

Modification Proposal – F76/01**MP No: 171***(mandatory by BSCCo)***Title of Modification Proposal** *(mandatory by originator):***Retrospective removal of Emergency Instructions taken for System reasons from Imbalance Price****Submission Date** *(mandatory by originator):***25 August 2004****Description of Proposed Modification** *(mandatory by originator)*

On May 19 2004 the System Operator (SO) issued an Emergency Instruction to Damhead Creek Power Station to stop them exporting onto the Transmission System. In accordance with the Grid Code BC 2.9.2.3 this instruction should have been treated as a Bid Offer Acceptance (BOA). Section Q 5.1.3 then provides the link between the Grid Code and the BSC by outlining a list of communications that will be classified as Acceptances. British Gas Trading (BGT), in raising this modification proposal, is not proposing to change the process for issuing an Emergency Instructions merely how they are included in the calculation of imbalance prices.

The SO currently has the ability to tag forward contracts which includes Energy Related Products, PGB Transactions and System to System services as System or Energy related. This is in accordance with the Balancing Services Adjustment Data Methodology Statement (BSAD). If the SO tags the instruction as being system related it is treated differently in the calculation of imbalance prices. The volume is fed into the calculation to determine the Net Imbalance Volume (NIV) but with a zero price.

BGT is looking to extend the ability of the SO to tag instructions to include Emergency Instructions taken for System reasons within gate closure. These instructions will then be treated in the same manner as pre gate closure actions: the volume will be included in the calculation on NIV but with a zero price. BGT would like to clarify that the extension of powers for the SO would only relate to Emergency Instructions taken for System reasons; if the Emergency Instruction is taken for Energy purposes it will be treated no differently than any other BOA.

In raising this modification proposal we are intending that it has a retrospective effect and that it unwinds the impact of the BOA on Imbalance prices in settlement periods 27 and 28 on 19 May. The decision letter for P37 provided the criteria against which Ofgem have considered retrospective modification proposals. One of the criteria the letter refers to is a combination of circumstances that could not have been reasonably foreseen. BGT do not believe the scenario that occurred on the 19 May 2004 could have been reasonably foreseen that as a consequence of a fault on the transmission system that a 'sleeper' bid would have been accepted at -£9,999. Furthermore this is the first Emergency Instruction that has been issued by NGC in nearly 3 ½ years of NETA operation. Ofgem also stated that for a retrospective change to be justified, the loss sustained would need to be material. BGT believe the loss is material and based on some indicative calculations the twenty most impacted Parties are facing imbalance charges of approximately £3.6 million. The list of the most impacted Parties includes a wide range of participants including a number of smaller market participants.

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ELEXON Circular EL01201 sent on the 20 August provided details on a dispute that the Trading Disputes Committee (TDC) had recently upheld. The dispute related to the Emergency Instruction issued by the SO to Damhead Creek on the 19 May. Due to the financial impact of the BOA, NGC did not submit the BOA into settlements and Damhead Creek Power Ltd subsequently raised a dispute to allow the inclusion of the BOA in settlements. The approval of the dispute has changed the System Sell Price (SSP) for time periods 27 and 28 from £14.99MWh and £14.95MWh to -£96.68MWh and -£5,870MWh respectively.

This emergency instruction was clearly taken for System reasons due to a locational fault on the transmission system. The imbalance prices are intended to be reflective of the cost of Energy balancing actions taken by the SO. This is outlined by Ofgem in the P144 decision letter which states “It is therefore Ofgem’s view that the methodology for the calculation of Energy Imbalance Prices as set out in the BSC should be designed such that it best distinguishes, where practicable, between balancing actions taken for Electricity Balancing reasons and balancing actions taken for System Balancing reasons.” This has clearly not happened on the 19 May in time periods 27 and 28 where we have a System action polluting the Energy Imbalance Prices. This is contrary to Ofgem’s thinking. Furthermore in the P78 decision document the *raison d’être* for Imbalance cashout is to “ensure that any electricity not covered by contracts is paid for or charged at a price that relates to the costs that the SO has incurred in undertaking Electricity Balancing actions.” The Emergency Instruction was taken for a locational reason due to a fault on the transmission system not to assist the SO with Energy Balancing.

Impact on Code *(optional by Originator)*

BGT is of the view that Section T of the BSC will need amending to enable the SO to flag Emergency Instructions that have been taken for System reasons.

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There may be some impact on the Transmission Licence Condition AA4 statements.

Impact on BSC Systems and Other Relevant Systems and Processes Used by Parties *(optional by originator)*

BGT believes there may need to be some changes made to BSC Central Systems and to the SO systems to allow this type of instructions to be tagged.

Impact on other Configurable Items *(optional by originator)***Justification for Proposed Modification with Reference to Applicable BSC Objectives** *(mandatory by originator)*

BGT believes this modification proposal will better facilitate 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” in the following ways:-

- The Emergency Instruction issued on May 19 has fundamentally undermined the original intent of Imbalance prices which are supposed to be based upon Electricity Balancing actions taken by the SO. This has resulted in a large number of BSC Parties being hit with an erroneously large imbalance price that is unrepresentative of the Electricity Balancing actions taken by the SO.
- Allowing retrospective correction in this very unusual, unexpected circumstances provides comfort to both existing and prospective participants and thus encourages active participation in electricity trading thereby promoting effective competition.

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