



**Modification P34 "Transfer of Imbalances caused by Balancing Services to the Transmission Company Energy Account" and
Modification Proposal P36 "The generation of Bid Offer Acceptances relating to energy delivered as a result of providing Applicable Balancing Services"**

A consultation document developed on behalf of the P34/P36 Modification Group

Date of Issue: 11a.m. 14 November 2001

Responses Due: 8a.m. 3 December 2001 (To: Modifications@elexon.co.uk)

1. Introduction

A consultation was issued on 12th September 2001 on the P34 Modification Proposal (and Initial Written Assessment, see the following web address for more details <http://www.elexon.co.uk/ta/modifications/modsprops/P034/P34%20Consultation%20Questions.doc>). Parties were also requested to provide comments on the underlying principle of P34, the issues raised by the Proposal and a number of additional options (as agreed at the Modifications Group meeting held on 5th September 2001).

The results of the consultation exercise were presented to the Panel meeting on the 18th October. Modification Proposal P36 was also presented to the Panel. The Panel agreed that both Modification Proposals be progressed in conjunction, as both sought to address the issue of "the removal under the BSC of exposure to imbalances charges for Balancing Service Energy volumes". At a subsequent Panel meeting, it was agreed that the results of the Assessment Procedure for P34/P36 be presented to the Panel at their meeting on 13th December 2001 (see panel paper 31/011 which can be found at http://www.elexon.co.uk/ta/panel/documents/papers/31_011.pdf).

In assessment of the Proposals against the Applicable BSC Objectives, the Modifications Group has identified options to both P34 and P36 that may result in an Alternative Modification (if it is determined that it better facilitates the Applicable BSC Objectives). Therefore the Group has requested that views be sought from Parties on these options. This consultation seeks Parties views on Modifications Proposals P34 and P36 and the options that have been identified by the Modifications Group.

The results of the consultation exercise will be presented to the Modifications Group meeting on 6th December 2001. In parallel, impact assessments are being sought from BSC Service Providers, the System Operator, and Parties, based on the attached Requirements Specifications (covering the Proposed Modifications and options). The Assessment Report (as defined in BSC section F2.6.4c) will then be considered at the Panel meeting on the 13th December 2001. This will contain a recommendation of the Modification Group on a way forward with the P34/P36/Alternative Modification.

2. Background to Modification P34

Modification P34 was raised by National Grid Company on 14 August 2001 (see Attachment 1). The Modification Proposal seeks to amend the settlement calculations such that any

imbalance caused by the delivery of certain Balancing (Ancillary) Services is transferred from the provider's Energy Account to the Transmission Company's Energy Account. This would therefore, remove the party from the consequence of exposure to Imbalance Charges (Energy Imbalance, Information Imbalance and Non Delivery charges).

The Proposer sought, during the drafting of the proposal, to make any change resulting from P34 effective from 23 August 2001. The implication of this is that were the modification to be accepted as drafted it would require the Authority to give legal effect to the modification retrospectively.

3. Background to Modification Proposal P36

Modification P36 was raised by Innogy on 10 September 2001 (see Attachment 2). It seeks similar aims to modification proposal P34, however, it differs in the mechanism used to remove the consequence of exposure to imbalance prices.

Unlike P34, under P36 no transfer of volumes of energy between energy accounts occurs. Instead, P36 proposes that providers are paid for the energy delivered during the provision of Balancing Services at the Bid Offer Price. The Proposer sought that this Modification be made prospectively.

4. Results of 1st Consultation

The responses to the consultation on the P34 Modification on 12th September were presented to the Modifications Group and the Panel and are summarised as follows:

- unanimous support for the principle of "the removal under the BSC of exposure to imbalance charges for Balancing Service Energy volumes";
- the majority supported that both the definition of Applicable Balancing Services and the associated volume calculation should fall under BSC;
- the majority supported prospective change only;
- the majority did not support P34 (retrospective change and definition outside Balancing Settlement Code);
- majority supported P36 but were split on whether P36 should apply to Mandatory Balancing Services only or that P36 should apply to both Mandatory and Commercial Balancing Services.

Full details of the consultation responses are attached to this document.

5. P34 Alternative

The Modifications Group developed a potential alternative to Modification P34 in light of its considerations of P34 and P46 and the results of the responses to the first consultation.

P34 alternative is based on the solution proposed under P34 but differs as follows:

- a prospective change to the BSC (not retrospective);
- the definition of Balancing Services and associated volume calculation under the BSC (as defined in attached Requirements Specification)

- optional for Trading Parties to nominate whether Balancing Service Energy volumes are not exposed to imbalance charges (flag notified by NGC).

N.B The removal under the BSC of exposure to imbalance charges for Balancing Service Energy volumes is the same as per P34 (with the payment for the Balancing Service under the CUSC/Contract with NGC).

6. P36 Alternative

The Modifications Group also developed a potential alternative to Modification P36 (as they believed that it may better facilitate the Applicable BSC Objectives). This uses the P34 Alternative as the basis for the proposal with extra functionality (as per the P36 Proposal) for the payment of energy as a Bid Offer Acceptance for a certain class of Balancing Services (see attached Requirements Specification. The Group noted that there may be costs associated with the additional P36 functionality.

P36 Alternative:

- a prospective change to the BSC (not retrospective);
- the definition of Balancing Services and associated volume calculation under the BSC (as defined in attached Requirements Specification);
- optional for Trading Parties to nominate whether Balancing Service Energy volumes are not exposed to imbalance charges (flag notified by NGC);
- definition of Class A Balancing Services to be treated under P34 functionality (i.e. remove imbalance price exposure only);
- definition of Class B Balancing Services to be treated under P36 (i.e. remove imbalance exposure and payment for energy volumes as Bid/Offer Acceptance); and
- obligatory that a Class B Balancing Service is treated under P36 approach;

The Applicable Balancing Services are defined below as:

Class A

- 1) Fast Reserve for Lead parties that are either BSC or non BSC Parties;
- 2) Standing Reserve for Lead parties that are not BSC Parties;
- 3) Commercial Frequency Response:
 - i) Governor Action;
 - ii) Relay Initiated; and
- 4) NGC Witness Testing.

Class B (note only available for Lead parties that are BSC Parties)

- 1) Mandatory Frequency Response

N.B Acceptance of Bid/Offer for Standing Reserve from BSC Parties is currently available under the existing version of the BSC.

7. Summary Of Main features of Modifications Proposals P34, P36 and Alternatives

The following table seeks to summarise the main features of the Modification Proposals and the 2 alternatives considered by the Modifications Group. The features have been discussed by the Modifications Group (for further details of Modifications Group deliberations, see Appendix B and membership Appendix C).

Feature	Modification option			
	P34	P34 Alternative	P36	P36 Alternative
Prospective change only	✗	✓	✓	✓
Definition under Code of:				
1. Applicable Balancing Services	✗ ¹	✓	✓	✓
2. Energy Volumes. Calculation	✗ ¹	✓	✓	✓
Remove exposure to imbalance charges	✓	✓ ²	✓ ²	✓ ²
Payment for Balancing Services Energy ³	✗ ³	✗ ³	✓ ⁴	✗ - Class A ⁵ ✓ - Class B ⁵

Table notes.

¹ Under P34 these are defined in a separate Methodology Statement under NGC's Transmission Licence

² Under P34 Alternative, P36 and P36 Alternative, removal of exposure to imbalance charges applies to "Applicable Balancing Services", (as defined under the Modification)

³ Payment for the provision of Balancing Services Energy is under the agreement between the Service Provider and NGC

⁴ Applies to all "Applicable Balancing Services", (defined under the Modification)

⁵ Definition of Classes of Balancing Services, see Section 6 in this document. Modifications Group view was that a party could not choose which Balancing Service was in Class A or B (but sought to consult on whether the classification should be optional)

8. Consultation

Attached to this consultation request are two requirements specification documents one describing the requirements Modification Proposal P34 and the other describing P36. Parties are invited to review these specifications in conjunction with responding to the consultation questions. The Modifications Group have also requested that contacts/experts under the CUSC be included in the consultation exercise due to the potential interaction with CUSC.

The Requirements Specifications for Modification Proposal P34 (027AAR) and P36 (029AAR) are structured to:

- provide an overview of the Modification;
- define the amendments to the BSC Central Services and core documents (such as the Code) required to support the original Modification;
- define the amendments to other industry documentation and external systems required to support the original Modification;



- define the amendments to BMRA (optional) to provide reports on the original/Alternative Modification; and
- define the additional amendments required to support the Alternative Modification (including other industry documentation and external systems required to support the Alternative Modification)

You are invited to provide a response in respect of these questions on the pro-forma provided in order that your responses can be quantitatively analysed.

Please send your responses by 8a.m. Monday 3rd December 2001 to the following email address:

Modifications@elexon.co.uk

Please entitle your email 'P34/P36 Consultation Response'

Any other queries or questions on the content of the consultation pro-forma or data analysis document, should be addressed to Mandi Francis (020 7380 4377) or Richard Clarke (020 7380 4304). Email addresses: Richard.Clarke@elexon.co.uk & Mandi.Francis@elexon.co.uk

List of Appendices and Attachments:

Appendix A – List of consultation Questions.

Appendix B - Modifications Group considerations

Appendix C – Modification Group membership

Attachment 1 & 2 – P34 & P36 Requirements Specifications

Please note a copy of the Modification Proposals can be found at:

<http://www.elexon.co.uk/ta/modifications/modsprops/P034/P34.pdf> for Modification P34; and

<http://www.elexon.co.uk/ta/modifications/modsprops/P036/P36.pdf> for Modification P36.

Please note a summary of the consultation responses to the first consultation on P34 can be found at as an attachment to Panel Paper 30/015 which can be found at: http://www.elexon.co.uk/ta/panel/documents/papers/030_015.pdf

Appendix A: P34/P36 Consultation Questions

Respondent:		
Please list all Parties represented by Respondent		
		Yes /No
Q1	Please indicate whether you support the P34 Alternative	
Rationale:		
Q2	Please Indicate whether you support P36 as drafted	
Rationale:		
Q3	Please indicate whether you support the P36 Alternative	
Rationale:		
Q4	Please indicate whether you support the definition of Class A and Class B Balancing Services and if not what alternative would you propose	
Rationale/Alternative Proposal:		
Q5	Please indicate whether (and why) you support the position in P36 Alternative that payment for Balancing Services Energy as Bid Offer/Acceptance is obligatory for Class B. If you do not support "Obligatory", please state your reasons and identify any other approaches you would prefer.	
Rational/View:		

Appendix B: Modifications Group considerations

The Modification Group has met four times during the Assessment Procedure for Modification Proposals P34 and P36. A summary of the progress at each meeting is included below:

Meeting 1: 5 September 2001

This meeting was held to discuss the Initial Written Assessment for Modification Proposal P34. It was augmented with members of the Pre-CUSC working Group on frequency response payments.

At this meeting, the Group agreed a key principle that ***"the Provider of Balancing Services should not be exposed to the consequence of imbalance for the portion of energy attributable to the provision of that Balancing Service, subject to the volume calculation and the delivery of the service"***.

The group also discussed a number of implementation options for further consideration both by the Modification Group and to be included within the consultation to be conducted with respect to this modification. An interim report was produced and presented to the Panel meeting on 20th September 2001.

Meeting 2: 28 September 2001

The meeting (augmented with CUSC members), discussed Modifications Proposals P34 and P36 and the results of the consultation exercise on Modification Proposal P34 (including associated issues).

The Group expressed concern that they could not determine whether or not P34 better facilitated the applicable BSC objectives as the definition of the governance arrangements for the "Applicable" Balancing Services and the definition of the methodology for calculating the Deemed Balancing Services Volume were yet to be developed. The Proposer agreed to provide statements on these.

The majority of the Group members supported the results of the consultation that the definition and calculation methodology falls under the governance of the BSC. Furthermore the Modifications Group (consensus view) agreed the principle that:

"Including, within the BSC, the definition of Applicable Balancing Services and associated Balancing Services Volume Calculation provides the opportunity to ensure that any subsequent changes would better facilitate the achievement of the applicable BSC Objectives and specifically provides transparency of these changes to market participants".

The Group discussed the responses to the consultation on P34 consultation and noted that all respondents supported the principle that a Balancing Services provider should not be exposed to the consequences of Imbalance Charges in respect of the provision of those services. The Group felt that it would be necessary to extend the timetable for the Assessment of the two Modifications until 13 December 2001.

Meeting 3: 16 October 2001

A draft definition of the Balancing Services Volume Calculation and a draft of the legal text associated with both modifications P34 and P36 were reviewed by the Modifications Group. The group proposed that a possible way forward was to create an option to P34 that did not include a retrospective element for a subset of Balancing Services (and hence better facilitated the Applicable BSC Objectives). Furthermore, the Group considered an option to P36 to be considered for a different subset. A request was made from the Modifications Group to extend the period of Assessment for P34 to report back to the Panel on 13th December 2001. The request for extension was granted by the Panel (see Panel Paper 31/011).

Meeting 4: 6 November 2001.

The group discussed the requirements documents to be issued as part of the forthcoming consultation/detailed level impact assessment. The group defined which Balancing Services were appropriate to be used in conjunction with each Modification Proposal and option. The group refined their views on the option to P34 that was based on P34 with no retrospective element for a limited set of Balancing Services defined under the BSC and, as an option to P36, a composite of P34 and P36 to cover all Balancing Services.

Appendix C: Modifications Group

Name	Organisation	Role
Justin Andrews	ELEXON	Chair
Nick Sillito	Transmission Company	Member (Proposer P34)
David Tolley	Innogy	Member (Proposer P36, CUSC)
Andrew Murray	Axia Energy	Member
Martin Mate	British Energy Group	Member
Maurice Smith	Campbell Carr	Member
Nick Elms	Enron	Member
Chris Price	Powergen	Member
Richard Ford	St Clements Services	Member
Danielle Lane	British Gas Trading	Member
Paul Mott	London Electricity	Member
Chuan Zhang	London Electricity	Member (CUSC)
Simon Lord	Edison Mission Energy	Member
Ben Willis	Yorkshire Electricity	Member
Ian Moss	APX	Member
Anthony Doherty	Ofgem	Attendee