

MODIFICATION PROPOSAL P137 'REVISED CALCULATION OF SYSTEM BUY PRICE AND SYSTEM SELL PRICE'

PROPOSED TERMS OF REFERENCE

DEFINITION ISSUES

- 1.1 Definition of an appropriate marginal price: P137 defines the marginal price in the Modification Proposal, however, there may be additional issues that need to be considered in terms of the exact application of that price (for example, issues as to whether the Acceptance in question was delivered, or whether there is a sufficient volume of that Acceptance remaining in the Net Imbalance Volume for it to set a price, and whether a de-minimis volume needs to be defined); and
- 1.2 Definition of the Settlement calculations to support P137: P137 provides a relatively detailed view of the mechanism for calculating the main price. However, there are aspects of the calculation that need to be explored and defined further, for example, the exact nature of the netting of balancing actions on BM Units, the inclusion of BSAD into the calculation, and the impact on the complex defaulting rules.

ASSESSMENT ISSUES

- 1.3 Assessment of the Modification Proposal against the Applicable BSC Objectives: Consideration should be given as to whether, and how, P137 better facilitates achievement of the Applicable BSC Objectives than the current baseline. Specific issues arising from the achievement of Applicable BSC Objectives may include (but are not limited to);

- 3(b) – 'The efficient, economic and co-ordinated operation by the Transmission Company of the Transmission System'. The basis for assessment could use:

The following points have been developed by considering certain views of the Authority, as expressed in a number of decision letters regarding previous Modifications.

- Provision of more accurate signals from the Transmission Company (System Operator) of the costs of balancing the system;
- More efficient incentives to achieve individual balance and overall system balance;

- The improved accuracy of (physical position) information given to the Transmission Company (System Operator) in advance of Gate Closure to ensure that it can make informed decisions about balancing the system, and the incentives on participants to provide such information.
- 3(c) – ‘Promoting effective competition in the generation and supply of electricity, and (so far as is consistent therewith) promoting such competition in the sale and purchase of electricity’. The impact of P137 on all energy markets and mechanisms (including the Balancing Mechanism) should be assessed. The basis for assessment could use:

The following points have been developed by considering certain views of the Authority, as expressed in a number of decision letters regarding previous Modifications.

- The improvement of targeting of energy imbalance costs back to those participants that cause them, and the extent to which this promotes competition by preventing cross subsidies;
- The extent to which Energy Imbalance Prices are more reflective of the costs the Transmission Company (System Operator) has incurred in taking energy balancing actions; and
- The impact on the promptness of Energy Imbalance Price reporting and its effect on market transparency.

The following points are additional to those defined above, and are considered to be relevant to the assessment of the Modification Proposal against this Applicable Objective:

- The formation of Energy Imbalance Prices should not distort, but inform, the forwards / spot markets in electricity;
- An assessment of the effect of P137 on liquidity in the market;
- An assessment of the potential for market manipulation resulting from the implementation of P137, and consequentially, an assessment of any distortion or reduction in competition resulting from the ability to manipulate the marginal price;
- The level of any change in incremental costs incurred by BSC Parties and passed back to consumers (to be determined by consultation); and
- An assessment of the changes to risk, and consequential risk management from P137.
- 3(d) – ‘efficient administration’. An assessment of whether the potential improvements in the above Applicable Objectives outweigh the costs of administering the modified trading arrangements.

- 1.4 The assessment of the previously defined arguments will contribute to, but not constrain, the development of more detailed points for assessing the Modification against the current baseline. The PSMG will then consider how the Modification changes the incentives provided to market participants and consequently draw qualitative conclusions on the likely impact of the Modification. If required, appropriate quantitative analysis may be performed in order to assess the likely range of outcomes, for example, cash-out prices, forward markets etc.

INTERACTION WITH OTHER MARKETS

- 1.5 Transmission Company amendments: Any amendments to the Transmission Company processes, systems and documentation required to support this Modification Proposal will not be assessed by the PSMG. However, the Assessment Report for P137 should highlight any dependencies between implementation of P137 and consequential changes to the Transmission Company to ensure a consistent implementation approach. Also, amendments to the Transmission Company's documentation may require further changes to the BSC / Code Subsidiary documentation, and these need to be identified and assessed as part of the solution to the Modification Proposal; and
- 1.6 Balancing Services Adjustment Data: Following on from the above point, the Modification proposes that BSAD be amended. This Modification may require amendment to the Transmission Company owned 'BSAD Methodology Statement', and consequentially to the BSC Systems that receive, publish and utilise BSAD. Therefore these amendments have an impact on the BSC and BSC Systems which needs to be understood and assessed as part of the solution to P137.

INTERACTION WITH OTHER MODIFICATION PROPOSALS

- 1.7 Approved Modification P78 'Revised Definitions of System Buy Price and System Sell Price', as the issues considered during the Assessment Procedure for that Modification may have some relevance to P137, and the Authority determination on P78 may also provide useful indicators and guidance for progressing P137;
- 1.8 Rejected Modification Proposal P90 'Improving the Representation of Energy Balancing Actions in Cashout Prices', as the issues considered during the Assessment Procedure for that Modification may have some relevance to P137, specifically in regards to the use of disaggregated BSAD. Furthermore the Authority determination (rejection of the Modification Proposal) on P90 may also provide useful indicators and guidance for progressing P137;
- 1.9 Modification Proposal P135 'Marginal System Buy Price During Periods of Demand Reduction';
- 1.10 Modification Proposal P136 'Marginal Definition of the 'Main' Energy Imbalance Price';
- 1.11 The amendment to the formulation of Option fees proposed by P137: Rejected Modification Proposal P3 'Correction of Price Spikes Generated by De-Minimis NGC Purchases' and Approved Modification P8 'Introduction of a Price Adjuster to Reflect

Option Fees for Balancing Services Contracts in Setting System Buy Price and System Sell Price' both assessed / considered the use and representation of Option Fees in the Energy Imbalance Price calculation. Therefore the Authority determinations in respect of these Modifications may provide useful information.

TECHNICAL IMPLEMENTATION ISSUES

- 1.12 Impact on Credit Cover arrangements resulting from any (general) change to Energy Imbalance Prices from P137;
- 1.13 Impact on other Settlement calculations: The impact of the implementation of P137 on other aspects of Settlement should be considered, for example:
- Ensuring that the amended NIV Tagging rules (as to how balancing actions are represented in the NIV stack) are robust and appropriate;
 - Ensuring that the complex default rules are robust to all potential circumstances; and
 - Exploring persistent effects on the Residual Cashflow Reallocation Cashflow (RCRC) from the implementation of P137.

This should ensure a complete and consistent solution to the Modification Proposal; and

- 1.14 Settlement Day implementation: A Settlement Day implementation leads to an overlap of Settlement calculations for a period after implementation. Issues may arise from this implementation and these should be considered and addressed, for example, BSC Parties, ELEXON and the Transmission Company will be required to support two versions of the Settlement Report (SAA-I014), one for Settlement Days prior to the Implementation Date and one for Settlement Day post implementation, as a consequence of the amended reporting requirements of P137.