

November 2002

**URGENT MODIFICATION REPORT
MODIFICATION PROPOSAL P104-
Amendments to the Solution to P78
'Revised Definition of System Buy
Price and System Sell Price'**

Prepared by ELEXON on behalf of the Balancing
and Settlement Code Panel

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The Gas and Electricity Markets Authority	Ofgem
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1 SUMMARY AND RECOMMENDATIONS

1.1 Recommendation

On the basis of the analysis, consultation and assessment undertaken in respect of this Modification Proposal, the Balancing and Settlement Code Panel ('the Panel') recommends that:

- **The Proposed Modification P104, as set out in section 3 of this Urgent Modification Report, should be made with an Implementation Date of 25 February 2003 (consistent with the Implementation Date for Proposed Modification P78), where an Authority decision is received by 13 December 2002.**

1.2 Background

Modification Proposal P104 'Amendments to the Solution to P78 'Revised Definition of System Buy Price and System Sell Price'' (P104) was raised by the Panel on 17 October 2002. The Panel agreed with the recommendation of BSCCo, to raise Modification Proposal P104, which seeks to correct two minor inconsistencies in the legal drafting for Proposed Modification P78, which could lead to material errors in the calculation of Energy Imbalance Prices.

Modification Proposal P104 was therefore raised in accordance with Section F 2.1.1 (d) (iv) of the Code, which allows a Modification Proposal to be raised 'on the recommendation of BSCCo to rectify manifest errors in or to correct minor inconsistencies (or make other minor consequential changes) to the Code'.

BSCCo requested that Modification Proposal P104 be treated as Urgent, due to the significant interaction with the implementation of Proposed Modification P78 and the Implementation Date of 25 February 2003. This request and proposed timetable, was granted by the Panel and confirmed by the Authority (on Monday 21 October 2002, see Annex 2).

The following table contains the agreed process and timetable for Urgent Modification Proposal P104.

ACTIVITY	DATE
Modification Group agree proposed solution by correspondence	By 16:00 hrs – 25 October 2002
Draft Consultation Document and issue to Parties	25 October 2002
Consultation Responses due back	By 08:00 hrs 5 November 2002
Draft Urgent Modification Report reviewed and agreed by Modification Group.	8 November 2002
Urgent Modification Report submitted to the Panel for consideration	8 November 2002
Panel consideration of draft Urgent Modification Report	14 November 2002
Final Urgent Modification Report submitted to the Authority	15 November 2002

The minor inconsistencies in the legal drafting for Proposed Modification P78 were discovered during the detailed development and implementation of Modification Proposal P78. Both issues have an impact on the development and implementation of Proposed Modification P78 within the BSC Systems. Therefore, Modification Proposal P104 seeks to address the issues, such that Proposed Modification P78 can be implemented on 25 February 2003, with a 'correct' solution, in line with the intent of Proposed Modification P78.

Given the interdependency with Proposed Modification P78, the same Implementation Date is proposed for Urgent Modification Proposal P104.

An expert group for Modification Proposal P78, which consisted of members and attendees of the Modification Group that undertook the Assessment Procedure for Modification Proposal P78, were involved in the drafting of the Modification Proposal as they were requested to provide views on the solutions to the two issues, with the main aim of ensuring consistency with the intent of the solution to Proposed Modification P78. The expert group agreed, by correspondence, the solutions to be set out in the Modification Proposal P104.

Following the Authority's agreement that Modification Proposal P104 should be treated as urgent, the final legal drafting for Urgent Modification Proposal P104 was completed. The P104 Modification Group considered the legal drafting by correspondence, and at a meeting on Thursday 24 October 2002 and agreed the legal drafting in accordance with the Urgent Modification Proposal timetable.

This Urgent Modification Report was submitted for industry consultation on Friday 25 October 2002, with responses due by 08:00 on Tuesday 5 November 2002.

Seven consultation responses, on behalf of eighteen Parties, were received in respect of the draft Urgent Modification Report. All supported the provisional recommendation that Modification Proposal P104 should be made.

The Panel considered the draft Urgent Modification Report at its meeting of 14 November 2002 and noted the consultation responses. The Panel unanimously agreed to recommend to the Authority that Proposed Modification P104 should be made with an Implementation Date of 25 February 2003, should an Authority determination be issued by 13 December 2002.

1.3 Rationale for Recommendations

The issues set out in the Modification Proposal result from minor inconsistencies in the legal drafting which gives effect to Proposed Modification P78. However, if these inconsistencies are not addressed in the implementation and development of Proposed Modification P78 in the BSC Systems, they may lead to material errors in the implementation of Proposed Modification P78. This may result in circumstances where no Energy Imbalance Price can be calculated. Therefore, it is paramount to ensure that the Energy Imbalance Price calculations are sufficiently robust to enable a price to be calculated under all potential circumstances.

Modification Proposal P104 better facilitates achievement of the Applicable BSC Objective 3(d) 'Promoting efficiency in the implementation and administration of the balancing and settlement arrangements'. The rationale is that a swift resolution of the issues would prevent further expenditure by BSCCo in the development and implementation of Proposed Modification P78, as the solution can be incorporated at this stage of development with little additional burden, and enabling the development and implementation timetable to be adhered to.

It is also more efficient for BSCCo and the BSC Central Systems to implement a robust solution to Proposed Modification P78 on the scheduled Implementation Date (25 February 2003), rather than delaying the Implementation Date, or 'going live' with an inconsistent and insufficiently robust solution, requiring further change.

2 INTRODUCTION

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

This Modification Report is addressed and furnished to the Gas and Electricity Markets Authority ('the Authority') and none of the facts, opinions or statements contained herein may be relied upon by any other person.

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

3 DESCRIPTION OF PROPOSED MODIFICATION

Issue 1

The defect identified in P104 is related to the equation for calculating the Net Imbalance Volume (Section T 4.4.4A). The equation is as follows:

4.4.4A In respect of each Settlement Period, the Net Imbalance Volume will be determined as follows:

$$NIV_j = \{\sum_i \sum^n QAPO_{ij}^n + EBVA_j + SBVA_j + TQUAO_j\} - \{\sum_i \sum^n (-QAPB_{ij}^n) + (-ESVA_j) + (-SSVA_j) + (-TQUAB_j)\}$$

where \sum_i is the sum over all BM Units and \sum^n is the sum over all Bid-Offer Pair Numbers for the BM Unit.

However, the $\sum_i \sum^n QAPO_{ij}^n$ and $\sum_i \sum^n (-QAPB_{ij}^n)$ variables include De Minimis Acceptance volumes, as these have not excluded by limiting the ' \sum^n ' to those Acceptances that are not De Minimis Acceptances.

In order for the Energy Imbalance Price rules to work as intended, the Net Imbalance Volume must equal the difference in size between the Bid and Offer stacks in the NIV Tagging process. However, this is not currently the case, because De Minimis Acceptances are included in the Net Imbalance Volume, but excluded from the Bid and Offer stacks. This may have the effect of meaning that under certain circumstances no Energy Imbalance Price can be calculated.

The description of Proposed Modification P78 (Assessment Report, Requirements Specification and Modification Report) is clear that the Net Imbalance Volume is calculated following the application of CADL, DMAT and Arbitrage, (and following the re-inclusion of the CADL'ed volume into the stacks). Therefore this issue is an inconsistency in the legal drafting of T 4.4.4A, which requires amendment to remove De Minimis (and Arbitrage, for consistency) volumes from the Net Imbalance Volume calculation, as set out in section 5.

Issue 2

During the detailed implementation and development work on Proposed Modification P78, it was noted that the proposed Energy Imbalance Price mechanism is silent on the circumstances where there are no balancing actions (and therefore volume) eligible for use in the (main) Energy Imbalance Price calculation.

During the Assessment of Modification Proposal P78, the formulation of the Energy Imbalance Price calculations were considered, in particular, how to address untagged system volumes (i.e. 'known'

system (CADL / SBSAD) contributing to the Net Imbalance Volume). The principle behind Modification Proposal P78 is the exclusion of system balancing actions from setting the Energy Imbalance Prices, and therefore system balancing actions reflected in the Net Imbalance Volume (i.e. system volumes (CADL'ed Acceptances and System BSAD) were excluded from going forward to set the Energy Imbalance Price.

The Modification Group considered incorporating the current default rules (or a variation of them, recognising the concerns raised by P79), but agreed that this would not be in keeping with the principle of the Modification, as the key feature of P78 is the differentiation between system and energy balancing and the subsequent targeting of the costs of energy balancing at those in imbalance in the same direction as the NIV.

Therefore, where there is a zero volume of balancing actions in the Energy Imbalance Price calculation, the most appropriate course of action is to default to the Energy Imbalance Price calculated from the Market Index Data. It is believed that this is consistent with the principle and intent of the Modification.

In addition, it should be noted that under these sorts of circumstances, the current mechanisms for differentiating between system and energy balancing (CADL and Transmission Company assessment of the BSAD) could be considered to have not identified system balancing actions (as the Net Imbalance Volume Tagging has left system volumes in the Net Imbalance Volume). Therefore, the NIV Tagged system volumes are reported, so that the volumes could be monitored to determine whether there were consistently 'system' volumes (i.e. CADL and SBSAD) remaining untagged, and therefore contributing to the Net Imbalance Volume, such that the mechanisms for setting these volumes could be reviewed and amended where relevant.

The calculation (Section T 4.4.5, 4.4.6 and 4.4.6A) requires amendment to reflect the required course of action. Under the circumstances detailed, this will be to default to the market based reverse price, i.e. the Energy Imbalance Price set from the Market Index Data, as set out in section 5.

4 IMPACT FROM IMPLEMENTATION OF MODIFICATION PROPOSAL P104

Amendments are required to the BSC Systems (the Settlement Administration Agent (SAA) and the Balancing Mechanism Reporting Agent (BMRA)) for calculating the Net Imbalance Volume and Energy Imbalance Price. However, it should be noted that as Proposed Modification P78 is currently being developed and implemented, it is expected that the amendments for Modification Proposal P104 could be incorporated into the solution under development, such that there is little additional development and implementation effort required.

However, if the solution for Modification Proposal P104 cannot be agreed and made as part of the P78 development, then there will be a material impact on the BSC Systems, in terms of 'backing out' the solution that incorporates the inconsistencies in the legal drafting, and amending the solution to correct the inconsistencies.

Under the circumstances where the solution set out in this Modification Proposal is required to be implemented after a material amount of development on P78, there is a material impact on the BSC Systems which may endanger the current Implementation for Proposed Modification P78, namely 25 February 2003, and incur significant additional development and implementation costs.

If the solution can be approved expeditiously, then it is expected that there will be no impact on BSC Parties development and implementation of their solution to Proposed Modification P78. However, if the solution set out in this Modification Proposal is required to be implemented after a material amount of

development on P78, there is the potential for this to have a material impact on BSC Parties development to support Proposed Modification P78.

5 LEGAL TEXT TO GIVE EFFECT TO PROPOSED MODIFICATION P104

5.1 Proposed Modification P104: Conformed Version

Section T (v7.0 incorporating approved but not implemented amendments to Section T)

Section T 4.4.4A

Paragraph 4.4.4A of Section T shall be amended as follows:

4.4.4A In respect of each Settlement Period, the Net Imbalance Volume will be determined as follows:

$$NIV_j = \{\sum_i \sum^n QAPO_{ij}^n + EBVA_j + SBVA_j + TQUAO_j\} - \{\sum_i \sum^n (-QAPB_{ij}^n) + (-ESVA_j) + (-SSVA_j) + (-TQUAB_j)\}$$

where \sum_i is the sum over all BM Units and \sum^n is either the sum over all Accepted Bid Offers ~~Pair Numbers for the BM Unit that are not De Minimis Accepted Offers and not Arbitrage Accepted Offers, or the sum over all Accepted Bids that are not De Minimis Accepted Bids and not Arbitrage Accepted Bids, as the case may be.~~

Section T 4.4.5

Paragraph 4.4.5 of Section T shall be amended as follows:

4.4.5 In respect of each Settlement Period:

- (a) if the Net Imbalance Volume is not equal to zero, and is a positive number, and $\{\sum_i \sum^n \{QAPO_{ij}^n * TLM_{ij}\} + UEBVA_j\}$ is not equal to zero, then the System Buy Price will be determined as follows:

$$SBP_j = \{\{\sum_i \sum^n \{QAPO_{ij}^n * PO_{ij}^n * TLM_{ij}\} + UEBVA_j\} / \{\sum_i \sum^n \{QAPO_{ij}^n * TLM_{ij}\} + UEBVA_j\}\} + \{BPA_j\}$$

where \sum_i represents the sum over all BM Units and \sum^n represents the sum over those accepted Offers that are not De Minimis Accepted Offers and not Arbitrage Accepted Offers and not NIV Tagged Offers;

- (b) if the Net Imbalance Volume is equal to zero, or is a negative number, and / or $\{\sum_i \sum^n \{QAPO_{ij}^n * TLM_{ij}\} + UEBVA_j\}$ is equal to zero, then the System Buy Price will (subject to paragraph 4.4.6A) be determined as follows:

$$SBP_j = \sum_s \{PXP_{sj} * QXP_{sj}\} / \sum_s \{QXP_{sj}\}$$

where \sum_s represents the sum over all Market Index Data Providers;

provided that, if the Net Imbalance Volume is a negative number and SSP_j as determined in accordance with paragraph 4.4.6(a) would exceed SBP_j as determined in this paragraph (b), then SBP_j shall instead be equal to SSP_j as determined in accordance with paragraph 4.4.6(a).

Section T 4.4.6

Paragraph 4.4.6 of Section T shall be amended as follows:

4.4.6 In respect of each Settlement Period:

- (a) if the Net Imbalance Volume is not equal to zero, and is a negative number, and $\{\sum_i \sum^n \{QAPB_{ij}^n * TLM_{ij}\} + UESVA_j\}$ is not equal to zero, then the System Sell Price will be determined as follows:

$$SSP_j = \{ \{ \sum_i \sum^n \{ QAPB_{ij}^n * PB_{ij}^n * TLM_{ij} \} + UESCA_j \} / \{ \sum_i \sum^n \{ QAPB_{ij}^n * TLM_{ij} \} + UESVA_j \} \} + \{ SPA_j \}$$

where \sum_i represents the sum over all BM Units and \sum^n represents the sum over those accepted Bids that are not De Minimis Accepted Bids and not Arbitrage Accepted Bids and not NIV Tagged Bids;

- (b) if the Net Imbalance Volume is equal to zero, or is a positive number, and / or $\{\sum_i \sum^n \{QAPB_{ij}^n * TLM_{ij}\} + UESVA_j\}$ is equal to zero, then the System Sell Price will (subject to paragraph 4.4.6A) be determined as follows:

$$SSP_j = \sum_s \{ PXP_{sj} * QXP_{sj} \} / \sum_s \{ QXP_{sj} \}$$

where \sum_s represents the sum over all Market Index Data Providers;

provided that, if the Net Imbalance Volume is a positive number and SSP_j as so determined would exceed SBP_j as determined in accordance with paragraph 4.4.5(a), then SSP_j shall instead be equal to SBP_j as determined in accordance with paragraph 4.4.5(a).

Section T 4.4.6A

Paragraph 4.4.6A of Section T shall be amended as follows:

4.4.6A Without prejudice to paragraph 1.5A.4(b) and 1.5A.6(b), if for whatever reason (including the submission or deemed submission of zero values or the absence of Market Index Data) in respect of a Settlement Period:

$$\sum_s QXP_{sj} = 0$$

where \sum_s represents the sum over all Market Index Data Providers,

then (notwithstanding paragraphs 4.4.5(b) and 4.4.6(b)):

- (a) if the Net Imbalance Volume is a positive number, and $\{\sum_i \sum^n \{QAPO_{ij}^n * TLM_{ij}\} + UEBVA_j\}$ is not equal to zero, SSP_j shall be equal to SBP_j as determined in accordance with paragraph 4.4.5(a);

- (b) if the Net Imbalance Volume is a positive number, and $\{\sum_i \sum^n \{QAPO_{ij}^n * TLM_{ij}\} + UEBVA_j\}$ is equal to zero, each of SBP_j and SSP_j shall be zero;

~~(b)~~ (c) if the Net Imbalance Volume is a negative number, and $\{\sum_i \sum^n \{QAPB_{ij}^n * TLM_{ij}\} + UESVA_j\}$ is not equal to zero, SBP_j shall be equal to SSP_j as determined in accordance with paragraph 4.4.6(a); ~~and~~

~~(d)~~ if the Net Imbalance Volume is a negative number, and $\{\sum_i \sum^n \{QAPB_{ij}^n * TLM_{ij}\} + UESVA_j\}$ is equal to zero, each of SBP_j and SSP_j shall be zero; and

~~(e)~~ (e) if the Net Imbalance Volume is zero, each of SBP_j and SSP_j shall be zero.

5.2 Proposed Modification P104: Clean Version

Section T (v7.0 incorporating approved but not implemented amendments to Section T)

Section T 4.4.4A

Paragraph 4.4.4A of Section T shall be replaced with the followings:

4.4.4A In respect of each Settlement Period, the Net Imbalance Volume will be determined as follows:

$$NIV_j = \{\sum_i \sum^n QAPO_{ij}^n + EBVA_j + SBVA_j + TQUAO_j\} - \{\sum_i \sum^n (-QAPB_{ij}^n) + (-ESVA_j) + (-SSVA_j) + (-TQUAB_j)\}$$

where \sum_i is the sum over all BM Units and \sum^n is either the sum over all Accepted Offers that are not De Minimis Accepted Offers and not Arbitrage Accepted Offers, or the sum over all Accepted Bids that are not De Minimis Accepted Bids and not Arbitrage Accepted Bids, as the case may be.

Section T 4.4.5

Paragraph 4.4.5 of Section T shall be replaced with the following:

4.4.5 In respect of each Settlement Period:

(a) if the Net Imbalance Volume is not equal to zero, and is a positive number, and $\{\sum_i \sum^n \{QAPO_{ij}^n * TLM_{ij}\} + UEBVA_j\}$ is not equal to zero, then the System Buy Price will be determined as follows:

$$SBP_j = \{\{\sum_i \sum^n \{QAPO_{ij}^n * PO_{ij}^n * TLM_{ij}\} + UEBVA_j\} / \{\sum_i \sum^n \{QAPO_{ij}^n * TLM_{ij}\} + UEBVA_j\} + \{BPA_j\}$$

where \sum_i represents the sum over all BM Units and \sum^n represents the sum over those accepted Offers that are not De Minimis Accepted Offers and not Arbitrage Accepted Offers and not NIV Tagged Offers;

(b) if the Net Imbalance Volume is equal to zero, or is a negative number, and / or $\{\sum_i \sum^n \{QAPO_{ij}^n * TLM_{ij}\} + UEBVA_j\}$ is equal to zero, then the System Buy Price will (subject to paragraph 4.4.6A) be determined as follows:

$$SBP_j = \sum_s \{PXP_{sj} * QXP_{sj}\} / \sum_s \{QXP_{sj}\}$$

where \sum_s represents the sum over all Market Index Data Providers;

provided that, if the Net Imbalance Volume is a negative number and SSP_j as determined in accordance with paragraph 4.4.6(a) would exceed SBP_j as determined in this paragraph (b), then SBP_j shall instead be equal to SSP_j as determined in accordance with paragraph 4.4.6(a).

Section T 4.4.6

Paragraph 4.4.6 of Section T shall be amended as follows:

4.4.6 In respect of each Settlement Period:

- (a) if the Net Imbalance Volume is not equal to zero, and is a negative number, and $\{\sum_i \sum^n \{QAPB_{ij}^n * TLM_{ij}\} + UESVA_j\}$ is not equal to zero, then the System Sell Price will be determined as follows:

$$SSP_j = \{ \{ \sum_i \sum^n \{ QAPB_{ij}^n * PB_{ij}^n * TLM_{ij} \} + UESCA_j \} / \{ \sum_i \sum^n \{ QAPB_{ij}^n * TLM_{ij} \} + UESVA_j \} \} + \{ SPA_j \}$$

where \sum_i represents the sum over all BM Units and \sum^n represents the sum over those accepted Bids that are not De Minimis Accepted Bids and not Arbitrage Accepted Bids and not NIV Tagged Bids;

- (b) if the Net Imbalance Volume is equal to zero, or is a positive number, and / or $\{\sum_i \sum^n \{QAPB_{ij}^n * TLM_{ij}\} + UESVA_j\}$ is equal to zero, then the System Sell Price will (subject to paragraph 4.4.6A) be determined as follows:

$$SSP_j = \sum_s \{ PXP_{sj} * QXP_{sj} \} / \sum_s \{ QXP_{sj} \}$$

where \sum_s represents the sum over all Market Index Data Providers;

provided that, if the Net Imbalance Volume is a positive number and SSP_j as so determined would exceed SBP_j as determined in accordance with paragraph 4.4.5(a), then SSP_j shall instead be equal to SBP_j as determined in accordance with paragraph 4.4.5(a).

Section T 4.4.6A

Paragraph 4.4.6A of Section T shall be amended as follows:

4.4.6A Without prejudice to paragraph 1.5A.4(b) and 1.5A.6(b), if for whatever reason (including the submission or deemed submission of zero values or the absence of Market Index Data) in respect of a Settlement Period:

$$\sum_s QXP_{sj} = 0$$

where \sum_s represents the sum over all Market Index Data Providers,

then (notwithstanding paragraphs 4.4.5(b) and 4.4.6(b)):

- (a) if the Net Imbalance Volume is a positive number, and $\{\sum_i \sum^n \{QAPO_{ij}^n * TLM_{ij}\} + UEBVA_j\}$ is not equal to zero, SSP_j shall be equal to SBP_j as determined in accordance with paragraph 4.4.5(a);

- (b) if the Net Imbalance Volume is a positive number, and $\{\sum_i \sum^n \{QAPO_{ij}^n * TLM_{ij}\} + UEBVA_j\}$ is equal to zero, each of SBP_j and SSP_j shall be zero;
- (c) if the Net Imbalance Volume is a negative number, and $\{\sum_i \sum^n \{QAPB_{ij}^n * TLM_{ij}\} + UESVA_j\}$ is not equal to zero, SBP_j shall be equal to SSP_j as determined in accordance with paragraph 4.4.6(a);
- (d) if the Net Imbalance Volume is a negative number, and $\{\sum_i \sum^n \{QAPB_{ij}^n * TLM_{ij}\} + UESVA_j\}$ is equal to zero, each of SBP_j and SSP_j shall be zero; and
- (e) if the Net Imbalance Volume is zero, each of SBP_j and SSP_j shall be zero.

6 SUMMARY OF REPRESENTATIONS

Seven responses, on behalf of eighteen Parties, were received in respect of the consultation on the draft Urgent Modification Report.

Of these responses, all supported the provisional recommendation set out in the draft Urgent Modification Report, namely that Modification Proposal P104 should be made, effective from 25 February 2003, in order to retain consistency with the Proposed Modification P78 Implementation Date.

One response raised an issue regarding a typographical error in the provisional recommendation regarding the Implementation Date, noting that a date of 25 February 2002 had been recommended, rather than the correct 25 February 2003. The typographical amendment to the Implementation Date has subsequently been made.

One response raised an issue regarding a perceived defect in the default rules to be implemented by P78 and P104. The response asserts that the proposed changes for P104 (Issue 2) do not address all of the possible scenarios with respect to the defaulting rules, as follows.

It is possible that a situation could occur where only system trades remain after tagging on the main stack and there is insufficient liquidity from the Market Index Data Provider's (MIDPs) to calculate a price for the reverse stack (traded volumes below the Individual Liquidity Threshold for an MIDP results in a default to zero). In this scenario, the main price would default to the reverse price and the reverse price would default zero (the proposed amendments to Section T 4.4.6A (b) and (d)). Therefore, under these circumstances both Energy Imbalance Prices default to zero.

In response to this issue, where it is not possible to calculate an Energy Imbalance Price from the main stack (because it only contains system balancing actions) or from the Market Index Data (because of the failure of all MIDPs to meet their Individual Liquidity Thresholds, or a failure by the MIDP to provide data), then both the System Buy Price and the System Sell Price are set to zero.

Under this circumstance, both the P78 Energy Imbalance Price setting mechanisms have failed to set an Energy Imbalance Price, and there is no further default mechanism available. It is also not clear that there is a further default mechanism for such circumstances which could be proposed, which is consistent with the principles and intent of Proposed Modification P78 (and Modification Proposal P104). Therefore further consideration of an appropriate default rule would be required in order to determine alternative Energy Imbalance Prices under the circumstances detailed. Such consideration could be considered to fall beyond the scope of Modification Proposal P104, as the issue does not appear to fall within the defect the Modification Proposal is attempting to address.

Any consideration, at this time, of such a default mechanism could have the effect of delaying the implementation of Proposed Modification P78 (and Modification Proposal P104, should it be approved) and incurring additional development and implementation costs.

A further consideration is the probability of a default mechanism, for the circumstances where no energy balancing actions (Balancing Services Adjustment Data (BSAD) or Bid – Offer Acceptances) have been made in the Net Imbalance Volume, and no pre Gate Closure trades have been taken in the forwards and spot markets represented by the Market Index Data Providers, being required.

The current Energy Imbalance Price mechanism can result in Energy Imbalance Prices of zero where there have been no energy balancing actions taken for a Settlement Period in either direction, in conjunction with there being no BSAD in either direction, and this has occurred for one Settlement Period since Go Live. This, considered in conjunction with the use of forwards and spot markets represented by the MIDPs, could mean that the likelihood of a Settlement Period having no forward trades through the MIDPs, or no energy balancing actions in the Net Imbalance Volume (Bid – Offer Acceptances or energy BSAD) is extremely low.

It is therefore recommended that no action be taken at this time with regards to defining and developing a default rule for the circumstances set out, as it is believed that the combination of circumstances that could lead to zero Energy Imbalance Prices may never occur, or may occur so rarely that the development and implementation costs of implementing a default rule, considered with the detrimental impact on the Implementation Date for Proposed Modification P78 (and Modification Proposal P104 should it be approved), far outweigh any benefit of putting in place a default rule that may never be utilised.

It should further be noted that, following the implementation of Proposed Modification P78 and Modification Proposal P104 (should it be implemented) the Energy Imbalance Prices will be monitored, and if the occurrences of Settlement Periods where there are zero Energy Imbalance Prices prove to be sufficient to warrant consideration of additional default rules, then this issue could be considered at that time.

The Panel considered the issue raised by the respondent, and the BSCCo response, as set out above at its meeting of 14 November 2002. The Panel noted the potential rarity of the circumstances that could lead to both Energy Imbalance Prices, System Buy Price and System Sell Price, being set to zero. The Panel further noted that the materiality of Energy Imbalance Prices being set to zero was considered to be low. Therefore the Panel unanimously agreed that no further action was required.

ANNEX 1 – REPRESENTATIONS

Responses for P104 Assessment Consultation

Consultation issued 25 October 2002

Representations were received from the following parties:

No	Company	File Number	No. Parties Represented
1.	NGC	P104_UDR_001	1
2.	LE Group	P104_UDR_002	7
3.	British Gas Trading	P104_UDR_003	1
4.	Edison Mission Energy	P104_UDR_004	1
5.	Scottish and Southern	P104_UDR_005	4
6.	Scottish Power	P104_UDR_006	3
7.	SEEBBOARD	P104_UDR_007	1

P104_UDR_001 – NGC

National Grid supports the recommendation of the Urgent Modification Report that P104 "Amendments to the Solution to P78 'Revised Definition of System Buy Price and System Sell Price'" should be made. We also agree with the rationale in the report that whilst the inconsistencies are minor they may lead to material errors in the implementation of modification proposal P78.

Regards

Richard Lavender

P104_UDR_002 – LE Group

LE Group support P104 in that it corrects inconsistencies in the legal drafting for P78 and therefore better facilitates achievement of Applicable BSC Objective 3(d) "Promoting efficiency in the implementation and administration of the balancing and settlement arrangements".

Liz Anderson, General Manager, Energy Strategy and Regulation

LE Group

P104_UDR_003 – British Gas Trading

Re: P104 Amendments to the solution to P78 'Revised Definition of System Buy Price and System Sell Price'

Thank you for the opportunity of responding to this modification proposal.

British Gas Trading Ltd supports this proposal and agrees that it will better facilitate the applicable BSC objectives.

Yours faithfully

Danielle Lane

P104_UDR_004 – Edison Mission Energy

Whilst I agree with the changes proposed in Modification 104, they do not address all of the possible scenarios with respect to the defaulting rules. It is possible that a situation could occur where only system trades remain after tagging on the main stack and there is insufficient liquidity from the MIDPs to calculate a price for the reverse stack. In this scenario, the main price would default to the reverse price and the reverse price would default to the main price. The outcome would be that both cashout prices default to zero.

Whilst this possibility might seem so remote that it is not worth the effort and time to identify a solution, it may be worthy of further investigation to ensure that P78 provides a robust solution which does not require further change post implementation. Assessing the likelihood of this shortcoming and addressing it if there is a possibility of occurrence would avoid the need for an urgent and potentially expensive mod and an interim workaround.

regards

Libby Glazebrook, Edison Mission Energy

P104_UDR_005 – Scottish and Southern

This response is sent on behalf of Scottish and Southern Energy, Southern Electric, Keadby Generation Ltd. and SSE Energy Supply Ltd.

Further to your note of 25th October 2002, and the associated Modification Report for P104, we agree with the proposed BSC Panel recommendation to the Authority that this Modification Proposal P104 should be made.

If the Modification Proposal P104 is approved, we agree with the proposed BSC Panel recommendation on the timing for the Implementation Date, as outlined in Section 1.1 of the Modification Report as we recognise the importance of this occurring in line with the P78 implementation date.

Regards

Garth Graham, Scottish & Southern Energy plc

P104_UDR_006 – Scottish Power

With reference to the above, please find below our comments for your consideration: -

- Slight correction is needed to the Panel recommendation, i.e. implementation of P104 on 25 Feb 2003 and NOT 25 Feb 2002.
- Issue 1 - the legal wording is consistent with the intent to exclude De Minimis Accepted Bids and Offers and Arbitrage Bids and Offers from the relevant part of the equation.

- Issue 2 - the legal wording again looks consistent in trying to exclude system balancing actions from the imbalance cashout calculation.

I trust that you will find these comments helpful. Nonetheless, should you require further clarification of any of the above, please do not hesitate to contact me.

Yours sincerely,

Man Kwong Liu, Calanais Ltd.

For and on behalf of: - ScottishPower Energy Trading Ltd.; Scottish Power Generation Plc.;
ScottishPower Energy Retail Ltd.

P104_UDR_007 – SEEBOARD

With respect to draft modification report for P104 (Amendments to the Solution to P78 'Revised Definitions of System Buy Price and System Sell Price'), dated 25th October 2002. We agree with recommendations within section 1.1 of this report and that this should be implemented at same time as modification P78 (Revised Definitions of System Buy Price and System Sell Price).

Dave Morton, SEEBOARD Energy Limited

ANNEX 2 – AUTHORITY LETTER GRANTING URGENT STATUS

See attached document:

'P104UR Annex 2'