c) "Promoting effective competition in the generation and supply of electricity and promoting such competition in the sale and purchase of electricity";
- Some members of the Group noted that under P171 Parties could submit high Bid/ Offer prices with the confidence that, were these accepted as a result of an Emergency Instruction, they would not be subject to high Energy Imbalance Prices. It was suggested that this could result in Parties submitting even more extreme Bid/Offer prices. It was the view of these PSMG members that if this occurred it would be detrimental to Applicable BSC Objective (b). However, having considered the responses to the assessment consultation the PSMG agreed that, due to the relative infrequency of Emergency Instructions, Parties would be unlikely to change their approach to submission of Bid/ Offer prices were P171 implemented;
- The PSMG noted that in general retrospective changes to rules do not facilitate competition and, as such, Proposed Modification P171 may be considered to have a negative effect on the achievement of Applicable BSC Objective (c). The PSMG were split on whether a retrospective change could be justified under P171, the views put forward by members of the Group are outlined in section 1.3.2; and
- Some members of the PSMG were of the view that retrospective implementation of P171 would increase market confidence that participants would not be exposed to significant costs via Energy Imbalance Prices being influenced by System actions. It was the view of these members that this would be beneficial to achievement of Applicable BSC Objective (c).

Views within the PSMG and within consultation responses were split as to whether a retrospective change as proposed by P171 could be justified. The majority of the Group were of the view Proposed Modification P171 would not, on balance, better facilitate the Applicable BSC Objectives as they did not believe a retrospective change could be justified (for the reasons set out in section 1.3.2). The minority of the Group were of the view that a retrospective change could be justified in the limited circumstances identified under P171 and therefore were of the view Proposed Modification P171 would better facilitate achievement of the Applicable BSC Objectives.

1.4.2 Panel Views

This section summarises both the initial view of the Panel (as issued for industry consultation via the draft Modification Report) and the final conclusions reached on consideration of the draft Modification Report and Report Phase consultation responses.

Initial Views:

On consideration of the Assessment Report at its meeting on 9 December 2005, views within the Panel were split as to whether a retrospective change could be justified under P171, and consequently whether Proposed Modification P171 would better facilitate the Applicable BSC Objectives.

Those Panel members in support of Proposed Modification P171 supported the arguments expressed for a retrospective change as outlined in section 1.3.2. In addition, a number of further views in favour of a retrospective change were expressed:

- One Panel member expressed the view retrospective changes should generally be avoided in situations where, if Parties had been aware of the rules to be applied retrospectively, they may have behaved differently at the time. However, in this case the Panel member was of the view Parties behaviour would not have been significantly different had the P171 rules been in place at the time the Emergency Instruction. Primarily on the grounds the Emergency Instruction was issued post Gate Closure and therefore unlikely to affect participants positions for the Settlement Period; and
- It was noted by the Panel that the PSMG had not been in a position to consider the materiality for individual Parties affected. Although the materiality of the incident was widely understood in terms of the impact on Settlement cashflows, the issue required an understanding of the implications of these Settlement cashflows to the individual Parties affected. Without details of the financial implications for the individual Parties affected a judgement on the materiality could not be made. It was noted that, although this information had not been made available to the PSMG via the consultation process, additional information had been provided in confidence to the Panel. This Panel member was of the view that the details provided indicate the issues raised under P171 represented significant materiality to a number of affected Parties.

Those Panel members against Proposed Modification P171 supported the arguments expressed against a retrospective change as outlined in section 1.3.2. In addition, a number of further views against a retrospective change were expressed:

- In terms of the materiality for affected Parties, one Panel member expressed the view that the materiality involved was not significant. It was also the view of this Panel member that high Energy Imbalance Prices may be generated in a number of circumstances, in this case, it was clear that such possibility existed. The fact that high Energy Imbalance Prices have a material impact on participants should not in itself provide justification for a retrospective change.

In summary, on consideration of the Assessment Report at its meeting on 9 December 2005, the Panel was split as to whether Proposed Modification P171 would better facilitate the Applicable BSC Objectives. In the light of these split views, the Panel Chairman's deciding vote was utilised. It was the view of the Panel Chairman, having considered the information provided in confidence to the Panel, that the materiality for affected Parties could not be considered sufficient to warrant a retrospective change. In addition, it was the view of the Panel Chairman that the circumstances addressed by P171 could have been reasonably foreseen. Hence, it was initially the majority view of the Panel that Proposed Modification P171 would not better facilitate the Applicable BSC Objectives. Consequently, the draft Modification Report was issued for industry consultation containing the provisional recommendation that the Proposed Modification should not be made.

Conclusions:

The draft Modification Report was considered by the Panel at its meeting on 13 January 2005, two Panel members not available for consideration of the Assessment Report were present at this meeting. In addition, the Panel considered the arguments expressed in the Report Phase consultation. As a

result, a number of new arguments were identified and the Panel reconsidered each of the arguments for and against a retrospective change under P171 as summarised below.

The Panel re-considered whether the defect identified under P171 is an example of the particular circumstances (indicated in the P19 decision letter, Reference 8) which could give rise to the need for a retrospective rule change:

- **Clearly Flagged to Participants**

The Panel agreed that the circumstances addressed under P171 are not an example of a situation where the possibility of retrospective action had been clearly flagged to participants in advance.

- **Fault or Error Directly Attributable to Central Arrangements**

Arguments were identified for and against the view the circumstances addressed by P171 were a fault or error directly attributable to central arrangements.

- A fault or error could only be considered directly attributable to central arrangements if central systems and or processes had produced results which were not in accordance with the then existing Code baseline. In the case of Damhead Creek, the Emergency Instruction had been processed in accordance with the Code and, as such, no fault or error could be directly attributed to central arrangements; and
- Central arrangements could be considered to have a wider scope, in the case of the Damhead Creek incident it could be considered central arrangements had failed (since a System balancing action had clearly influenced the Energy Imbalance Prices). As such, it could be considered that a fault or error could be directly attributable to central arrangements.

- **Circumstances not Reasonably Foreseen**

Arguments were identified for and against the view the circumstances addressed by P171 could not be reasonably foreseen.

- The industry is aware that high 'sleeper' Bids and Offers exist and comprehensive debate took place before NETA Go-live regarding the possible outcome of different actions. It is also clear under the Code baseline that, where an Emergency Instruction is issued, this could have a significant impact on Settlement. As such, the circumstances addressed under P171 could be reasonably foreseen. In addition the market consistently models for low probability events and participants account for these in their trading strategies, therefore the circumstances could reasonably be foreseen; and
- The combination of circumstances that led to the significant impact on Energy Imbalance Prices could not be reasonably foreseen i.e. Emergency Instructions themselves are an unusual event, and, although it is clear how such an instruction would be processed, it would be expected that an Emergency Instruction which is a System action would be tagged out of the Energy Imbalance Price.

It was noted that the circumstances indicated in the P19 decision letter directly related to the particular issues considered under P19 (i.e. retrospective changes to contract notifications). Furthermore, it was noted that the Authority had indicated that any retrospective Modification Proposal should be considered independently. Therefore, the Panel agreed that the arguments for and against retrospection under P171 should not be limited to those areas identified in the P19 decision letter.

The Panel identified the following arguments **not** in support of a retrospective change as proposed by P171:

- Market confidence would be undermined by a retrospective change, hence P171 would be detrimental to the achievement of Applicable BSC Objective c);
- High Energy Imbalance Prices may be generated in a number of circumstances; in this case it was clear that such possibility existed. The fact that high Energy Imbalance Prices have a material impact on participants should not in itself provide justification for a retrospective change. In addition, high Energy Imbalance Prices are a feature of the balancing mechanism and it is not necessarily appropriate to retrospectively amend them when they occur;
- Introducing retrospective changes may result in traders factoring in the risk that the market will change post event and potentially lead to higher prices;
- If a retrospective change is implemented, it may be open to legal challenge by those entitled to receive money under the prevailing rules;
- The size of the Party affected is irrelevant, all participants in the market must manage their exposure and the market should not be changed to suit certain Party types; and
- The materiality involved was not sufficient to justify a retrospective change. In addition, the Panel was not aware of a profits warning or stock exchange announcement relating to this incident, this could be taken to indicate that the materiality was not significant.

The Panel identified the following arguments in support of a retrospective change as proposed by P171:

- Investors and small Parties would be less likely to join the market after seeing the effects of the Damhead Creek incident and market confidence would be undermined. Retrospectively amending the outcome of the incident, as proposed by P171, would address these concerns and better facilitate achievement of Applicable BSC Objective c);
- The Emergency Instruction was issued primarily for System reasons; hence Parties should not be impacted by the cost of the action via Energy Imbalance Prices. Ensuring Parties are not exposed to the cost of System actions is beneficial for competition and hence the achievement of Applicable BSC Objective c);
- No action could be taken by Parties to reasonably mitigate against the costs incurred as a result of the Emergency Instruction. Therefore, it is inappropriate for this cost to be reflected in Energy Imbalance Prices, hence retrospective amendment would be beneficial for competition and achievement of Applicable BSC Objective c);
- Retrospective changes should generally be avoided in situations where, if Parties had been aware of the rules to be applied retrospectively, they may have behaved differently at the time. In this case Parties behaviour would not have been significantly different had the P171 rules been in place at the time of the Emergency Instruction. Since the principles of Proposed Modification P171 had been accepted as an enduring solution and Parties would not have behaved differently if the rules had been in place at the time, a retrospective change is appropriate;
- The outcome of applying the existing baseline appears unfair, since Parties would be exposed to the cost of a System action over which they had no control. This principle is the significant question, rather than the materiality of the incident being considered. If at the time of development the existing Code arrangements had been tested under all possible circumstances, it is likely that an approach would have been identified to ensure the cost of such an action would not appear in Energy Imbalance Prices. Therefore, it is appropriate to apply the change retrospectively;
- It is generally considered prudent for a Party to take a long position, it is not appropriate that on one day this should result in significant costs;

- A number of Parties had made representations indicating that the materiality was significant to them. In addition, the materiality for a small participant could be equivalent to a seasons trading profits, which is clearly substantial;
- The situation can be managed more easily by large vertically integrated players but it impacts smaller participants disproportionately;
- The Authority had noted in the decision letter for P181-'Modification Proposal P181 NGC Emergency Instruction re Damhead Creek 19.5.04: Deferral of Settlement Process' that there was a significant material effect on some Parties as a result of the Emergency Instruction; and
- The Damhead Creek incident resulted in a significant materiality for small Parties. If the Bid Price had been £-99,999 as opposed to £-9,999, many small Parties would have left the market.

Having considered the draft Modification Report and the response to the Report Phase consultation, it was the majority view of the Panel that a retrospective change could be justified in the circumstances addressed by P171 and would be beneficial to competition. Therefore, it is the majority view of the Panel that, on balance, Proposed Modification P171 would better facilitate the Applicable BSC Objectives.

In summary, it is the majority view of the Panel that Proposed Modification P171 would better facilitate the Applicable BSC Objectives.

1.5 Alternative Modification

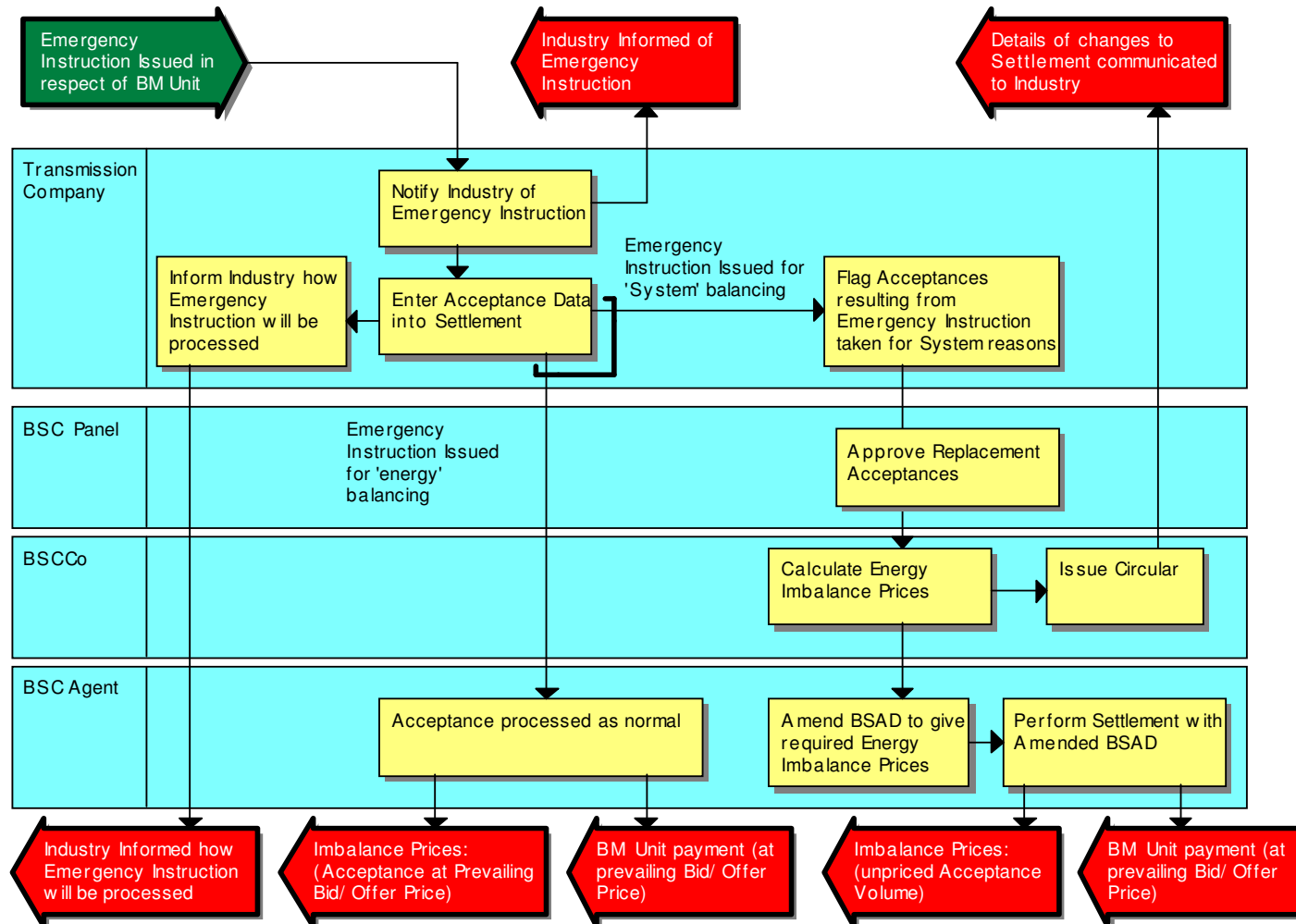
P171 proposes that Acceptances resulting from Emergency Instructions taken for System purposes are excluded from Energy Imbalance Prices. The PSMG noted that, in practice an Emergency Instruction (even if issued for System purposes) may deliver both energy and System balancing. Noting that Proposed Modification P171 would not recognise any consequential energy balancing delivered by an Emergency Instruction, the PSMG developed an Alternative Modification.

Under the potential Alternative Modification P171, replacement Bids/ Offers would be derived from the Bids and Offers that would have been taken had the Emergency Instruction not been issued. These Acceptances would then be included in the existing Imbalance Price calculation in place of the Emergency Instruction. However, the Lead Party would continue to be paid for the original Emergency Instruction Acceptance at the prevailing Bid/ Offer price. This approach would be utilised in an attempt to represent the consequential energy balancing that may be delivered by an Emergency Instruction issued for System balancing reasons.

For further details on the development of Alternative Modification P171 please refer to the Assessment Report (Annex 3).

1.6 Alternative Modification

The PSMG developed the Alternative Modification into a full end-to-end solution. The diagram below provides an overview the Alternative Modification. For further details on the development of Alternative Modification P171 please refer to the Assessment Report (Annex 3).



1.7 Issues raised by the Alternative Modification

The following issues were considered during the Assessment of Alternative Modification P171:

- Circumstances when an Emergency Instruction may be issued under the Grid Code;
- Impact on Energy Imbalance Prices;
- Process or mechanism for differentiating between the energy and System balancing elements of Emergency Instructions;
- Potential Alternative Modifications;
- Estimated materiality of historic occurrences;
- Solution development;
- Retrospection;
- Implementation Approach; and
- Interaction with other Modification Proposals.

With the exception of the interaction with other Modification Proposals (see section 1.3.1), these issues are discussed in the Assessment Report and are not covered further here.

1.8 Assessment of how the Alternative Modification will better facilitate the Applicable BSC Objectives

1.8.1 PSMG Views

The Panel noted the arguments for and against achievement of the Applicable BSC Objectives under Alternative Modification P172, when compared to the current baseline, are identical to those for the Proposed Modification (see section 1.4).

The question of retrospection was the primary factor as to whether individual members of the PSMG were of the view P171 would better facilitate the Applicable BSC Objectives. Views within the PSMG and within responses to the assessment consultation were split as to whether a retrospective change could be justified. The majority of the Group were of the view Alternative Modification P171 would not better facilitate the Applicable BSC Objectives as they did not believe a retrospective change could be justified (for the reasons set out in section 1.3.12). The minority of the Group were of the view that a retrospective change could be justified in the limited circumstances identified under P171 and therefore Alternative Modification P171 would better facilitate achievement of the Applicable BSC Objectives. Hence, it is the majority view of the PSMG that Alternative Modification P171 would not, on balance, better facilitate achievement of the Applicable BSC Objectives.

The PSMG also considered whether the Alternative Modification would better facilitate the Applicable BSC Objectives as compared to Proposed Modification P171 as follows:

- Energy Imbalance Prices are intended to represent the cost of energy balancing actions. Under the Proposed Modification, the cost of any consequential energy balancing delivered by Emergency Instructions would not be included in Energy Imbalance Prices. The Alternative Modification includes the costs that would have been incurred to deliver this energy balancing had the Transmission Company not been restricted in its choice of balancing actions by the circumstances that gave rise to the Emergency Instruction. Thereby, some members of the PSMG were of the opinion Alternative Modification P171 would reduce, to a greater extent than the Proposed Modification, the potential for Parties to be exposed to unrepresentative Energy

Imbalance Prices. It was the view of the PSMG that this benefit in terms of the calculation of Energy Imbalance Prices would better facilitate achievement of Applicable BSC Objective (c);

- Some members of the PSMG were of the view the requirement to derive replacement acceptances would add an additional level of complexity to the Settlement arrangements and that this could be detrimental to efficiency and thus the facilitation of Applicable BSC Objective (d);
- Some members of the PSMG were of the view that, due to the additional process to identify replacement Acceptances, the time during which Parties would be unsure of their exposure (due to uncertainty in Energy Imbalance Prices) would be extended under the Alternative Modification. This uncertainty could be detrimental to effective competition and thus the facilitation of Applicable BSC Objective (c); and
- A minority of the PSMG were of the view that the use of replacement Acceptances would depart from the established tagging principles whereby actions are considered distinctly energy or System balancing rather than a combination of both. Introducing this additional approach could be viewed to be inefficient and as such detrimental to the achievement of Applicable BSC Objective (d).

On balance, by a slim majority, the PSMG were of the opinion that Alternative Modification P171 would better facilitate the Applicable BSC Objectives as compared to the Proposed Modification. The majority of members in support of this view believed the competitive benefits of a further reduction in the potential exposure to unrepresentative Energy Imbalance Prices would outweigh any detrimental impact on efficiency. The contrary view held by the minority was that any detrimental impact in terms of efficiency would not be justified by the competitive benefits of a reduction in the potential exposure to unrepresentative Energy Imbalance Prices in the very limited circumstance of an Emergency Instruction. One PSMG member was of the opinion the Alternative Modification would not be more representative of the costs incurred in energy balancing the system, as it may not account for all the considerations taken into account by the Transmission Company.

1.8.2 Panel Views

Having considered the arguments identified by the PSMG, views within the Panel were split as to whether a retrospective change could be justified under P171 (discussions in this area were aligned with those under the Proposed Modification, see section 1.4.2), and consequently whether Alternative Modification P171 would better facilitate the Applicable BSC Objectives, as compared to the current baseline.

In summary, the Panel was split as to whether Alternative Modification P171 would better facilitate the Applicable BSC Objectives, as compared to the current baseline.

Contrary to the majority view of the PSMG, it was the majority view of the Panel that Alternative Modification P171 would not better facilitate achievement of Applicable BSC Objectives, as compared to the Proposed Modification.

The majority of Panel members were of the view that the detrimental impact in terms of efficiency would not be justified by the relatively minor competitive benefits of more representative Energy Imbalance Prices in these very limited circumstances. In addition, these members supported the view that the use of replacement Acceptances would depart from established tagging principles whereby actions are considered distinctly energy or System balancing, rather than a combination of both. One Panel member noted the precedent set by applying this approach, in the limited circumstance of Emergency Instructions, may create an inconsistency with the cash out arrangements as a whole and could have wider implications.

Contrary to this view, a minority of Panel members supported the argument that the benefits of a further reduction in the potential exposure to unrepresentative Energy Imbalance Prices would outweigh any

detrimental impact on efficiency. It was the view of these members that identification of replacement Acceptances under Alternative Modification P171 is an amended version of an existing process (i.e. the Manifest Errors process) and, as such, the efficiency impact would not be significant.

In summary, it is the majority view of the Panel that Alternative Modification P171 would not better facilitate the Applicable BSC Objectives, as compared the Proposed Modification.

1.9 Governance and regulatory framework assessment

Under P171 (Proposed and Alternative) the Transmission Company would determine whether an Emergency Instruction should be considered specifically as a System action. The Transmission Company indicated that this determination would be made in accordance with the methodology currently used to tag System actions for Balancing Services (as set out in the Balancing Services Adjustment Data (BSAD) methodology statement). The Transmission Company impact assessment indicated that a consequential change to the Condition C16 statements (specifically the Balancing Principles Statement) would be made to clarify this process. It should be noted that the implementation of P171 is not dependent on this change being made.

For the avoidance of doubt, the manual solution which requires the Settlement Administration Agent (SAA) to manipulate the BSAD file submitted by the Transmission Company does not impact either the BSAD methodology or the submission of BSAD by the Transmission Company.

2 COSTS⁴

It should be noted that the cost outlined in this section are based on implementation of P171 via a manual solution as developed by the PSMG. During the Assessment Procedure automated solutions were also considered as outlined in the Assessment Report (Annex 3).

PROGRESSING MODIFICATION PROPOSAL	
Meeting Costs	£500
Legal/expert Costs	£2,500 ⁵
Impact Assessment Costs	£5,000
ELEXON Resource	50 Man days £12,500

IMPLEMENTATION COSTS P171 PROPOSED				
		Stand Alone Cost	Incremental Cost	Tolerance
Service Provider⁶ Cost				
	Change Specific Cost	£41,542 ⁷	£41,542 ⁷	+/- 0%

⁴ Clarification of the meanings of the cost terms in this section can be found in annex 7 of this report

⁵ During the Assessment Procedure, additional legal advice was taken. Therefore, the legal costs will be greater than the IWA estimate, this figure includes an estimate of the increase.

⁶ BSC Agent and non-BSC Agent Service Provider and software Costs

⁷ This cost includes both the SAA changes and amendments to TOMAS

	Release Cost ⁸	£0	n/a	+/- 0%
	Incremental Release Cost	£0	£0	+/- 0%
	Total Service Provider Cost	£41,542	£41,542	+/- 0%
Implementation Cost				
	External Audit	£0	£0	+/- 0%
	Design Clarifications	£0	£0	+/-0%
	Additional Resource Costs ⁹	£0	£0	+/-0%
	Additional Testing and Audit Support Costs	£0		+/-0%
Total Demand Led Implementation Cost		£41,542k	£41,542k	+/- 0%

ELEXON Implementation Resource Cost		210 Man days £46k	80 Man days £18k	+/- 10%
Total Implementation Cost		£87,542k	£59,542k	+/- 10%

ONGOING SUPPORT AND MAINTENANCE COSTS (Proposed)

	Operational Cost	Tolerance
Service Provider Operation Cost	£ 527 per incident	+/- 0%
Service Provider Maintenance Cost	£ 0	+/- 0%
ELEXON Operational Cost	£220 per incident	+/-10%

IMPLEMENTATION COSTS P171 ALTERNATIVE

	Stand Alone Cost	P172 Alternative Incremental Cost	Tolerance	
Service Provider⁶ Cost			+/- 0%	
	Change Specific Cost	£41,542 ⁷	£41,542 ⁷	+/- 0%
	Release Cost ⁸	£0	n/a	+/- 0%
	Incremental Release	£0	£0	+/- 0%

⁸ In this case the Release cost is zero as there are no BSC Agent System changes

⁹ The cost of changes to TOMAS are included in this figure

	Cost			
	Total Service Provider Cost	£41,542	£41,542	
Implementation Cost				+/- 0%
	External Audit	£0	£0	+/-0%
	Design Clarifications	£0	£0	+/-0%
	Additional Resource Costs	£0	£0	+/-0%
	Additional Testing and Audit Support Costs	£0		+/- 0%
Total Demand Led Implementation Cost		£41,542k	£41,542k	

ELEXON Implementation Resource Cost		210 Man days £46k	80 Man days £18k	+/- 10%
Total Implementation Cost		£87,542k	£59,542k	+/- 10%

ONGOING SUPPORT AND MAINTENANCE COSTS (ALTERNATIVE)		
	Operational Cost	Tolerance
Service Provider Operation Cost	£527 per incident	+/- 10%
Service Provider Maintenance Cost	0	+/- 0%
ELEXON Operational Cost	£550 per incident	+/- 10%

3 RATIONALE FOR PANEL'S RECOMMENDATIONS

Proposed and Alternative Modifications

Having considered the arguments identified by the PSMG, the Report Phase consultation responses and the contents of the draft Modification Report, it is the majority view of the Panel that Proposed Modification P171 would better facilitate the Applicable BSC Objectives, as compared to both the current baseline and the Alternative Modification (as set out in section 1.4.2). Therefore, it is the majority view of the Panel that Proposed Modification P171 should be made.

Some Panel members were of the view that a retrospective change could not be justified under P171, as such they were of the view Alternative Modification P171 would not better facilitate the Applicable BSC Objectives, as compared to the current baseline. In addition, a number of Panel members were of the view that Alternative Modification P171 would not better facilitate the Applicable BSC Objectives, as compared to the Proposed Modification (on the grounds of the additional complexity in the process and the deviation from the established principle of actions being considered distinctly energy or System

balancing). As a result, it was the unanimous view of the Panel that Alternative Modification P171 should not be made.

Implementation Approach: Proposed Modification

As considered in detail in section 9, the recommended Implementation Date for Proposed Modification P171 allows a 5 Working Day lead time following an Authority decision in order to implement the Code changes. Documentation and process changes to support the amended Code obligations would then be delivered in the next available Release. Therefore, the recommended Implementation Date for P171 Proposed Modification is:

- 5 Working Days following an Authority determination.

It should be noted that there are significant implications in terms of the timing of an Authority decision on P171 in terms of the retrospective application of the proposal, refer to section 9 for details.

If approved, Proposed Modification P171 would be implemented retrospectively from 19 May 2004. As such, P171 would apply to all Emergency Instructions issued on or after this Settlement Day.

Implementation Approach: Alternative Modification

As considered in detail in section 9, the recommended Implementation Date for Alternative P171 allows a 5 Working Day lead time following an Authority decision in order to implement the Code changes. Documentation and process changes to support the amended Code obligations would then be delivered in the next available Release. Therefore, the recommended Implementation Date for P171 Proposed Modification is:

- 5 Working Days following an Authority determination.

It should be noted that there are significant implications in terms of the timing of an Authority decision on P171 in terms of the retrospective application of the proposal, refer to section 9 for details.

If approved, Proposed Modification P171 would be implemented retrospectively from 19 May 2004. As such, P171 would apply to all Emergency Instructions issued on or after this Settlement Day.

4 IMPACT ON BSC SYSTEMS AND PARTIES

An assessment has been undertaken in respect of BSC Systems and Parties and the following areas have been identified as potentially being impacted by the Proposed and Alternative Modifications.

4.1 BSCCo

4.1.1 Proposed

The CVA Programme and CVA Operations would be required to support implementation and document the processes for dealing with Emergency Instructions. In addition ELEXON Systems Assurance will be required to support the implementation of P171. An operational cost would also be incurred per Emergency Instruction.

Changes would also be required to TOMAS in order to allow prices to be calculated in accordance with Proposed Modification P171 (specifically to allow individual Acceptances to be treated as un-priced). The required changes to TOMAS would incur an estimated demand led cost of £33,700.

4.1.2 Alternative

The CVA Programme and CVA Operations will be required to support implementation and document the processes for dealing with Emergency Instructions. In addition ELEXON Systems Assurance will be

required to support the implementation of P171. BSCCo would also be required to support the Panel in the determination of the replacement Acceptances. Hence, an operational cost greater than that for the Proposed would be incurred per Emergency Instruction.

Changes would also be required to TOMAS in order to allow prices to be calculated in accordance with Alternative Modification P171. The required changes to TOMAS would incur an estimated cost of £33,700.

4.2 BSC Agents

4.2.1 Proposed

The BSC Agent (SAA) would be required to enter Emergency Instruction data into Settlement and adjust BSAD to give Energy Imbalance Prices as notified by BSCCo. This would require changes to documentation to formalise the process. In addition there would be an operational cost per incident for making the required data changes.

4.2.2 Alternative

The BSC Agent (SAA) would be required to enter Emergency Instruction data into Settlement and adjust the prevailing price of the Acceptance at a later Settlement Run. This would require changes to documentation to formalise process. In addition there would be an operational cost per incident for making the required data changes.

4.3 Impact on other systems and processes used by Parties

An assessment has been undertaken in respect of systems and processes used by Parties and the following areas have been identified as potentially impacted by the Modification Proposal.

System / Process	All Options
Settlement Calculations	Parties may be required to amend their systems to account for the amended treatment of Emergency Instructions within Settlement.

5 IMPACT ON CODE AND DOCUMENTATION

5.1 Impact on Balancing and Settlement Code

An assessment has been undertaken by the PSMG in respect of all Sections of the Code and the following areas have been identified as potentially impacted by the Modification Proposal.

5.1.1 Proposed Modification

Draft legal text for Proposed Modification P171 is included in Annex 1. The changes required are summarised here. NB: the drafting has retrospective effect from 19 May 2004 as specified within the text.

Section Q:

- Requirement for Transmission Company to indicate the issuing of Emergency Instructions via the BMRA added;
- Process for submission of post event Acceptance Data for Emergency Instructions defined;
- Emergency Instructions taken for 'System' reasons tagged as 'Excluded Acceptances' by the Transmission Company.

Section T:

- 'Excluded Acceptances' not included in the Period Priced Accepted Offer Volume or Period Priced Accepted Bid Volume, consistent with Acceptances which have been Continuous Acceptance Duration Limit (CADL) tagged.

Annex V:

- Publication of information relating to Emergency Instructions via BMRS.

Annex X:

- New definitions added.

5.1.2 Alternative Modification

Draft legal text for Alternative Modification P172 is included in Annex 1. The changes required are summarised here. NB: the drafting has retrospective effect from 19 May 2004 as specified within the text.

Section Q:

- Requirement for Transmission Company to indicate the issuing of Emergency Instructions via the BMRA added;
- Process for submission of post event Acceptance Data for Emergency Instructions defined;
- Emergency Instructions taken for 'System' reasons tagged as 'Excluded Acceptances' by the Transmission Company;
- Introduction of a process for identifying 'Deemed Bid-Offer Pairs' to replace those actually submitted by the Lead Party of the affected BM Unit (for the purpose of the Energy Imbalance Price calculation only). 'Deemed Bid-Offer Pairs' selected such that the 'Excluded Acceptance' would be represented in the Energy Imbalance Price calculation by Accepted Bid-Offer Paris equivalent to those that would have been taken by the Transmission Company to deliver an equivalent volume in the absence of the circumstances that gave rise to the Emergency Instruction.

Annex V:

- Publication of information relating to Emergency Instructions via BMRS.

Annex X:

- New definitions added.

5.1.3 Impact on Code Subsidiary Documents

An assessment has been undertaken by the PSMG in respect of all Code Subsidiary Documents and the following documents have been identified as potentially impacted by the Modification Proposal.

Item	Proposed / Alternative
SAA SD	The SAA Service Description would need to be amended to support the adjustment of BSAD in order to give Energy Imbalance Prices representative of the P171 methodology.
BSCP18	Amended in order to allow the Transmission Company to flag data Acceptance Data related to an Emergency instruction as specifically System balancing if appropriate.
BSCPXX	A new BSC Procedure for the processing of Emergency Instructions may be required.
NDFC	The NETA Data File Catalogue would require amendment.

5.2 Impact on other configurable items

An assessment has been undertaken by the PSMG in respect of other configurable items and the following have been identified as potentially impacted by the Modification Proposal.

Item	Proposed / Alternative
SAA URS	The SAA User Requirements Specification would need to be amended to support the adjustment of BSAD in order to give Energy Imbalance Prices representative of the P171 methodology.
IDD	New interface from BSCCo to Central Systems required

5.3 BSCCo Memorandum and Articles of Association

An assessment has been undertaken by the PSMG in respect of BSCCo Memorandum and Articles of Association as a consequence of the Proposed Modification and the Alternative Modification and no impact has been identified.

5.4 Impact on Core Industry Documents and supporting arrangements

Under P171 (Proposed and Alternative) the Transmission Company would determine whether an Emergency Instruction should be considered specifically as a System action. The Transmission Company indicated that this determination would be made in accordance with the methodology currently used to tag system actions for Balancing Services (as set out in the BSAD methodology statement). Transmission Company impact assessment indicated that a consequential change to the Condition C16 statements (specifically the Balancing Principles Statement) would be made to clarify this process. It should be noted that the implementation of P171 is not dependent on this change being made.

For the avoidance of doubt, the manual solution which requires the SAA to manipulate the BSAD file submitted by the Transmission Company does not impact either the BSAD methodology or the submission of BSAD by the Transmission Company.

6 SUMMARY OF CONSULTATIONS

The P171 draft Modification Report consultation was issued on 16 December 2004 with responses due on 23 December 2004.

Consultation question	Respondent agrees	Respondent disagrees	Opinion unexpressed
Do you agree with the Panel's views on Proposed Modification P171 and the provisional recommendation to the Authority contained in the draft Modification Report that Proposed Modification P171 should not be made?	7 (45)	7(11+1)	1(1)
Do you agree with the Panel's views on Alternative Modification P171 and the provisional recommendation to the Authority contained in the draft Modification Report that Alternative Modification P171 should not be made?	9(46+1)	3(8)	3(3)

Do you agree with the Panel's view that the legal text provided in the draft Modification Report correctly addresses the defect or issue identified in the Modification Proposal?	7(20)	1(15)	7(22+1)
Do you agree with the Panel's provisional recommendation concerning the Implementation Dates for P171?	12(51+1)	0	3(6)

6.1 Applicable BSC Objectives – Proposed Modification

The consultation respondents were split over whether the Proposed Modification would better facilitate achievement of the Applicable BSC Objectives. A number of respondents who supported the Proposed Modification noted that retrospective changes should generally be avoided. However, they felt that a retrospective change was justified in this circumstance. Respondents referred to the criteria set out in the P19 decision letter. In particular:

Predictability – A number of respondents felt that the issues raised under P171 were due to a combination of circumstances that could not have been reasonably foreseen i.e. the combination of a System fault requiring emergency action, the high negative Bid price, and insufficient Offer volume to tag out the System action.

One respondent also commented that it is reasonable for a Supplier to take a long position to avoid volatile System Buy Prices. Even if it had been aware of the risk of an Emergency Instruction having such an impact on Energy Imbalance Prices, it would be unlikely to change behaviour.

Materiality – A number of respondents referred to the significant financial impact resulting from the large negative System Sell Price on 19 May 2004. It was suggested that this incident was particularly material for small Parties.

Failure of the central arrangements – Some respondents also felt that it was wrong for Parties to be exposed to significant Energy Imbalance Prices as a result of an action taken primarily for System reasons. It was felt that the inclusion of this action in the Energy Imbalance Price was a failure of the central arrangements.

In addition to the points raised in relation to the criteria above, some respondents felt that retrospective implementation of P171 would increase market confidence by providing assurance that spurious and disproportionate actions can be rectified.

Those Parties that agreed with the Panel's view, that Proposed Modification P171 did not better facilitate achievement of the BSC Objectives felt that P171 failed to meet the criteria set out in the P19 decision letter for the reasons given by the Panel and Modification Group. In addition one respondent noted that retrospective changes with significant commercial impact can undermine investment decisions and competition.

6.2 Applicable BSC Objectives – Alternative Modification

The majority of the consultation respondents who supported Proposed Modification P171, also supported Alternative Modification P171 when compared to the current baseline for the reasons detailed above. A number of these respondents noted a preference for the Proposed Modification over the Alternative due to the reduced complexity and the consistency with the treatment of other System actions.

One respondent, who supported the Proposed Modification, did not support the Alternative Modification. This respondent felt that developing a proxy imbalance price is problematic and will introduce uncertainty, complexity and inefficiency into the operation of the central arrangements.

Those consultation respondents who were against the Proposed Modification were also against the Alternative Modification on the basis of its retrospective implementation. In addition one respondent noted that the Alternative Modification would introduce an inconsistent treatment of System actions and would be more complex than the Proposed Modification.

6.3 Draft Legal Text

The majority of respondents agreed that the draft legal text correctly addresses the defect or issue identified in the Modification Proposal. One respondent felt that although the legal text addresses the solution contained in the P171 Modification Report, the solution itself does not address the defect.

6.4 Recommended Implementation Date

All of those respondents who expressed an opinion agreed with the Proposed Implementation Date for the Alternative and Proposed Modifications, of 5 Working Days following an Authority decision.

6.5 Further Comments

One respondent commented that a retrospective change to address the P171 issue would increase market confidence as it would give investors comfort that the spirit of the rules will be applied. This respondent also noted that rejecting P171 would discriminate against small standalone players in favour of vertically integrated players.

Another respondent noted that all Panel members agreed that there was a flaw in the current rules, and were only split as to whether the rules should be changed retrospectively. The significant materiality for smaller participants must not remain unaddressed. Also the rules that allow large Bids to be submitted should be reviewed.

One respondent also noted that until the current arrangements are changed, all classes of market participant continue to face the risk that extreme prices will be applied to System Operator actions which impact industry cashflows.

7 SUMMARY OF TRANSMISSION COMPANY ANALYSIS

7.1 Analysis

The Transmission Company was of the view the Proposed or Alternative Modification would not impact its ability to efficiently discharge its obligations under the Transmission Licence or its ability to operate an efficient, economical and co-ordinated Transmission System. Also, the Transmission Company did not believe either the Proposed or Alternative Modification would have any impact on the security of supply. Minimal costs were identified in relation to the implementation of either the Proposed or Alternative Modification.

It was the view of the Transmission Company that the costs of balancing taken for "System" reasons should not affect Energy Imbalance Prices, and also that tagging these "System" actions is consistent with other tagging methodologies employed in the BSC to treat the Bid-Offer Acceptance as an un-priced volume. The Transmission Company was concerned that the use of a replacement price (i.e. the Alternative Modification) would be inconsistent with these other tagging methodologies and would require proof that this approach would be better than using un-priced volumes. The Transmission Company did not believe that a retrospective change was justified in this case due to the systems delivering the clearly specified requirements of the Code and the prior knowledge of high, negative Bid prices. As such, the retrospective nature outweighed the benefits brought by the solution, thus not better facilitating the achievement of Applicable BSC Objective c). Thus neither Proposed nor Alternative Modification P171 should be made. Also, the Transmission Company were of the view

Proposed Modification P171 better facilitates the achievement of Applicable BSC Objective c) compared to both the current baseline and Alternative Modification P171.

A further point was made by the Transmission Company regarding BSUoS charges and RCRC cashflows. At present, the RCRC payments will be approximately equal and opposite to the increase in BSUoS charges created by the Emergency Instruction. If P171 is implemented, this "offset" provided by the RCRC cashflow will be removed and this will simply serve to change the "winners and losers". The Transmission Company believe that the fundamental issue to be addressed is the cost of the Bid-Offer Acceptance as well as the impact on Energy Imbalance Prices. As such, the Transmission Company do not believe that P171 alone would achieve this.

7.2 Comments and views of the Panel

The Panel noted that the Transmission Company Analysis reported that implementation of P171 would have minimal impact on its processes and systems.

8 SUMMARY OF EXTERNAL ADVICE

None commissioned.

9 IMPLEMENTATION APPROACH

The PSMG recognised that due to the retrospective nature of P171 and the timing of the RF Run for the 19 May 2004 the implementation approach required significant consideration.

Three key drivers were identified in terms of the implementation approach:

1. The requirement to implement the P171 rules prior to the RF Run for the affected Settlement Day where possible;
2. A requirement to implement the formal supporting documentation and process changes within a formal Release in order to minimise costs; and
3. A requirement to implement the Code changes at the earliest opportunity in order to reduce the potential exposure to future Emergency Instructions (in relation to P171 this was a secondary consideration due to the retrospective nature of the change);

A number of implementation approaches were identified and ultimately the approach taken will be driven primarily by the timing of an Authority decision on P171.

9.1 Proposed Modification

In order to allow Proposed Modification P171 to be applied to the RF Run, the Implementation Date must be prior to the RF Run date. This sets one Implementation Date which must be before the RF Run Date, a number of implementation approaches have been identified that would allow this date to be met:

APPROACH P1: Manual Solution to Proposed Modification, Full Implementation for RF

Implementing the full solution (TOMAS changes, documentation, etc) in the June 05 Release would require a minimum 3 month lead time from an Authority decision to approve the Proposed Modification. Hence, the full solution could only be implemented in the RF Run if a decision is received three months before the June 05 Release. This defines Approach P1, such that if a decision were received by 30 March 2005 the Implementation Date would be 5 Working Days following the determination and the full solution would be implemented and utilised in the RF Run for 19 May 2004.

APPROACH P2: Manual Solution to Proposed Modification, Workaround for RF, Full Implementation in Later Release

In order to give the Authority additional time to make its decision a workaround could be used to deliver P171 within the RF Run. The full documentation changes would then be delivered in a later Release (with the workaround applying to any Emergency Instructions issued in the interim). Under the workaround only those elements of implementation critical to generating the required Imbalance Prices would be delivered as follows:

- Legal Drafting
- BRS defines process
- One off calculation of Imbalance Prices (through Spreadsheet) by ELEXON
- SAA adjusts BSAD file for RF Run
- Circular informs industry of process being followed

It was estimated that implementation via a workaround would require a lead time of 1 month from an Authority Decision to the RF Run. This defines Approach P2, such that if a decision is received by 15 June 2005 the Implementation Date would be 5 Working Days following the determination and the workaround would be utilised in the RF Run for 19 May 2004 with the full solution implemented in the November 05 Release.

APPROACH P3: Manual Solution to Proposed Modification, Trading Dispute and Full Implementation in Later Release

If an Authority decision to approve Proposed Modification P171 is received beyond 15 June 2005 it would not be possible to apply the changes to the RF Run and a Trading Dispute would be required to realise P171 in Settlement for 19 May 2004. Since P171 is retrospective the Implementation Date should then be the earliest date following Authority Approval, i.e. Authority Decision Date +5WD.

Since the RF Run would have passed it would be necessary for an affected Party to raise a Trading Dispute in order to introduce the change into Settlement. The TDC would then be required to consider the Trading Dispute and, if upheld, determine how the change should be entered into Settlement, two options have been identified:

1. Use the formalised manual process for the DF Run at SD+24 Months (May 2006); or
2. If the impact on affected Parties is significant it may be considered appropriate to use an Extra Settlement Determination in order to allow rectification at an earlier date, the process for doing this would have to be agreed and there could be a significant additional cost over and above those identified in this report.

As such there are clearly consequences of an Authority Decision date which would miss the RF Run (i.e. beyond 15 June 2005) and the PSMG noted that these need to be clearly communicated within the Modification Report.

This defines Approach P3, such that if a decision to approve Proposed Modification P171 is received after 15 June 2005 the Implementation Date would be Authority Decision Date +5WD and it would be necessary for a Trading Dispute to be raised to address 19 May 2004 and the full solution would be delivered in the next available Release (with a workaround applying to Emergency Instructions issued in the interim).

Conclusion:

- **An Authority decision would be required prior to 15 June 2005 in order to implement Proposed Modification P171 within the RF Run for 19 May 2004; and**

- **An Authority decision to approve Proposed Modification P171 beyond 15 June 2005 has cost implications.**

9.2 Alternative Modification

APPROACH A1: Manual Solution to Alternative Modification, Workaround for RF, Full Implementation in Later Release

In order to allow Alternative Modification P171 to be applied to the RF Run, the Implementation Date must be prior to the RF Run date. However, this date must provide sufficient time between the Implementation Date and the RF Run for replacement Acceptances to be agreed and entered into Settlement. The minimum lead time for implementing the Alternative Modification is longer due to the process to be followed in agreeing the replacement price. The only practical approach for implementing the Alternative in the RF Run is to use a workaround with the full documentation changes delivered in a later Release. Under the workaround only those elements of implementation critical to generating the required Imbalance Prices would be delivered as follows:

- Legal Drafting
- BRS defines process
- Replacement Acceptances agreed by Panel
- One off calculation of Imbalance Prices (through Spreadsheet) by ELEXON
- SAA adjusts BSAD file for RF Run
- Circular informs industry of process being followed

It was estimated that implementation via a workaround would require a total lead time of 2 months from Authority Decision to the RF Run (1 month to implement change and 1 month to agree replacement price and enter into Settlement).

If a decision is received by 13 May 2005 the Implementation Date would be Authority Decision Date +5WD and the workaround would be utilised in the RF Run for 19 May 2004 with the full solution implemented in the November 05 Release.

APPROACH A2: Manual Solution to Alternative Modification, Trading Dispute, Full Implementation in Later Release

If an Authority decision to approve Alternative Modification P171 is received beyond 13 May 2005 it would not be possible to apply the changes to the RF Run and it would be necessary for an affected Party to raise a Trading Dispute in order to introduce the change into Settlement. The TDC would then be required to consider the Trading Dispute and, if upheld, determine how the change should be entered into Settlement. Two options have been identified:

1. Use the formalised process for the DF Run at SD+24 Months (May 2006); or
2. If the impact on affected Parties is significant it may be considered appropriate to use an Extra Settlement Determination in order to allow rectification at an earlier date, this process for doing this would have to be agreed and there could be significant cost implications.

As such there are clearly consequences of an Authority Decision date which would miss the RF Run (i.e. beyond 13 May 2005) and the PSMG noted that these need to be clearly communicated within the Modification Report.

This defines Approach A2, such that if a decision is received after 13 May 2005 the Implementation Date would be Authority Decision Date +5WD and it would be necessary for a Trading Dispute to be

raised to address 19 May 2004, the full solution would be delivered in the next Release (with a workaround applying to Emergency Instructions issued in the interim).

Conclusion:

- **An Authority decision would be required prior to 13 May 2005 in order to implement Alternative Modification P171 within the RF Run for 19 May 2004; and**
- **An Authority decision to approve Alternative Modification P171 received beyond 15 June 2005 has cost implications.**

10 DOCUMENT CONTROL

10.1 Authorities

Version	Date	Author	Reviewer	Change Reference
0.1	14/12/04	Change Delivery	Change Delivery	Initial Draft
0.2	15/12/04	Change Delivery	Industry	For Consultation
0.3	29/12/04	Change Delivery	Change Delivery	Updated following consultation
0.4	06/01/05	Change Delivery	Panel	For Decision
1.0	18/01/05	Change Delivery	Change Delivery	For Decision

10.2 References

Ref No.	Document Title	Owner	Issue Date	Version	Hyperlink
1	Modification Proposal P171	-	25.08.2004	-	http://www.elexon.co.uk/documents/modifications/171/P171.pdf
2	Balancing Principles Statement	NGC	04.10.2004	4.1	http://www.nationalgrid.com/uk/indinfo/balancing/pdfs/Appendix_B_BPS_v1.pdf
3	Modification Proposal P171 Initial Written Assessment	ELEXON	03.09.2004	1.0	http://www.elexon.co.uk/documents/BSC_Panel_and_Panel_Committees/BSC_Panel_Meetings_2004_-_082_-_Papers/82_005a.pdf
4	Modification Proposal P172	-	25.08.2004	-	http://www.elexon.co.uk/documents/Change_and_Implementation/CVA_-_Circulars/P172.pdf
5	Modification Proposal P173	-	25.08.2004	-	http://www.elexon.co.uk/documents/Change_and_Implementation/CVA_-_Circulars/P173.pdf
6	Modification Proposal P175	-	01.10.2004	-	http://www.elexon.co.uk/documents/modifications/175/P175.pdf
7	Modification Proposal P171 and P172 Requirements Specification	PSMG	28.09.2004	1.0	http://www.elexon.co.uk/documents/modifications/172/P1712AS_FINAL_101.pdf

8	Modification Proposal P19 Decision Letter	Authority	01.08.2001	1.0	http://www.elexon.co.uk/documents/modifications/19/P19_Ofgem_Dec.pdf
9	Modification Proposal P37 Decision Letter	Authority	10.05.2002	1.0	http://www.elexon.co.uk/documents/modifications/37/P37D.pdf

ANNEX 1 LEGAL TEXT

Attachment 1 contains the legal text for both the Proposed and Alternative Modifications.

ANNEX 2 MODIFICATION GROUP DETAILS

Member	Organisation	14/09	11/10	12/11	22/11	29/11
Sarah Parsons	ELEXON (Chairman)	✓	✓	✓	✓	✓
Tom Bowcutt	ELEXON (Lead Analyst)	✓	✓	✓	✓	✓
Danielle Lane	(Proposer) P171 and P172	✓	X	X	x	X
Mark Duffield	Proposer P173	✓	✓	✓	✓	✓
Garth Graham	Scottish and Southern	✓	✓	✓	✓	✓
Man Kwong Liu	SAIC	X	X	✓	✓	✓
Bill Reed	RWE Trading	✓	✓	✓	✓	✓
Paul Jones	E.On Uk	✓	✓	✓	✓	✓
Lisa Waters	Waters Wye	✓	X	X	x	X
Jan Devito	Jade Energy	✓	X	✓	✓	X
Martin Mate	British Energy	✓	X	✓	x	✓
Helen Bray	EDF	x	✓	✓	✓	X
Mark Manley	BGT	x	✓	✓	✓	✓
Mark Brackley	National Grid	✓	✓	✓	✓	✓

Attendee	Organisation					
Simon Bradbury	Ofgem	✓	✓	✓	✓	✓
Fiona Lewis	Ofgem	✓	✓	✓	X	✓
Paul Chesterman	EDF	✓	X	X	X	✓
Adam Cooper	Entergy-Koch	✓	X	X	X	X
Rekha Patel	Conocophillips	✓	X	✓	X	X
Roger Salomone	ELEXON	x	✓	✓	✓	✓
Sanjukta Round	Cornwall Consulting	x	X	✓	X	X
Barbara Vest	GDF	x	Part	✓	X	X
Keith Munday	Bizz Energy	x	x	x	✓	X
John Capener	British Energy	x	x	x	✓	X
David White	ELEXON	✓	x	x	✓	X

David Ahmad	ELEXON (Lawyer)	✓	X	Part	x	X
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Terms of reference for the PSMG included:

- **Energy/ System balancing:** Details of an appropriate process or mechanism for differentiating between the energy and System balancing elements of Emergency Instructions P171;
- **Solution development:** Details of the solution to P171, including;
 - A mechanism to allow Emergency Instructions issued for System reasons to be differentiated within Settlement;
 - An assessment of the relative merits of both manual and automatic solutions; and
 - Details of the point in the Settlement/ Reconciliation process that the price of the Acceptance within the Imbalance Price calculation should be amended.
- **Retrospective Implementation:** An assessment of whether a retrospective change can be justified under P171 and an appropriate retrospective Implementation Date;
- **Background:** Details of the circumstances under which and Emergency Instruction may be issued under the Grid Code;
- **Consideration of the interaction with P172 and P173:** Details of the interaction between P171, P172 and P173; and
- **Alternative Modifications:** Details of any Alternative Modification that would better facilitate achievement of the Applicable BSC Objectives in comparison to P171.

ANNEX 3 ASSESSMENT REPORT

The P171 Assessment Report is provided as a separate attachment.

ANNEX 4 CLARIFICATION OF COSTS

There are several different types of costs relating to the implementation of Modification Proposals. ELEXON implements the majority of Approved Modifications under its CVA or SVA Release Programmes. These Programmes incur a base overhead which is broadly stable whatever the content of the Release. On top of this each Approved Modification incurs an incremental implementation cost. The table of estimated costs of implementing the Proposed/Alternative Modification given in section 2 of this report has three columns:

- **Stand Alone Cost** – the cost of delivering the Modification as a stand alone project outside of a CVA or SVA Release, or the cost of a CVA or SVA Release with no other changes included in the Release scope. This is the estimated maximum cost that could be attributed to any one Modification implementation.
- **Incremental Cost** - the cost of adding that Modification Proposal to the scope of an existing release. This cost would also represent the potential saving if the Modification Proposal was to be removed from the scope of a release before development had started.

- **Tolerance** – the predicted limits of how certain the cost estimates included in the template are. The tolerance will be dependent on the complexity and certainty of the solution and the time allowed for the provision of an impact assessment by the Service Provider(s).

The cost breakdowns are shown below:

PROGRESSING MODIFICATION PROPOSAL	
Meeting Cost	This is the cost associated with holding Modification Group meetings and is based on an estimate of the travel expenses claimed by Modification Group members.
Legal/expert Cost	This is the cost associated with obtaining external expert advice, usually legal advice.
Impact Assessment Cost	Service Provider Impact Assessments are covered by a pre-determined monthly contractual charge. Therefore the cost included in this report is an estimate based on the level of impact assessment that the modification is expected to require and may not reflect the actual cost attributed to the modification, which will be based on a percentage of the contractual impact assessment costs for each month that it is assessed.
ELEXON Resource	This is the ELEXON Resource requirement to progress the Modification Proposal through the Modification Procedures. This is estimated using a standard formula based on the length of the Modification Procedure.

SERVICE PROVIDER¹⁰ COSTS	
Change Specific Cost	Cost of the Service Provider(s) Systems development and other activities relating specifically to the Modification Proposal.
Release Cost	Fixed cost associated with the development of the Service Provider(s) Systems as part of a release. This cost encompasses all the activities that would be undertaken regardless of the number or complexity of changes in the scope of a release. These activities include Project Management, the production of testing and deployment specifications and reports and various other standard release activities.
Incremental Release Cost	Additional costs on top of base Release Costs for delivering the specific Modification Proposal. For instance, the production of a Test Strategy and Test Report requires a certain amount of effort regardless of the number of changes to be tested, but the addition of a specific Modification Proposal may increase the scope of the Test Strategy and Test Report and hence incur additional costs.

¹⁰ A Service Provider can be a BSC Agent or a non-BSC Agent, which provides a service or software as part of the BSC and BSC Agent Systems. The Service Provider cost will be the sum of the costs for all Service Providers who are impacted by the release.

IMPLEMENTATION COSTS	
External Audit	Allowance for the cost of external audit of the delivery of the release. For CVA BSC Systems Releases this is typically estimated as 10% of the total Service Provider Costs, with a tolerance of +/- 20%. At present the SVA Programme does not use an external auditor, so there is no External Audit cost associated with an SVA BSC Systems Release.
Design Clarifications	Allowance to cover the potential cost of making any amendments to the proposed solution to clarify any ambiguities identified during implementation. This is typically estimated as 5% of the total Service Provider Costs, with a tolerance of +/- 100%.
Additional Resource Costs	<p>Any short-term resource requirements in addition to the ELEXON resource available. For CVA BSC Systems Releases, this is typically only necessary if the proposed solution for a Modification Proposal would require more extensive testing than normal, procurements or 'in-house' development.</p> <p>For SVA BSC Systems Releases, this will include the management and operation of the Acceptance Testing and the associated testing environment.</p> <p>This cost relates solely to the short-term employment of contract staff to assist in the implementation of the release.</p>
Additional Testing and Audit Support Costs	Allowance for external assistance from the Service Provider(s) with testing, test environment and audit activities. Includes such activities as the creation of test environments and the operation of the Participant Test Service (PTS). For CVA BSC Systems Releases, this is typically estimated as £40k per release with at tolerance of +/-25%. For SVA BSC Systems Releases this is estimated on a Modification Proposal basis.

TOTAL DEMAND LED IMPLEMENTATION COSTS
This is calculated as the sum of the total Service Provider(s) Cost and the total Implementation Cost. The tolerance associated with the Total Demand Led Implementation Cost is calculated as the weighted average of the individual Service Provider(s) Costs and Implementation Costs tolerances. This tolerance will be rounded to the nearest 5%.

ELEXON IMPLEMENTATION RESOURCE COSTS
<p>Cost quoted in man days multiplied by project average daily rate, which represents the resources utilised by ELEXON in supporting the implementation of the release. This cost is typically funded from the "ELEXON Operational" budget using existing staff, but there may be instances where the total resources required to deliver a release exceeds the level of available ELEXON resources, in which case additional Demand Led Resources will be required.</p> <p>The ELEXON Implementation Resource Cost will typically have a tolerance of +/- 5% associated with it.</p>

ONGOING SUPPORT AND MAINTENANCE COSTS	
ELEXON Operational Cost	Cost, in man days per annum multiplied by project average daily rate, of operating the revised systems and processes post implementation.
Service Provider Operation Cost	Cost in £ per annum payable to the Service Provider(s) to cover staffing requirements, software or hardware licensing fees, communications charges or any hardware storage fees associated with the ongoing operation of the revised systems and processes.
Service Provider Maintenance Cost	Cost quoted in £ per annum payable to the Service Provider(s) to cover the maintenance of the amended BSC Systems.