
Paper Title	Modification Proposal P12: Reduction of Gate Closure from 3.5 Hours to 1 Hour - Consultation on SO Response to Balancing Mechanism Questionnaire
Date of issue	January 30 th 2002
Deadline for Responses	February 13 th 2002
Purpose of Paper	To seek Party views on System Operator response to questionnaire
Synopsis	Modification Proposal P12 was submitted to the Assessment Procedure in July 2001, with an Assessment Report due to be presented at the March 14 th 2002 meeting of the BSC Panel. As part of the Assessment Procedure, ELEXON sought the System Operator's views on the impact of the Modification on the Balancing Mechanism. BSC Parties are now invited to review and comment on the response received from the System Operator.

1. BACKGROUND

- 1.1 Damhead Creek Ltd raised Modification Proposal P12 ('the Modification') in May 2001. The Modification seeks the reduction of Gate Closure from 3.5 hours to 1 hour. The Modification was submitted to the Assessment Procedure in July 2001, with an Assessment Report due to be presented at the March 14th 2002 meeting of the BSC Panel ('the Panel').
- 1.2 Two further meetings of the Modification Group convened to assess the Modification are scheduled – one on the February 5th 2002 and one on February 27th 2002. Responses to this consultation will be discussed at the second of these meetings and incorporated in the Assessment Report to be sent to the Panel.

2. PURPOSE OF PAPER

- 2.1 As part of the Assessment Procedure, ELEXON sought the System Operator's views on the impact of the Modification on the Balancing Mechanism. BSC Parties are now invited to comment on the response received from the System Operator on January 24th 2002.
- 2.2 The System Operator's response is attached as Appendix A at the end of this paper. The response should be considered in conjunction with the consultation questionnaire issued to Parties in November 2001 and the request made for 'Detailed Level Impact Assessments' from Parties sent out in January 2002.
- 2.3 The deadline for responses to this consultation paper is 5.00PM on Wednesday 13th February.

Roger Salomone
Trading Department

List of enclosures

Appendix A: System Operator Questionnaire Response

APPENDIX A: SYSTEM OPERATOR QUESTIONNAIRE RESPONSE

MODIFICATION PROPOSAL P12 CONSULTATION

Reduction of Gate Closure from 3.5 hours to 1 hour – Impact on the Balancing Mechanism

National Grid response to BSC P12 Modification Group Questions

Given the difference in the dynamics of generating plant, reducing Gate Closure to one hour could make certain Bids & Offers currently being submitted into the balancing Mechanism (BM) unavailable.

What impact, if any, would this have on;

(a) The transparency/relevance of the BM

The Balancing Mechanism (BM) is required for residual energy balancing, minute by minute generation/demand balancing, resolving transmission constraints and delivery of Ancillary Services. Whilst the shortening of the gate closure period may impact upon the volume of energy balancing actions required, we will still be required to undertake system balancing actions to ensure that system security and frequency are maintained.

Under the current 3.5hr gate closure (GC) approximately 78% of the bids and offers accepted have been taken and delivered within a one-hour time frame.

There are two main reasons why currently we accept bids and offers with a timescale of greater than one hour:

- i) When a shorter acceptance could have been made, but it is convenient for both us and the balancing service provider to accept a bid/offer for a long duration (e.g. where the requirement for the balancing action is relatively certain several hours ahead). In this case, the acceptances that exceed one-hour duration would be broken up into blocks of less than one hour and issued in consecutive hours. Thus, assuming no step change in submitted BM data and market conditions, one-hour gate closure is likely to result in a modest increase in the level of instructions within the BM window.
- ii) When we need to take balancing actions that due to the dynamic constraints of the balancing service provider can not be completed within the one-hour time-scale (primarily actions to synchronise or desynchronise generating plant). These longer time-scale actions will need to be partially or fully enacted outside of the Balancing Mechanism (pre gate closure) if gate closure is reduced to 1 hour. We are currently investigating the best mechanism for achieving this.

These investigations include considering how to address any concerns regarding the transparency of these new pre gate closure actions. It is our view that details of these actions should be made available to market participants via the BMRS, in exactly the same way as bid-offer acceptances. Therefore we propose to make the relevant information available to the BMRS.

(b) The cost of balancing actions taken in the BM?

Under one-hour GC the bulk of balancing actions currently undertaken in the BM will continue to be taken in the BM. Providing our experience of a winter under NETA satisfies us that we can use pre-GC actions to balance the system securely and providing we have sufficient of the required pre-gate closure contracts in place it is our view that the system should be balanced with similar efficiency to now. However, it should be noted that based on our experience of NETA Go-live there may be a transition period in which efficiency temporarily decreases and BM costs temporarily increase. As with NETA Go-live the greater uncertainty associated with balancing the system under new conditions will lead us, initially, to hold higher levels of reserve and response.

(c) Liquidity in the BM

Assuming 'liquidity in the BM' refers to the volume of firm feasible bids and offers submitted under one-hour GC then we are of the view that liquidity will be reduced by a small amount. As noted above, we are developing our ability to take pre gate closure actions to compensate for this.

Do you have any other comments on the possible consequences of this change?

Our further comments will be contained within our response to the formal Elexon Detailed Level Impact Assessment by 22nd February 2002.

Imbalance prices are derived from the costs the System Operator (SO) incurs in ensuring that supply and demand are matched. There are two components to these costs:

- **the cost of Bid Offer Acceptances in the BM; and**
- **the cost of the SO's energy trades in the forward markets, these costs feed into the imbalance price calculation via the use of the six Balancing Services Adjustment Data (BSAD) parameters.**

Given that reducing Gate Closure to 1 hour could lead to an increasing proportion of balancing actions being procured via the forward markets rather than the BM, what are your views on the following:

(a) The operation and efficiency of the BM?

Under one-hour GC the majority of balancing actions that are currently taken through the BM will still be accepted through the BM. Therefore, the BM is likely to operate in a similar manner as it does at present.

The only likely changes are that the balancing actions in the BM are likely to be shorter but more frequent, while a number of actions, predominantly sync and desync instructions, will be taken pre-gate closure.

(b) The transparency/predictability of the imbalance prices if P12 is implemented?

We do not anticipate that there would be significant change to the current level of imbalance price transparency or predictability. The cost of pre-gate closure balancing actions will be taken account of via the provisions contained within the BSAD Methodology Statement.

(c) The validity of the BRL mechanism if P12 is implemented?

We feel that the validity of the BRL mechanism is unchanged by the change in gate closure time frames.

A further possible consequence of a change in the relative volume of balancing actions being taken in the forward markets and the BM, is that there could be a change in the typical prices and volumes traded in these two markets. Indeed the cost of procuring the same balancing action may change depending on when it is procured and in which market/mechanism.

Given this possibility, how do you believe P12 would effect the following:

(a) The cost and volume of balancing actions taken within the BM?

This is covered in our answers above.

(b) The magnitude of the BSAD parameters that describe the costs and volumes of energy trades made in the forward markets for balancing purposes?

The BSAD values will be calculated in accordance with the prevailing BSAD Methodology Statement.

(c) The overall impact on imbalance prices caused by the shift in the relative proportion of balancing actions taken in the BM and energy trades take in the forward markets?

Subject to no change in market behaviour, we expect that the impact on imbalance prices of the move to one-hour GC will be relatively minor for the reasons stated in the responses to previous questions.

Do you have any other comments on the possible consequences of this change?

Our further comments will be contained within our response to the formal Elexon Detailed Level Impact Assessment by 22nd February 2002.