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**MODIFICATION REPORT
MODIFICATION PROPOSAL P38**

**Redefined Definition of CAD to
Allow Prompt Price Reporting**

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

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I DOCUMENT CONTROL

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b Distribution

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Each BSC Agent	Various
The Gas and Electricity Markets Authority	Ofgem
Each BSC Panel Member	Various
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d Related Documents

The following documents are referenced from within this document using the following convention [RD/x]:

- 1 Initial Written Assessment of Modification Proposal P38, Version 1.0, 12 October 2001
- 2 Panel Paper 31/002 - P18 (Option A), – Proposal for Review of Approved Modification – ISG Recommendation, 18 October 2001
- 3 Panel Paper 32/021 – P18A Review and P38 Assessment Phase, 31 October 2001
- 4 P18A Review and Modification Proposal P38 – First Consultation, Version 1.0, 12 November 2001
- 5 Modification Proposal P38 and P18A Review – Report on Second Modification Group Meeting, 5 December 2001.
- 6 Panel Paper 37/021 – Interim Report – Modification Proposal P38 and P18A Review, 13 December 2001.

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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, and the resultant findings of this report, the Panel recommends to the Authority that:

The Proposed Modification P38 should be rejected.

1.2 Background

Modification Proposal P38 was raised on 19 September 2001 by Slough Energy Supplies Limited. It was raised as a result of the delay to the reporting of prices that will arise following the implementation of BSC Release 2, which includes the implementation of Modification P18A within the Central Systems. P38 seeks to significantly alter the definition of the Continuous Acceptance Duration (CAD), such that it is not necessary to delay the reporting of indicative Imbalance Prices on the Balancing Mechanism Reporting System (BMRS).

A secondary justification for the proposal was that the proposer believed that under the current CAD definition any decisions to exclude Bid Offer Acceptances (BOA) are: "distorted because bids and offers are priced separately for each Settlement Period".

The Modification Proposal was submitted to the Assessment Procedure with an interim report to be presented to the Panel on 13 December 2001. The approach agreed by the Panel included two consultations. The first was to understand the business requirements for "prompt" price reporting. The second consultation was to review P38, and alternatives, against the facilitation of the Applicable BSC Objectives.

1.3 Rationale for Recommendations

The report from the second Modification Group meeting on 21 November 2001 details the results of the assessment by the Modification Group.

Based on the discussions at that meeting the majority view of the Modification Group was that, when considered in terms of the BSC Systems Release 2 baseline and a 3½ hour Gate Closure, it was not possible to conclude that an issue of delayed price reporting existed.

As it was not possible to conclude that an issue of delayed price reporting existed, it could not be shown that Modification Proposal P38, or any potential Alternative Modification would better achieve the Applicable BSC Objectives.

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 PURPOSE AND SCOPE OF THE REPORT

BSC Section F 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).

A Modification Report must be prepared and submitted to the Authority in respect of each proposed modification and must contain:

- (a) The recommendation of the Panel as to whether or not the Proposed Modification or any Alternative Modification should be made;
- (b) The proposed Implementation Date for implementation of the Proposed Modification or any Alternative Modification;
- (c) The matters set out in Annex F-1 of the BSC. This will usually be in the form of the relevant Assessment Report where the Proposal has been submitted to a Modification Group prior to the Report Phase;
- (d) An explanation of the Panel's rationale should the Panel form a different view of any matters contained in the Modification Group Report; and
- (e) A summary of the representations made by Parties and interested third parties during the consultation undertaken in respect of the Proposed Modification and any Alternative Modification.

4 HISTORY OF PROPOSED MODIFICATION

Modification Proposal P38 was raised on 19 September 2001 by Slough Energy Supplies Limited. It was raised as a result of the delay to the reporting of prices that will arise following the implementation of BSC Release 2, which includes the implementation of Modification P18A within the Central Systems. P38 seeks to significantly alter the definition of the CAD, such that it is not necessary to delay the reporting of indicative Imbalance Prices on the BMRS.

A secondary justification for the proposal was that the proposer believed that under the current CAD definition any decisions to exclude BOA are: "distorted because bids and offers are priced separately for each Settlement Period".

At their meeting on 15 October 2001 the Panel were presented with the Initial Written Assessment [RD/1] of P38. At the same meeting the Panel considered Paper 31/002 [RD/2] which contained a request from the Imbalance Settlement Group to undertake a review¹ of Urgent Modification P18 Option A (P18A).

The Modification Proposal was submitted to the Assessment Procedure with an interim report to be presented to the Panel on 13 December 2001. The Panel also agreed to undertake a review of P18A and determined that it should be conducted to the same timetable as the P38 Assessment Procedure.

Paper 32/021 [RD/3] was presented to the Panel on 31 October 2001 and outlined the proposed approach for dealing with the P18A Review in conjunction with the P38 Assessment. The approach agreed by the Panel included two consultations. The first was to understand the business requirements for "prompt" price reporting. The second consultation was to review P38, and alternatives, against the facilitation of the Applicable BSC Objectives.

The first Modification Group meeting took place on 02 November 2001. This meeting discussed the background to both Modification Proposal P38 and the P18A Review. The Modification Group agreed with the previous decision of the Panel that the first consultation should cover the underlying business requirement for prompt price reporting. In addition the Modification Group also felt that some initial reaction to the potential alternative options should be sought as part of this first consultation. ELEXON prepared a consultation document [RD/4] on behalf of the Modification Group and the document was issued to support the first consultation, which took place between 12 November 2001 - 19 November 2001.

A second Modification Group meeting was held 21 November 2001 to discuss the responses to the first consultation and further discuss the questions for the second consultation. During the meeting the representative from the Central Service Provider issued some clarification on the design of BSC Systems Release 2 that effectively meant that, with the current value of CADL (15 minutes), reporting would only be delayed by 15 minutes when compared to the pre-P18A baseline. This was seen by the Modification Group as a key piece of information when viewed in the context of a 3½ hour Gate Closure. The Authority's representative also reminded the Modification Group that they could note the existence of Modification Proposal P12, and the possibility of a shorter Gate Closure, but could not make a recommendation based on any future determination that may be made in respect of P12. As a result of this information the Modification Group considered the consultation responses related to the business requirement for prompt price reporting. The majority view of the Modification Group was that, when considered in terms of the BSC Systems Release 2 baseline and a 3½ hour Gate Closure, it was

¹ In accordance with Section F2.9.7 of the Balancing and Settlement Code (BSC).

not possible to conclude that an issue of delayed price reporting existed. The notes of this meeting are contained within [RD/5].

As the Modification Group had made its recommendation based predominantly on the business requirement for prompt price reporting, it was considered that further assessment of the proposed modification, or the potential alternatives was not required and there was no longer a need for a second consultation. In addition the Interim Report to the Panel on 13 December 2001 should invite the Panel to stop the Assessment Procedure and proceed to the Report Phase with a recommendation to reject.

ELEXON prepared an Interim Report in the form of Panel Paper 37/021 [RD/6] which detailed the findings of the Modification Group and the majority recommendation that the Modification be sent to the Report Phase with a recommendation to Reject. At the Panel Meeting on 13 December 2001 this recommendation was endorsed and the Panel instructed ELEXON to prepare a draft Modification Report for the Panel Meeting 17 January 2001.

5 DESCRIPTION OF PROPOSED MODIFICATION

P38 was raised by Slough Energy Supplies Limited on 19 September 2001 and offers a CAD definition that is significantly different from all definitions considered during the assessment of Modification Proposal P18A. Specifically:

- the purpose of the Modification Proposal as indicated by the Title, and one of the justifications within the body of the proposal, is to allow prompt price reporting;
- the description of the Proposed Modification includes a new CAD definition which states that the CAD should only be measured *within* Settlements Periods, a mechanism which will effectively limit the maximum CAD value to 30 minutes. The body of the proposal justifies this based on principle that as bids and offers are priced separately for each Settlement Period, they should be treated separately.

The rest of this section has been included in the report to illustrate the potential complexity of Modification Proposal P38. This information influenced the Modification Group in their consideration of P38. However, the rationale for recommending that P38 should be rejected was based on the consideration of the business requirement for prompt price reporting, and not the precise details of P38 and any Alternative Modification.

As was found during early consideration of the P18A CAD Definition, the interaction of different groups of overlapping BOA within a Settlement Period is not straight forward. A number of different options are available to calculate the Bid-Offer volume to include in the imbalance price calculations. Figure 5.1 shows the options associated with P38. One of the tasks in assessment of P38 was to define which definitional alternative better met the Applicable BSC Objectives.

Figure 5.1 – P38 Options

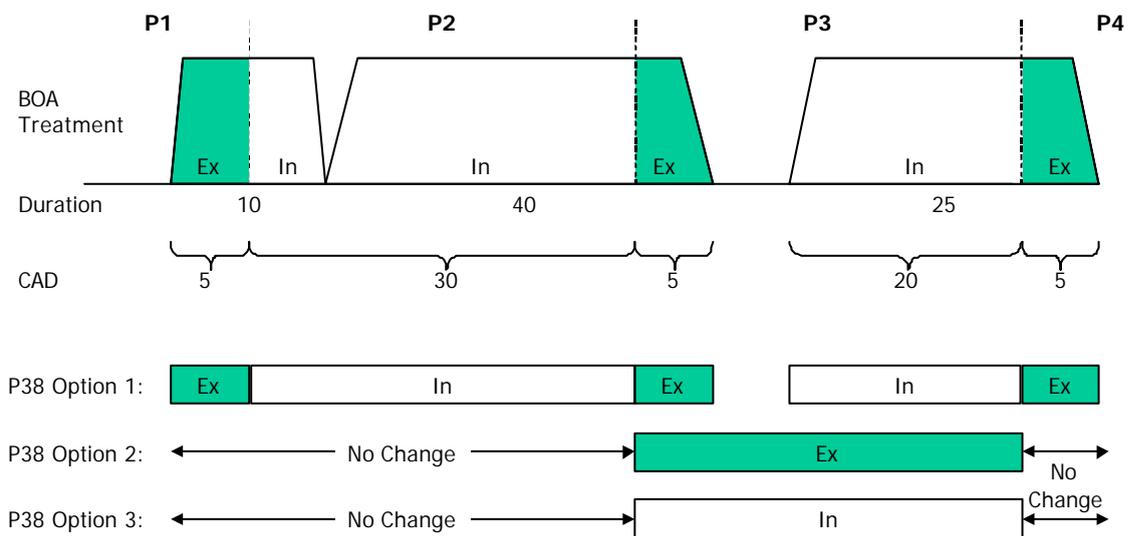


Figure 5.1 shows the effect on the Offer volumes with 3 possible definitional alternatives². In all 3 options the treatment of Offer volumes for Periods 1,2 & 4 are the same and the difference is limited to Period 3:

- P38 Option 1 uses the logic of P18A CAD option 1b in that only the volume associated with each individual short acceptance ($QAO^{n_{ij}}$) should be excluded. Hence the second part of the second BOA can be excluded, whilst keeping the first part of the third.
- P38 Option 2 uses the logic of P18A CAD option 1a, which is the baseline P18A solution within the BSC, that if one BOA is too short to be included, then all volume for that BMU within that Period ($QAO^{n_{ij}}$) should be excluded.
- P38 Option 3 recognises that if one is only willing to consider the data *within* each period, then it may be more natural to sum all duration within that period and make a decision based on the overall duration. In this example this would make a CAD of 25 for Period 3, enough for $QAO^{n_{ij}}$ not to be excluded.

It is important to note that none of these definitional alternatives produce the same results as P18A. In common with other definitions, which allowed the calculation of the indicative Imbalance Prices shortly after the end of the Settlement Period, an anomaly is caused by period boundaries, as shown in Figure 5.2 for the same BOA taken at 4 different times.

Figure 5.2 – P38 Period Boundary Anomaly

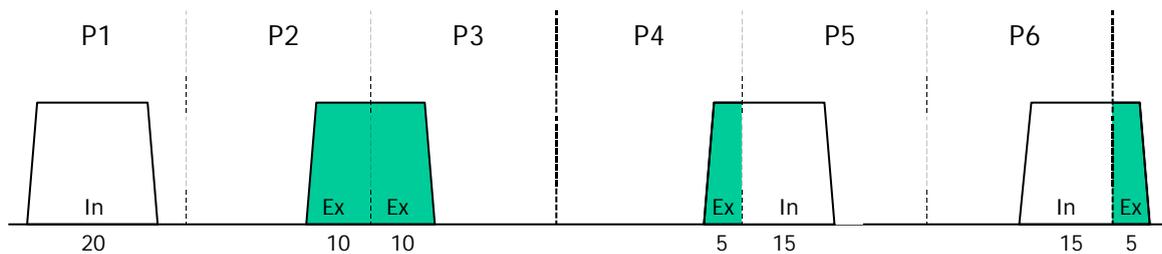


Figure 5.2 illustrates this anomaly where the shaded area represents the volume removed by P38. This anomaly was considered a major factor by the Modification Group. There was a concern that, as P38 would remove volumes from a BOA based purely on where it occurred within a Settlement Period, it could not be described as better differentiating between “energy” and “system” balancing. An alternative view was that it should be remembered that this was an artificial measure and that any solution was better considered in terms of the materiality. This alternative view was not favoured by the Modification Group.

With regard to the secondary justification for the modification, initial attempts to find Settlement Period boundaries that were both crossed by a BOA, and also experienced a material Bid or Offer price change, found only two such occurrences during four months of operation. Although these two occurrences supported the second justification, the Modification Group believed this to be of limited materiality. As the examples in Figure 5.2 show, P38 would also result in significant collateral volume being excluded, in order to mitigate this effect³.

² It is assumed that the current P18A value of CADL would be used, i.e. 15 minutes. This is based on the premise that any group of BOA contained entirely within a period should be treated in the same way by both P18A and P38.

³ During the early assessment Modification Proposal P38 was not analysed in sufficient detail to determine the precise difference any of the P38 definitional alternatives would make. Further details of the initial analysis is contained in the first consultation document [RD/4] and report on the second meeting [RD/5].

The Modification Group also recognised that there were other approaches to achieving prompt price reporting, without the secondary justification of the modification, a Settlement Period based methodology. These were split into two alternatives: altering the approach to reporting prices on BMRS and changing the CAD definition.

One such solution was to alter the existing P18A CAD Definition to make it report prices in the same time-scales as P38 proposed, without the need to move to a Settlement Period based methodology. This was recognised as the simplest CAD definition change to both the BSC⁴ and also the Central Systems. It was recognised that if the business requirement to support prompt price reporting had been sufficient, then an Alternative Modification based on one or more of these simpler approaches may have been considered a more viable option than the original definition proposed by P38.

⁴ The Modification Group recognised that significant time had been spent deciding upon the definition of CAD during the original assessment of P18A and considering the "Intellectual Purity" of each solution. A number of responses to the consultation felt that it was too early to start to consider a totally new CAD definition, before the market had even been given time to adjust to P18A. It was however recognised that converting the existing P18A definition to report earlier was a relatively small change, with only a small reduction in "Intellectual Purity" and limited material impact on BOA and Imbalance Prices.

6 RATIONALE FOR PANEL RECOMMENDATIONS

The report [RD/5] from the second Modification Group meeting on 21 November 2001 details the results of the assessment by the Modification Group. It noted three main factors that helped the Modification Group reach their recommendation:

- the design of BSC Systems Release 2, with the current value of CADL (15 minutes), would only delay reporting by 15 minutes when compared to the pre-P18A baseline;
- the assessment should be based on a 3½ hour Gate Closure and a recommendation should not be based on any future determination that may be made in respect of P12; and
- with the exception of issues related purely to the Interim Solution, the first consultation did not indicate dissatisfaction with P18A.

Based on the discussions at that meeting the majority⁵ view of the Modification Group was that, when considered in terms of the BSC Systems Release 2 baseline⁶ and a 3½ hour Gate Closure, it was not possible to conclude that an issue of delayed price reporting existed.

As it was not possible to conclude that an issue of delayed price reporting existed, it could not be shown that Modification Proposal P38, or any potential Alternative Modification would better achieve the Applicable BSC Objectives.

As a result the Modification Group recommended that Panel should:

- stop⁷ the Assessment Procedure and proceed to the Report Phase with a recommendation to reject; and
- note that should P12 be approved at some stage in the future, that the issue of prompt price reporting may become an issue.

At the Panel Meeting on 13 December 2001 this recommendation was endorsed and the Panel instructed ELEXON to prepare a draft Modification Report for the Panel Meeting 17 January 2001.

⁵ The proposer's representative voted to progress the modification whilst all the remaining members of the Modification Group supported the recommendation to reject the proposal.

⁶ It is important to distinguish between BSC Systems Release 2, where prices will typically be reported within the next Settlement Period, and the current Interim Solution for P18A where prices are currently reported typically up to 7 working days later.

⁷ In accordance with Section F2.2.11 of the Balancing and Settlement Code (BSC).

7 LEGAL TEXT TO GIVE EFFECT TO THE PROPOSED MODIFICATION

The assessment of this modification was stopped mid-way through the Assessment Procedure based on consideration of the business requirements and the principles of both the modification, as proposed, and any potential alternatives.

At this stage the Modification Group had established the underlying principles of the definition included in Modification Proposal P38 and identified a number of definitional alternatives for dealing with the detail of BOA that met the selection criteria for exclusion. Each of these were within the wording of the original definition for Modification Proposal P38 and represented the same principles. However, before the precise definitional alternative was determined it would be necessary to consider how each would respond to detailed scenarios and hence which was the most optimum definition⁸. It was also recognised that determining the necessary changes to Section T to incorporate Modification Proposal P38 should be seen as a sizeable piece of work. It should be noted that it was still possible for the Modification Group to consider the principles of Modification Proposal P38 without the need for this additional level of detail.

The Modification Group also recognised that there were simpler approaches to achieving the objective of prompt price reporting without implementing the new definition of CAD proposed by Modification Proposal P38. These included variations on how indicative prices could be reported on BMRS and also an alternative definition of the existing P18A algorithm that could report prices in the same timescales as the proposed P38 definition. Given the scale of change represented by the proposed P38 definition there was a high probability that if Modification Proposal P38 had proceeded that the Modification Group would have proposed an Alternative Modification which achieved the prompt price reporting objective without requiring significant changes to the BSC.

In addition no impact assessments had been commissioned for any of the potential solutions and hence detailed information on the impact on the Central Systems was not known.

Given the above information it is not considered possible to provide legal text at this stage that would accurately reflect the Modification Group's view, should they have decided to progress Modification Proposal P38 and any Alternative Modification.

Discussions with the Authority have concluded that it is not necessary at this stage to provide legal text for this Modification Proposal.

⁸ It should be noted that even a seemingly small change in the algorithm can result in more extensive change in the optimal structure for the legal text.

8 ASSESSMENT

In accordance with Panel Paper 32/021 [RD/3] the Assessment Procedure was planned to run in two phases. The first to consider the business requirement for prompt price reporting, and the second to consider the Modification as proposed, and any alternatives which may be considered suitable to meet the business requirement.

At the second meeting of the Modification Group, whilst considering the business requirements, the majority view was that it was not possible to conclude that an issue of delayed price reporting existed. As a result of this the Modification Group did not consider it appropriate to conduct a second consultation prior to the Interim Report. In addition Interim Report should invite the Panel to stop the Assessment Procedure and send the Modification Proposal to the Report Phase with a recommendation to reject. This is documented in the report of the second Modification Group meeting [RD/5].

At the Panel Meeting on 13 December 2001 the Panel agreed with this recommendation and stopped the Assessment Procedure.

The early termination of the Assessment Procedure means that there are no Impact Assessments for either the modification as originally proposed, or any of the potential Alternative Modifications that were being considered by the Modification Group.

9 SUMMARY OF REPRESENTATIONS

[To Be Provided After Consultation]

ANNEX 1 – REPORT ON SECOND MODIFICATION GROUP MEETING

This information is provided as a separate document.

ANNEX 2 – REPRESENTATIONS

[To Be Provided After Consultation]