

February 2002

**INITIAL ASSESSMENT OF
MODIFICATION PROPOSAL P64 -
REDUCTION OF VALUES OF GC TO
ZERO WITHIN A BSC SEASON**

Prepared by ELEXON Limited

Document Reference	IWA064
Version no.	1.0
Issue	1.0
Date of Issue	7 February 2002
Reason for Issue	Panel Approval
Author	ELEXON

I DOCUMENT CONTROL

a Authorities

Version	Date	Author	Signature	Change Reference
0.1	30/1/02	Sarah Benson		

Version	Date	Reviewer	Signature	Responsibility

b Distribution

Name	Organisation
Each BSC Party	Various
Each BSC Agent	Various
The Gas and Electricity Markets Authority	Ofgem
Each BSC Panel Member	Various
energywatch	Energywatch
Core Industry Document Owners	Various

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II CONTENTS TABLE

I	Document Control.....	2
a	Authorities.....	2
b	Distribution.....	2
c	Intellectual Property Rights and Copyright.....	2
II	Contents Table	3
1	Summary	4
2	Introduction.....	5
3	Purpose and Scope of the Report	6
4	Description of the Modification Proposal.....	7
5	Impact on BSC Systems and Processes.....	9
6	Impact on Other Systems and Processes Used by Parties.....	10
7	Impact on Documentation	11
7.1	Impact on Balancing and Settlement Code	11
7.2	Impact on Code Subsidiary Documents	13
7.3	Impact on Core Industry Documents.....	14
8	Impact on Other Configurable Items	15
9	Impact on ELEXON.....	16
10	Impact on Financial Arrangements and Budget	17
11	Impact on BSC Agent Contractual Arrangements	18
12	Process and Timetable for Progressing the Proposal.....	19
13	Issues	20
	Annex 1 – Modification Proposal.....	21

1 SUMMARY

Modification P64 was submitted on 14th January 2002 by TXU Europe Energy Trading Ltd. The Modification seeks to allow generators to reduce the value of their Generation Capacity (GC) to zero within a BSC Season.

GC is used under the BSC Credit arrangements (as a key variable in the calculation of Energy Indebtedness by the Energy Contract Volume Aggregation Agent (ECVAA)) and by the Transmission Company in the determination of annual Transmission Network Use of System (TNUoS) charges for generators. The Modification Proposal highlights a misalignment in the timings of these two activities.

Under the current arrangements, a generator who declares a positive GC at the start of the Spring BSC Season, will incur TNUoS charges for the next financial year, even if they do not generate during that financial year. It is noted that the objective of this Modification Proposal is to address an issue related to the Use of System Charging Methodology (UoSCM), that is, an issue outside of the BSC.

TXU Europe Energy Trading Ltd sought to progress this Modification Proposal as an Urgent Modification Proposal: BSCCo did not concur because the defect it seeks to address does not affect the operation of Settlements or its equitability. The Transmission Company is attempting to address this for the 2002/3 financial year and have recently issued an industry consultation on a Modification to the Use of System Charging Methodology. The solution proposed by the Transmission Company in their consultation is identified as being an interim one, and therefore, an enduring solution is sought through the BSC.

The Initial Written Assessment of Modification Proposal P64 has identified the following potential areas of impact and issues to be considered:

- The principal objective of the Modification is to remedy a charging mechanism which is outside of the BSC. It is noted that this objective could be achieved by an enduring change to the UoSCM rather than the BSC.
- The Modification Proposal would have significant impact on the BSC Credit arrangements.
- ELEXON is aware that there are wider concerns about the perceived inflexibility of the declaration of GC and Demand Capacity (DC) within the BSC, but it is believed that the Modification should remain focused on addressing the specific scenario stated in the Modification Proposal.

In light of these issues, the Panel is invited to:

- Determine whether this is an applicable BSC Modification. If it is believed that the Modification is addressing an issue which is outside of the BSC, it should be sent directly to the Report phase with a recommendation to reject.

Alternatively, if it is considered that Modification Proposal should be pursued through the BSC, ELEXON recommend that:

- P64 is submitted to the Assessment Procedure in accordance with section F.2.5 of the BSC, to enable further definition of the scope and the solution of the Modification;
- A period of 3 months be allowed for the Assessment Procedure, such that the Assessment Report for Modification Proposal P64 be submitted for consideration at the Panel meeting of 16 May 2002. An Interim report would be submitted to the Panel meeting of 14 March 2002.

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.

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

3 PURPOSE AND SCOPE OF THE REPORT

Section F of the BSC sets out the procedures for progressing proposals to amend the BSC (known as 'Modification Proposals'. These include procedures for proposing, consulting on, developing, evaluating and reporting to the Authority on potential modifications.

The BSC Panel is charged with supervising and implementing the modification procedures. ELEXON provides the secretariat and other advice, support and resource required by the Panel for this purpose. In addition, if a modification to the Code is approved or directed by the Authority, ELEXON is responsible for overseeing the implementation of that amendment (including any consequential changes to systems, procedures and documentation).

When a new proposal to modify the BSC is made, it is the responsibility of the Panel to determine how it should be progressed. Options include submitting the proposal to a Definition Procedure¹, submitting it to an Assessment Procedure², amalgamating the proposal with another proposal³, or proceeding directly to the Report Phase⁴. With a view to assisting the Panel in taking this decision, ELEXON prepares this initial written assessment of the implications of the Modification Proposal as soon as reasonably practicable after the proposal is made⁵. ELEXON endeavours to complete this initial assessment such that it can be reviewed by the Panel at the Panel meeting at which the relevant Modification Proposal is first to be considered.

This initial assessment provides a preliminary view on the following:

- the potential impact of the proposed modification on BSC systems and processes;
- the potential impact of the proposed modification on other systems and processes used by Parties;
- the potential impact of the proposed modification on the BSC, Code Subsidiary Documents and Core Industry Documents;
- the potential impact of the proposed modification on ELEXON;
- the potential impact of the proposed modification on BSC financial arrangements and budget;
- the potential impact of the proposed modification on BSC Agent contractual arrangements;
- The process and timetable that should be adopted for the progression of the Modification Proposal, in light of its complexity, importance and urgency; and
- Issues that will need to be considered and addressed in progressing the Modification Proposal (including the potential need for impact assessments, consultation and analyses).

It should be noted that, as this document only represents a preliminary assessment of the Modification Proposal, the information contained herein will, in most cases, be superseded by the subsequent analysis and reports produced by the Modification Group to which the Panel assigns the proposal for consideration.

¹ see BSC F2.5

² see BSC F2.6

³ see BSC F2.3

⁴ see BSC F2.7

⁵ see BSC F2.1.8

4 DESCRIPTION OF THE MODIFICATION PROPOSAL

A copy of the Modification Proposal form, as submitted by its proposer, can be found at Annex 1 to this report. The form contains the following information provided by the proposer in relation to the proposal⁶:

- the name of the Proposer;
- the name of the representative of the Proposer (and his alternate) who shall represent the Proposer in person;
- a description (in reasonable but not excessive detail) of the issue or defect which the proposed modification seeks to address;
- a description (in reasonable but not excessive detail) of the proposed modification and of its nature and purpose;
- where possible, an indication of those parts of the Code which would require amendment in order to give effect to (and/or would otherwise be affected by) the proposed modification and an indication of the nature of those amendments or effects;
- the reasons why the Proposer believes that the proposed modification would better facilitate achievement of the Applicable BSC Objective(s) as compared with the then current version of the Code;
- where possible, an indication of the impact of the proposed modification on Core Industry Documents; and
- where possible, an indication of the impact of the proposed modification on BSC Systems and on other relevant computer systems and processes used by Parties.

This modification proposes to allow generators to reduce the value of their Generation Capacity (GC) to zero within a BSC Season. TXU Europe Energy Trading Ltd sought to progress this Modification Proposal as an Urgent Modification Proposal: BSCCo did not concur because the defect it seeks to address does not affect the operation of Settlements or its equitability.

The GC of a BM Unit, as defined in Section K.3.4 of the Code, is derived from the value of the expected maximum magnitude of the positive metered volume during a BSC season, as declared by the Trading Party in relation to each BSC Season. The magnitude of this value cannot be reduced within a BSC Season. GC is used:

- in the current BSC Credit arrangements in the calculation of Energy Indebtedness by the ECVAA;
- by the Transmission Company in the methodology for calculating annual Transmission Network Use of System (TNUoS) generation charges.

This Modification Proposal has been raised because of a misalignment between the timings of these two activities. The BSC Credit arrangements operate on a 3 monthly cycle: the Spring BSC season includes March, April and May and thus, bridges the financial year. The annual TNUoS charges are based on the highest value of GC registered from April to February inclusive. Therefore, a Generator

⁶ See BSC F2.1.2

wishing to generate in March but mothball the BM Unit for the next financial year, would be required under the BSC to submit a GC for the Spring BSC Season. The implication of this is that the generator would incur TNUoS charges for the next financial year, even if they did not generate during this period.

This Modification Proposal seeks to address this issue by allowing a Generator to reduce the value of GC to zero within a BSC Season such that TNUoS charges would not be incurred if the plant does not generate during a financial year. It is noted that the intent of this Modification Proposal is to address an issue which is outside of the BSC.

The Transmission Company have already issued a proposal for the modification of the Use of System Charging Methodology (UoSCM), entitled, "Chargeable Generation Capacity for Mothballed Generating Units (UoSCM-M-04)". Responses to the Consultation document are required by 12th February 2002. This proposal is viewed as an interim solution to address the immediate issue of the 2002/3 financial year only, thus removing the urgency on implementing a Modification to the BSC.

Modification Proposal P64 seeks to give effect to an enduring solution by a Modification to the BSC. However, the principal objective of the Modification is to remedy a charging mechanism that is outside of the BSC. The same objective could be achieved by an enduring change to the UoSCM rather than the BSC, in which case, the Modification could potentially be directed to the Report Procedure with the recommendation to reject. This would avoid the impact that such a Modification would have on the BSC Credit arrangements.

ELEXON is aware that there are wider concerns about the perceived inflexibility of changes to GC and DC within a BSC Season, raised by both generators and suppliers. Under the current arrangements, it is only possible to increase the magnitude of GC and DC but not decrease the magnitude. Decreases in magnitude can only be made when declaring seasonal estimates of these parameters. The Modification Proposal seeks to address one specific scenario, that is, the reduction of GC to zero. ELEXON believe that the focus of this Modification should remain on addressing this single scenario.

With these points in mind, it is necessary to determine whether:

- this is an applicable BSC Modification. If it is believed that the Modification is addressing an issue which is outside of the BSC, it should be sent directly to the Report phase with a recommendation to reject.

Alternatively, if it is considered that Modification Proposal should be pursued through the BSC, ELEXON recommend that it be submitted to the Assessment Procedure for a period of 3 months to:

- Investigate the impact that the Modification Proposal would have on the BSC credit cover arrangements;
- Determine the enduring solution of this Modification Proposal.

An Interim report will be presented to the Panel at the meeting of 14 March 2002.

5 IMPACT ON BSC SYSTEMS AND PROCESSES

BSC System / Process	Potential Impact of Proposed Modification
Registration	The Modification Proposal potentially impacts the registration of BM Unit attributes in the CRA and in particular, the frequency at which values of GC are redeclared by Trading Parties. It is considered that any such increase would be low.
Contract Notification	No impact identified.
Credit Checking	No impact identified to the credit checking process. It is noted that it would cause an amendment to the value of the Balancing Mechanism Credit Assessment Export Capability (BMCAEC) or Balancing Mechanism Credit Assessment Import Capability (BMCAIC) used in the Energy Indebtedness Calculations.
Balancing Mechanism Activities	No impact identified.
Collection and Aggregation of Metered Data	No impact identified.
Supplier Volume Allocation	No impact identified.
Settlement	No impact identified.
Clearing, Invoicing and Payment	No impact identified.
Reporting	No impact identified.
Contingencies	No impact identified.
Dispute Resolution	No impact identified.

6 IMPACT ON OTHER SYSTEMS AND PROCESSES USED BY PARTIES

System / Process	Potential Impact of Proposed Modification
No impact identified.	

7 IMPACT ON DOCUMENTATION

7.1 Impact on Balancing and Settlement Code

BSC Section	Potential Impact of Proposed Modification
A: Parties and Participation	No impact identified.
B: The Panel	No impact identified.
C: BSCCo and its Subsidiaries	No impact identified.
D: BSC Cost Recovery and Participation Charges	No impact identified.
E: BSC Agents	No impact identified.
F: Modification Procedures	No impact identified.
G: Contingencies	No impact identified.
H: General	No impact identified.
I: Not Used	No impact identified.
J: Party Agents	No impact identified.
K: Classification and Registration of Metering Systems and BM Units	The Modification Proposal has a potential impact on this area of the BSC, specifically with regard to Demand Capacity and Generation Capacity and obligations therein.
L: Metering	No impact identified.
M: Credit Cover and Credit Default	The Modification Proposal has a potential impact on this area of the BSC, specifically with regard to the Indebtedness calculations, Import and Export Capabilities, Credit Assessment Load Factor and Credit Cover.
N: Clearing, Invoicing and Payment	No impact identified.

BSC Section	Potential Impact of Proposed Modification
O: Communications	No impact identified.
P: Energy Contract Volumes and Metered Volume Reallocations	No impact identified.
Q: Balancing Mechanism Activities	No impact identified.
R: Collection and Aggregation of Metered Data from CVA Metering Systems	No impact identified.
S: Supplier Volume Allocation	No impact identified.
S: ANNEX S-1 Performance Levels and Supplier Charges	No impact identified.
S: ANNEX S-2 Supplier Volume Allocation Rules	No impact identified.
T: Settlement and Trading Charges	No impact identified.
U: Provisions Relating to Settlement	No impact identified.
V: Reporting	No impact identified- the reporting of data items relating to credit assessment may be impacted by the Modification Proposal, but this cannot be confirmed at this stage.
W: Trading Queries and Trading Disputes	No impact identified.
X: Definitions and Interpretation	No impact identified.
X: ANNEX X-1 General Glossary	The Modification Proposal has a potential impact on this area of the BSC, specifically with regard to any changes in the definition of existing attributes, or the introduction of new attributes to support any amendment to the indebtedness calculations.
X: ANNEX X-2 Technical Glossary	The Modification Proposal has a potential impact on this area of the BSC, specifically with regard to any changes in the definition of existing attributes, or the introduction of new attributes to support any amendment to the indebtedness calculations.

7.2 Impact on Code Subsidiary Documents

Code Subsidiary Document	Potential Impact of Proposed Modification
BSC Procedures	The Modification Proposal has a potential impact on BSC Procedures, specifically with regard to the submission of BM Unit registration data.
Codes of Practice	No impact identified.
BSC Service Descriptions	No impact identified.
Party Service Lines	No impact identified.
Data Catalogues	No impact identified.
Communication Requirements Documents	No impact identified.
Reporting Catalogue	No impact identified.

7.3 Impact on Core Industry Documents

Core Industry Document	Potential Impact of Proposed Modification
Grid Code	No impact identified.
CUSC	No impact identified.
Supplemental Agreements	No impact identified.
Ancillary Services Agreements	No impact identified.
Master Registration Agreement	No impact identified.
Data Transfer Services Agreement	No impact identified.
British Grid Systems Agreement	No impact identified.
Use of Interconnector Agreement	No impact identified.
Pooling and Settlement Agreement	No impact identified.
Settlement Agreement for Scotland	No impact identified.
Distribution Codes	No impact identified.
Distribution Use of System Agreements	No impact identified.
Distribution Connection Agreements	No impact identified.

8 IMPACT ON OTHER CONFIGURABLE ITEMS

Item	Potential Impact of Proposed Modification
Central Registration Agent (CRA) User Requirements Specification (URS)	Potential impact to reflect changes in the declaration of BM Unit attributes.

9 IMPACT ON ELEXON

Area of Business	Potential Impact of Proposed Modification
ELEXON Systems	No impact identified.
ELEXON Procedures	This Modification Proposal has the potential to impact on ELEXON procedures, the exact extent and nature of which cannot be quantified at this time.
ELEXON Contracts (Excluding BSC Agent Contracts)	No impact identified. It is considered that the increase in the number of changes to CRA registration data would be minimal and therefore, no renegotiation of contracts would be required.
Other (e.g. costs, staffing, etc.)	No impact identified.

10 IMPACT ON FINANCIAL ARRANGEMENTS AND BUDGET

Further assessment is required to quantify the impact of Modification Proposal P64 on the ELEXON budget.

11 IMPACT ON BSC AGENT CONTRACTUAL ARRANGEMENTS

BSC Agent Contract	Potential Impact of Proposed Modification
Logica (BMRA, CRA, CDCA, SAA, ECVAA, TAA(CVA))	This Modification Proposal has a potential impact on BSC Agent, specifically the submission of BM Unit registration data to the CRA. However, it is considered that the increase in the number of changes to CRA registration data would be minimal.
EPFAL (FAA)	This Modification Proposal has a potential impact on FAA (EPFAL), the exact nature/extent of which cannot be quantified at this time.
ESIS (TAA(SVA))	No impact identified.
Cap Gemini (SVAA)	No impact identified.
PwC (BSC Auditor, Certification Agent)	No impact identified.
EASL (Teleswitch Agent, Profile Administrator)	No impact identified.

12 PROCESS AND TIMETABLE FOR PROGRESSING THE PROPOSAL

In progressing this Modification, it is necessary to:

- Determine whether this is an applicable BSC Modification. If it is believed that the Modification is addressing an issue which is outside of the BSC, it should be sent directly to the Report phase with a recommendation to reject;

Alternatively, if it is considered that Modification Proposal should be pursued through the BSC, ELEXON recommend that the Modification Proposal be submitted to the Assessment Procedure in order to:

- Investigate the impact that the Modification Proposal would have on the calculation of Energy Indebtedness under the BSC Credit arrangements;
- Determine the enduring solution of this Modification Proposal; and
- Allow the outcome of the current Consultation on the UoSCM charges to be considered in relation to the above.

It is recommended that a period of 3 months be allowed for completion of the Assessment Procedure and an Interim report be presented to the Panel after 1 month.

13 ISSUES

The following issues will need to be considered and addressed in progressing the Modification Proposal.

- The principal objective of the Modification is to remedy a charging mechanism which is outside of the BSC. It is noted that this objective could be achieved by an enduring change to the UoSCM rather than the BSC.
- A Modification to the BSC would have significant implications for the current credit cover arrangements. These issues need to be identified and understood. It is recognised that their impact would potentially be reduced with the implementation of Modification P2.
- Modification Proposal P64 only seeks to allow the reduction of GC to zero within a BSC season. One of the underlying issues relating to this Modification Proposal is the perceived inflexibility of the rules governing changes to GC and DC in other scenarios. It is considered that the Modification should remain focused on addressing the specific scenario stated in the Modification Proposal.
- The most significant impact on the Central Systems would be to the CRA where the volume of changes to BM Unit registration data could potentially increase. The extent of this increase would depend on the extent to which the rules governing changes to GC (and DC) were relaxed, although it is expected that this increase would be minimal.

ANNEX 1 – MODIFICATION PROPOSAL

Modification Proposal – F76/01	MP No: 64 <i>(mandatory by BSCCo)</i>
Title of Modification Proposal <i>(mandatory by originator):</i>	
Reduction of GC values to Zero during a BSC Season	
Submission Date <i>(mandatory by originator):</i> 14 th January 2002	
Description of Proposed Modification <i>(mandatory by originator)</i>	
The Modification would facilitate the reduction of Generation Capacity – GC – to zero within a BSC Season.	
Description of Issue or Defect that Modification Proposal Seeks to Address <i>(mandatory by originator)</i>	
<p>Section K3.4 does not allow a Trading Party to reduce the value of GC to zero within a BSC Season. NGC's Use of System Charges are based on the values of GC applicable between April and February. The BSC Spring season is defined as 1st March to 31st May. The consequence of this is that in order to have a zero value of GC for Transmission Network Use of System charging purposes it is necessary to notify the GC as being zero with effect from 1st March. The notification has to be done 10 Business Days before the effective date (14th Feb 2002 for this year).</p> <p>The consequence of the above is that in order not to breach the Code, the BM Unit is precluded from generating for a month.</p>	

Modification Proposal – F76/01	MP No: 64 <i>(mandatory by BSCCo)</i>
Impact on Code <i>(optional by Originator)</i> Revision to the drafting of Section K3.4	
Impact on Core Industry Documents <i>(optional by Originator)</i>	
Impact on BSC Systems and Other Relevant Systems and Processes Used by Parties <i>(optional by originator)</i>	
Impact on other Configurable Items <i>(optional by originator)</i>	

Modification Proposal – F76/01	MP No: 64 <i>(mandatory by BSCCo)</i>
Justification for Proposed Modification with Reference to Applicable BSC Objectives <i>(mandatory by originator)</i> The Modification seeks to remedy an implicit restriction on the ability of a Production BM Unit to generate electricity in the circumstances described above. Removing this restriction would promote competition in the generation and supply of electricity.	
Details of Proposer: <p style="text-align: right;">Name: Paul Taylor</p> <p style="text-align: right;">Organisation: TXU Europe Energy Trading Ltd</p> <p style="text-align: right;">Telephone Number: 01473 555 688</p> <p>Email Address: paul.taylor@txu-europe.com</p>	
Details of Proposer's Representative: <p style="text-align: right;">Name: Philip Russell</p> <p>Organisation: TXU Europe Energy Trading Ltd</p> <p>Telephone Number: 01473 555 688</p> <p style="text-align: right;">Email address: phil.russell@txu-europe.com</p>	
Details of Representative's Alternate: <p style="text-align: right;">Name: Nikki Lea</p> <p style="text-align: right;">Organisation: TXU Europe Energy Trading Ltd</p> <p>Telephone Number: 01473 554 630</p> <p style="text-align: right;">Email address: nikki.lea@txu-europe.com</p>	

Modification Proposal – F76/01	MP No: 64 <i>(mandatory by BSCCo)</i>
Attachments: No	