

September 2001

MODIFICATION REPORT

Modification P008 - Introduction of a Price Adjuster to Reflect Option Fees for Balancing Services Contracts in Setting SBP and SSP

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

Document Reference	MR008
Version no.	1.0
Issue	1
Date of Issue	20 th September 2001
Reason for Issue	Authority Approval
Author	ELEXON

I DOCUMENT CONTROL

a Authorities

Version	Date	Author	Signature	Change Reference
0.1	26/07/01	Trading Development		Initial draft for peer review
0.2	30/07/01	Trading Development		Initial draft for consultation
0.3	17/08/01	Trading Development		For Panel approval
0.4	07/09/01	Trading Development		For further Industry consultation
0.5	14/09/01	Trading Development		For Panel approval
0.6	17/09/01	Trading Development		For Panel approval
1.0	20/09/01	Trading Development		For Authority Approval

Version	Date	Reviewer	Signature	Responsibility
0.2	30/07/01	Trading Strategy		Modification Group Chair
0.3	17/08/01	Trading Strategy		For Panel approval
0.4	07/09/01	Trading Strategy		For further Industry consultation
0.5	14/09/01	Trading Strategy		For Panel approval
0.6	17/09/01	Trading Strategy		For Panel approval
1.0	20/09/01	Trading Strategy		For Authority Approval

b Distribution

Name	Organisation
Each 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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1 SUMMARY AND RECOMMENDATIONS

1.1 Recommendation

Modification Proposal P008 seeks to replace Workaround 024 by incorporating Price Adjuster functionality within the BSC Systems. On the basis of the analysis, consultation and assessment undertaken in respect of this Modification Proposal, and the resultant findings of this Modification Report, the Panel recommends to the Authority that:

The Proposed Modification as set out in Section 7 of this Modification Report be approved with an Implementation Date of 25th September 2001. Settlement runs carried out after the Implementation Date in respect of Settlement Days prior to that date should not be carried out taking account of the Modification Proposal P008.

1.2 Background

The Transmission Company raised the Proposed Modification on 20th April 2001. It is intended to replace Workaround 024, which was implemented as a temporary solution to the Price Adjuster functionality proposed by Modification Proposal P003. The Authority decision was not to apply the Balancing and Settlement Code ('the Code') changes proposed in Modification Proposal P003. Instead, the Authority agreed to Workaround 024 which involved temporary alterations to the Balancing Services Adjustment Data (BSAD) Methodology, the NETA Central Service Agent's processes and ELEXON procedures.

At its meeting on 3rd May 2001, the Panel agreed (Panel paper 017/002) that Modification Proposal P008 should be submitted to the Assessment Procedure. The Panel agreed that the Assessment Report should be submitted to the Panel meeting on 26th July 2001.

The Panel considered the P008 Modification Group Assessment Report, which forms attachment 1 to this Modification Report, at its meeting on 26th July 2001 (Panel paper 026/014). The Panel agreed that the Proposed Modification should proceed to the Report Phase, on the basis that the Proposed Modification would better facilitate achievement of the Applicable Code Objectives. The Panel also agreed that the draft Modification Report, to be consulted upon, should contain a recommendation to the Authority that the Proposed Modification should be approved and implemented with effect from the Implementation Date described in Section 1.1.

Nine representations were received in response to the consultation on the Draft Modification Report representing the views of 37 Parties. Eight of the responses, representing 34 Parties, were supportive of the Proposed Modification and the Panel's rationale in recommending the adoption of the revision, stating that it would better facilitate the Applicable Code Objectives. The remaining response, representing 3 Parties, expressed concerns about implementing the Proposed Modification because of possible interaction between the BSC and imbalance prices and NGC's balancing related activities, and the possible software costs of implementation and believed that other workarounds should be considered.

The Draft Modification Report was considered by the Panel at its meeting on 23rd August 2001. The Panel agreed to recommend to the Authority that Modification Proposal P008 be approved. In making this recommendation the Panel also recommended that the necessary system changes would be implemented on 30th April 2002 and that the Modification would be applied to all Settlement Days from 5th April 2001. The Panel also concluded that ELEXON should continue dialogue with the Central System Provider with a view to advancing the Implementation Date. As a result of these discussions it was possible to advance the Implementation Date to 27th March 2002.

However, following the Panel's consideration of the Draft Modification Report and prior to the submission of a Final Modification Report to the Authority, concerns were raised about the possible legal implications of the proposed effective date which could be considered as requiring retrospective changes to BSAD Methodology. In view of these concerns, ELEXON was of the opinion that submitting the Modification Report with an Effective Date of 5th April 2001 was likely to lead to the Authority rejecting the proposal. Accordingly the Modification Report was not issued to the Authority.

The interim solution to P18A is scheduled to be implemented on 25th September 2001 and embodies the methodology for Modification P008. In view of this ELEXON propose to recommend to the Panel that, subject to industry consultation, the effective date for Modification P008 should be amended to 25th September 2001 whilst the Implementation Date should remain as 27th March 2002.

An industry consultation was carried out on the proposed change of the effective date from 5th April 2001 to 25th September 2001. Twelve responses were received representing the views of 22 Parties. The majority of the Parties (17 in total) supported the revision in the Implementation Date to 25th September 2001. One other Party made a comment, which is no longer applicable, and the remaining response (representing 4 Parties) had two reservations about the retrospective application to 5th April 2001 of the Proposed Modification. The two reservations related to the availability of information to the market about the effects of errors in the operation of Workaround 024 and that in general retrospective changes to cashout prices should be prevented. The responder indicated however, in this case, that they were sympathetic to retrospection as Workaround 024 is not very robust, based on the assumption that the errors are not minor and that there is no systematic retrospective effect on cashout price.

The changes to ELEXON's TOMAS system to implement the interim solution to P18A are scheduled to be implemented on 25 September 2001 and embody the methodology for Modification P008. In view of this, and NGC's concerns, ELEXON proposed to the Panel on 20 September 2001 that the P008 Code changes should be implemented using TOMAS as an interim solution, similar to P18A. As with P18A, the SAA software changes would then provide a long term enduring solution to P008. The consequence of this would be that both the Code changes and the software changes (via TOMAS) would be implemented on the same day, 25th September 2001.

The Draft Modification Report was considered by the Panel at its meeting on 20th September 2001. The Panel agreed to recommend to the Authority that Modification Proposal P008 be approved.

1.3 Rationale for Recommendations

The Panel endorses the Modification Group's conclusions that the Proposed Modification would better facilitate the Applicable BSC Objectives as set out in the Transmission Licence. In particular, it would meet objective 7A(3)(d) – 'promoting efficiency in the implementation and administration of the balancing and settlement arrangements'. The Proposed Modification has no impact on the remaining Applicable BSC Objectives set out in Condition 7A(3)(a - c). In reaching this conclusion, the Panel took due account of the views of the proposer, all representations received from interested parties and the views of the Modification Group, which are detailed in Section 9 below. This Modification Report should be read in conjunction with the Modification Group's Assessment Report.

2 INTRODUCTION

This Report has been prepared by ELEXON Ltd., on behalf of the Panel, in accordance with the terms of the Code. The Code 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 Code.

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 Code (known as 'Modification Proposals'. These include procedures for proposing, consulting on, developing, evaluating and reporting to the Authority on potential modifications.

The 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 Code. 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

The Transmission Company raised the Proposed Modification on 20th April 2001. It is intended to replace Workaround 024, which was implemented as a temporary solution to the Price Adjuster functionality proposed by Modification Proposal P003. At its meeting on 3rd May 2001, the Panel agreed (Panel paper 017/002) that Proposed Modification P008 should be submitted to the Assessment Procedure. Following completion of the Assessment Procedure an Assessment Report was presented to the Panel on 26th July 2001.

The Panel considered the P008 Modification Group Assessment Report at its meeting on 26th July 2001 and agreed that the Proposed Modification should proceed to the Report Phase, that the draft Modification Report, to be consulted upon, should contain a recommendation to the Authority that the Proposed Modification should be approved and implemented with effect from the Implementation Date described in Section 1.1.

Nine representations were received in response to the consultation on the Draft Modification Report. Eight of the responses were supportive of the Proposed Modification and the Panel's rationale in recommending the adoption of the revision, stating that it would better facilitate the Applicable Code Objectives. The remaining response expressed concerns about implementing the Proposed Modification because of possible interaction between the BSC and imbalance prices and NGC's balancing related activities, and the possible software costs of implementation and believed that other workarounds should be considered.

A consultation on the proposed revision to the Implementation Date from 5th April 2001 to 25th September 2001 of the Proposed Modification was issued to Parties. Twelve responses were received representing the views of 22 Parties. The majority of the Parties (17 in total) supported the revision in the Implementation Date to 25th September 2001. One other Party made a comment, which is no longer applicable, and the remaining response (representing 4 Parties) had two reservations about the retrospective application to 5th April 2001 of the Proposed Modification. The two reservations related to the availability of information to the market about the effects of errors in the operation of Workaround 024 and that in general retrospective changes to cashout prices should be prevented. The responder indicated however, in this case, that they were sympathetic to retrospection as Workaround WO24 is not very robust, based on the assumption that the errors are not minor and that there is no systematic retrospective effect on cashout price.

5 DESCRIPTION OF PROPOSED MODIFICATION

The Proposed Modification will incorporate the Price Adjuster functionality within the BSC Systems. Changes will therefore be required to the following:

5.1 Balancing Mechanism Activities

The current SAA and BMRA Systems receive BSAD data from the Transmission Company in the form of an email containing a spreadsheet compatible CSV file. This interface will be automated to ensure that human errors are reduced.

There are no Code changes required to support this change.

5.2 Settlement

The Proposed Modification will require changes to the SAA and BMRA software to utilise the new data items ie. Sell Price Price Adjustment (SPA) and Buy Price Price Adjustment (BPA), received from the Transmission Company, in the imbalance price calculations.

The Code changes are included in Section 7 of this Modification Report.

With an effective Settlement Day of the 25th September 2001, there will be a requirement to re-set the BSAD for days between Settlement Day 25th September 2001 and 27th March 2002, when the software changes to the central BSC systems will be implemented. This is required to ensure that BSC Systems perform their next Settlement calculation in line with the rules of both P003 and P008, but using the more accurate software solution introduced with P008.

5.3 Reporting

5.3.1 SAA Reporting

Changes are required to the SAA Settlement Report flow (SAA-I014) to report the two new data items ie. SPA and BPA which were used in the Settlement calculations. This will be achieved by creating a new version of the Settlement Report flow, which would exist in parallel with the current version of the SAA Settlement Report flow for a period of three months after the Implementation Date. Thereafter only the new version of the SAA Settlement Report flow will exist.

There are no Code changes required to support this change.

5.3.2 BMRA Reporting

Changes are required to the BMRA reporting to provide the BSAD which was used in the calculation of the indicative imbalance prices. This will be achieved by publishing the BSAD on the BMRA website.

The Code changes are included in Section 7 of this Modification Report.

6 RATIONALE FOR PANEL RECOMMENDATIONS

On the basis of the analysis, consultation and assessment undertaken in respect of the Proposed Modification, the Panel recommends to the Authority that the Proposed Modification be approved, with the Implementation Date specified in Section 1.1.

The Panel at their meeting on 26th July 2001 endorsed the views set out in the Assessment Report:

1. that the Proposed Modification should progress to the Report Phase;
2. to Recommend to the Authority that the Proposed Modification be approved;
3. that the Proposed Modification includes automating the interface into the BSC Systems and modifying the BSC Systems, including changing the SAA and BMRA reporting;
4. to Recommend to the Authority that the Proposed Modification is implemented on the Implementation Date specified in Section 1.1;
5. to recommend to the Authority that the Proposed Modification becomes effective from Settlement Day 5th April 2001, on the basis that correct BSAD data should be reflected in the BSC System in line with the Ofgem determination on Proposed Modification P003 - Correction of Price Spikes Generated By De-Minimis NGC Purchases.

In light of the above considerations, the Panel has concluded that the Proposed Modification would better facilitate the Applicable BSC Objective 7A(3)(d) – “promoting efficiency in the implementation and administration of balancing and settlement arrangements”. This Modification Report should be read in conjunction with the Modification Group’s Assessment Report.

The Draft Modification Report was considered by the Panel at its meeting on 23rd August 2001. The Panel agreed to recommend to the Authority that Modification Proposal P008 be approved. In making this recommendation the Panel also recommended that the necessary Code and SAA system changes would be implemented on 30th April 2002 and that the Modification would be applied to all Settlement Days from 5th April 2001. The Panel also concluded that ELEXON should continue dialogue with the Central Service Provider with a view to advancing the date for implementation of the software changes. As a result of these discussions it was possible to advance the date for implementation of the SAA software changes to 27th March 2002.

Following the Panel’s consideration of the Draft Modification Report on 23rd August 2001, but prior to the submission of a Final Modification Report to the Authority, concerns were raised about the possible legal implications of the proposal to apply the Code changes to all Settlement Days from 5th April 2001 as it could be considered as requiring retrospective changes to BSAD Methodology. In view of these concerns, ELEXON was of the opinion that submitting the Modification Report was likely to lead to the Authority rejecting the proposal. Accordingly the Modification Report was not issued to the Authority. The interim solution to P18A is scheduled to be implemented on 25th September 2001 and embodies the methodology for Modification P008. In view of this, ELEXON recommended to the Panel that, subject to industry consultation, the effective date for Modification P008 should be amended to 25th September 2001. The Panel accepted ELEXON’s recommendation and as a result a further industry consultation has been carried out on the proposed change to the Implementation Date.

7 LEGAL TEXT TO GIVE EFFECT TO THE PROPOSED MODIFICATION

7.1 Conformed Version

Section Q 'Balancing Mechanism Activities'

Add the two new data items, BPA and SPA to clause 6.3.2 as follows:

'6.3.2 The Balancing Services Adjustment Data shall comprise the following data in respect of each Settlement Period:

- (a) Sell Price Cost Adjustment SCA
- (b) Sell Price Volume Adjustment SVA
- (c) Buy Price Cost Adjustment BCA
- (d) Buy Price Volume Adjustment BVA
- (e) *Buy Price Price Adjustment BPA*
- (f) *Sell Price Price Adjustment SPA.*

Section T 'Settlement and Trading Charges'

Add the new formula to clauses 4.4.5 and 4.4.6 as follows;

'4.4.5 In respect of each Settlement Period, if $\{\sum_i \sum^n \{QAO_{ij}^n * TLM_{ij}\} + BVA_j\}$ is not equal to zero then the System Buy Price will be determined as follows:

$$SBP_j = \{\sum_i \sum^n \{QAO_{ij}^n * PO_{ij}^n * TLM_{ij}\} + BCA_j\} / \{\sum_i \sum^n \{QAO_{ij}^n * TLM_{ij}\} + BVA_j\} + \{BPA_j\}$$

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 Trade Tagged Offers.

If for any Settlement Period $\{\sum_i \sum^n \{QAO_{ij}^n * TLM_{ij}\} + BVA_j\}$ is equal to zero, then:

- (a) if for that Settlement Period $\{\sum_i \sum^n \{QAB_{ij}^n * TLM_{ij}\} + SVA_j\}$ is equal to zero, the System Buy Price for that Settlement Period will be equal to zero;
- (b) otherwise, the System Buy Price will be determined as the maximum of System Sell Price and:
 - (i) the Offer Price of the cheapest Offer available in that Settlement Period:
 - (1) which has a positive Bid-Offer Pair Number; and
 - (2) which has an Offer Price greater than the Offer Price of any Offer which is an Arbitrage Accepted Offer in respect of that Settlement Period; and
 - (3) for which the value of Bid-Offer Volume ($qBO_{ij}^n(t)$) is greater than zero for all spot times t in that Settlement Period;
 - (ii) or, if no such Offer exists, zero.

4.4.6 In respect of each Settlement Period, if $\{\sum_i \sum^n \{QAB_{ij}^n * TLM_{ij}\} + SVA_j\}$ is not equal to zero then the System Sell Price will be determined as follows:

$$SSP_j = \{ \sum_i \sum^n \{ QAB_{ij}^n * PB_{ij}^n * TLM_{ij} \} + SCA_j \} / \{ \sum_i \sum^n \{ QAB_{ij}^n * TLM_{ij} \} + SVA_j \} + \{ SPA_j \}$$

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 Trade Tagged Bids.

If for any Settlement Period $\{ \sum_i \sum^n \{ QAB_{ij}^n * TLM_{ij} \} + SVA_j \}$ is equal to zero, then:

- (a) if for that Settlement Period $\{ \sum_i \sum^n \{ QAO_{ij}^n * TLM_{ij} \} + BVA_j \}$ is equal to zero, the System Sell Price for that Settlement Period will be equal to zero;
- (b) otherwise, the System Sell Price will be determined as the minimum of System Buy Price and:
 - (i) the Bid Price of the most expensive Bid available in that Settlement Period:
 - (1) which has a negative Bid-Offer Pair Number; and
 - (2) which has a Bid Price less than the Bid Price of any Bid which is an Arbitrage Accepted Bid in respect of that Settlement Period; and
 - (3) for which the value of Bid-Offer Volume ($qBO_{ij}^n(t)$) is less than zero for all spot times t in that Settlement Period;
 - (ii) or, if no such Bid exists, zero.'

The new BPA_j/SPA_j terms will only be used within these two formulae, therefore all other aspects of imbalance price calculations are not impacted by this change (this includes defaulting requirements for SSP/SBP).

Section V 'Reporting'

Modify 2.6.5 as follows:

'2.6.5 The BMRA shall calculate:

- (a) the Indicative System Buy Price (ISBP_j), and
- (b) the Indicative System Sell Price (ISSP_j)

in accordance with the rules in Section T4.4 save that in each case the terms ETLMO⁺, ETLMO⁻, IQABⁿ_{ij}, IQAOⁿ_{ij}, IBCA_j, IBVA_j, IBPA_j, ISCA_j, ISVA_j, ISPA_j, ISBP_j and ISSP_j, shall (for the purposes of this paragraph 2.6 only) be substituted for the terms TLMO⁺, TLMO⁻, QABⁿ_{ij}, QAOⁿ_{ij}, BCA_j, BVA_j, BPA_j, SCA_j, SVA_j, SPA_j, SBP_j and SSP_j in Section T.'

Annex V-1: Table 1

Modify Annex V-1: Table 1 to add the following entry after the entry for "System warnings (SYS_WARN)":

<i>Balancing Services Adjustment Data (BSAD)</i>	<i>Daily</i>	<i>Tabular</i>	<i>None</i>
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Section X, Annex X-2 'Technical Glossary'

Add the following two new terms:

Defined Term	Acronym	Units	Definition/Explanatory Text
Buy Price Price Adjustment	BPA _j	£/MWh	The amount sent by the Transmission Company as the 'Buy Price Price Adjustment' in accordance with Section Q6.3.
Sell Price Price Adjustment	SPA _j	£/MWh	The amount sent by the Transmission Company as the 'Sell Price Price Adjustment' in accordance with Section Q6.3.

7.2 Clean Version

Section Q 'Balancing Mechanism Activities'

'6.3.2 The Balancing Services Adjustment Data shall comprise the following data in respect of each Settlement Period:

- (a) Sell Price Cost Adjustment SCA
- (b) Sell Price Volume Adjustment SVA
- (c) Buy Price Cost Adjustment BCA
- (d) Buy Price Volume Adjustment BVA
- (e) Buy Price Price Adjustment BPA
- (f) Sell Price Price Adjustment SPA.'

Section T 'Settlement and Trading Charges'

'4.4.5 In respect of each Settlement Period, if $\{\sum_i \sum^n \{QAO_{ij}^n * TLM_{ij}\} + BVA_j\}$ is not equal to zero then the System Buy Price will be determined as follows:

$$SBP_j = \{\sum_i \sum^n \{QAO_{ij}^n * PO_{ij}^n * TLM_{ij}\} + BCA_j\} / \{\sum_i \sum^n \{QAO_{ij}^n * TLM_{ij}\} + BVA_j\} + \{BPA_j\}$$

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 Trade Tagged Offers.

If for any Settlement Period $\{\sum_i \sum^n \{QAO_{ij}^n * TLM_{ij}\} + BVA_j\}$ is equal to zero, then:

- (a) if for that Settlement Period $\{\sum_i \sum^n \{QAB_{ij}^n * TLM_{ij}\} + SVA_j\}$ is equal to zero, the System Buy Price for that Settlement Period will be equal to zero;
- (b) otherwise, the System Buy Price will be determined as the maximum of System Sell Price and:
 - (i) the Offer Price of the cheapest Offer available in that Settlement Period:
 - (1) which has a positive Bid-Offer Pair Number; and
 - (2) which has an Offer Price greater than the Offer Price of any Offer which is an Arbitrage Accepted Offer in respect of that Settlement Period; and
 - (3) for which the value of Bid-Offer Volume ($qBO_{ij}^n(t)$) is greater than zero for all spot times t in that Settlement Period;
 - (ii) or, if no such Offer exists, zero.

4.4.6 In respect of each Settlement Period, if $\{\sum_i \sum^n \{QAB_{ij}^n * TLM_{ij}\} + SVA_j\}$ is not equal to zero then the System Sell Price will be determined as follows:

$$SSP_j = \{\sum_i \sum^n \{QAB_{ij}^n * PB_{ij}^n * TLM_{ij}\} + SCA_j\} / \{\sum_i \sum^n \{QAB_{ij}^n * TLM_{ij}\} + SVA_j\} + \{SPA_j\}$$

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 Trade Tagged Bids.

If for any Settlement Period $\{\sum_i \sum^n \{QAB_{ij}^n * TLM_{ij}\} + SVA_j\}$ is equal to zero, then:

- (a) if for that Settlement Period $\{\sum_i \sum^n \{QAO_{ij}^n * TLM_{ij}\} + BVA_j\}$ is equal to zero, the System Sell Price for that Settlement Period will be equal to zero;
- (b) otherwise, the System Sell Price will be determined as the minimum of System Buy Price and:
 - (i) the Bid Price of the most expensive Bid available in that Settlement Period:
 - (1) which has a negative Bid-Offer Pair Number; and
 - (2) which has a Bid Price less than the Bid Price of any Bid which is an Arbitrage Accepted Bid in respect of that Settlement Period; and
 - (3) for which the value of Bid-Offer Volume ($qBO_{ij}^n(t)$) is less than zero for all spot times t in that Settlement Period;
 - (ii) or, if no such Bid exists, zero.'

Section V 'Reporting'

2.6.5 The BMRA shall calculate:

- (a) the Indicative System Buy Price (ISBP_j), and
- (b) the Indicative System Sell Price (ISSP_j)

in accordance with the rules in Section T4.4 save that in each case the terms ETLMO⁺, ETLMO⁻, IQABⁿ_{ij}, IQAOⁿ_{ij}, IBCA_j, IBVA_j, IBPA_j, ISCA_j, ISVA_j, ISPA_j, ISBP_j and ISSP_j, shall (for the purposes of this paragraph 2.6 only) be substituted for the terms TLMO⁺, TLMO⁻, QABⁿ_{ij}, QAOⁿ_{ij}, BCA_j, BVA_j, BPA_j, SCA_j, SVA_j, SPA_j, SBP_j and SSP_j in Section T.'

Annex V-1: Table 1

Balancing Services Adjustment Data (BSAD)	Daily	Tabular	None
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Section X, Annex X-2 'Technical Glossary'

Defined Term	Acronym	Units	Definition/Explanatory Text
Buy Price Price Adjustment	BPA _j	£/MWh	The amount sent by the Transmission Company as the 'Buy Price Price Adjustment' in accordance with Section Q6.3.
Sell Price Price Adjustment	SPA _j	£/MWh	The amount sent by the Transmission Company as the 'Sell Price Price Adjustment' in accordance with Section Q6.3.

8 ASSESSMENT

The following is a summary of the impacts identified in the Assessment Report produced by the Group, which forms Attachment 1 to this report.

The Proposed Modification will have the following impacts:

- Amendments to Sections Q, T, V and X of the Code. The relevant legal drafting can be found at Section 7 of this Modification Report;
- Impact on BSC Systems;
- Impact on the Code Subsidiary Documents;
- Impact on Parties but no impact on Party Agents;
- An increase in the payments due under BSC Agent Contracts;
- There will be savings in BSC Costs as a result of Workaround 024 being withdrawn. Savings would also potentially arise because there would be a reduction in the number of disputes being raised as a result of automating the Transmission Company to BSC System interface;
- No impact on the Core Industry Documents;
- Impact on the systems and processes of BSCCo;
- Costs will be attributable to the implementation of the Proposed Modification; and
- No impact on the statutory, regulatory and contractual framework within which the Code sits.

9 SUMMARY OF REPRESENTATIONS

9.1 Initial Consultation

Copies of the original representations received and considered by the Group under the initial consultation on the Proposed Modification can be found in the Assessment Report, included as Attachment 1 to this Modification Report.

9.2 Second Consultation and Detailed Level Impact Assessment

Copies of the representations received to the second consultation and Detailed Level Impact Assessment (DLIA) and considered by the Group can be found in the Assessment Report, included as Attachment 1 to this Modification Report.

9.3 Consultation on Draft Modification Report

Nine representations were received in response to the consultation on the draft Modification Report representing the views of 37 Parties. Copies of these responses are attached at Annex 1 to this report.

Eight of the responses, representing 34 Parties, were supportive of the Proposed Modification and the Panel's rationale in recommending the adoption of the revision, stating that it would better facilitate the Applicable Code Objectives. The remaining response (P8_MR_009), representing 3 Parties, expressed concerns about implementing the Proposed Modification because of possible interaction between the BSC and imbalance prices and NGC's balancing related activities, and the possible software costs of implementation and believed that other workarounds should be considered.

9.4 Consultation on the Revision to the Implementation Date of Modification Proposal P8

Twelve representations were received in response to the consultation on the revision to the Implementation Date for the Proposed Modification representing the views of 22 Parties. Copies of these responses are attached at Annex 2 to this report.

The majority of the Parties (17 in total) stated that they support the revision in the Implementation Date to 25th September 2001. One other Party made a comment, which is no longer applicable and the remaining response (representing 4 Parties) had two reservations about the retrospective application to 5th April 2001 of the Proposed Modification. The two reservations related to the availability of information to the market about the effects of errors in the operation of Workaround 024 and that in general retrospective changes to cashout prices should be prevented. The responder indicated however, in this case, that they were sympathetic to retrospection as Workaround WO24 is not very robust, based on the assumption that the errors are not minor and that there is no systematic retrospective effect on cashout price.

ANNEX 1 – COPIES OF REPRESENTATIONS

The following submissions were received in response to the consultation on the draft Modification Report.

No	Company	File Number
1.	Dynegy	P8_MR_001
2.	TXU Europe Energy Trading Ltd (on behalf of all TXU Europe companies)	P8_MR_002
3.	Powergen UK plc (on behalf of itself and Powergen Energy plc, Diamond Power Generation Limited, Cottam Development Centre Limited)	P8_MR_003
4.	SEEBBOARD	P8_MR_004
5.	Innogy plc, npower Ltd, npower (Yorkshire) Ltd, npower direct ltd, Yorkshire Electricity Group, Innogy Cogeneration Trading Ltd	P8_MR_005
6.	Scottish & Southern Energy (on behalf of Southern Electric, Scottish and Southern Energy, Keadby Generation Ltd, SSE Energy Supply Ltd)	P8_MR_006
7.	Scottish Power UK plc (on behalf of Scottish Power UK plc, Manweb Plc and Manweb Services Ltd)	P8_MR_007
8.	British Gas Trading	P8_MR_008
9.	British Energy plc (for British Energy Power and Energy Trading Ltd, British Energy Generation Ltd and Eggborough Power Ltd)	P8_MR_009

P8_MR_001 – Dynegy

Dynegy would like to make the following comment concerning the draft modification report of P008: Introduction of a price adjuster to reflect option fees for balancing services contracts in setting SBP and SSP.

Dynegy support the BSC Panel's recommendation to approve modification proposal P008. Dynegy approve of the modification's objective to incorporate the price adjuster functionality within the BSC system. We believe it is extremely important to ensure that the BSC system is amended to reflect BSC changes.

Please do not hesitate to contact me if you have any additional questions or queries on 020 8334 7267.

Rekha Patel.

P8_MR_002 – TXU Europe Energy Trading Ltd

Thank you for the opportunity to comment on the above modification proposal.

TXU Europe Energy Trading Ltd (responding on behalf of all TXU Europe companies) support the recommendation that this modification proposal should be implemented.

Regards

Nicola Lea
Market Development Analyst

P8_MR_003 – Powergen UK plc

Proposed Variation to BSC – Modification Proposal No: 8 – Introduction Of A Price Adjuster To Reflect Option Fees For Balancing Services Contracts In Setting System Buy Price And System Sell Price.

Powergen UK plc ('Powergen') welcomes the opportunity to comment on the modification report issued for P8 on the 30th July. Powergen provides this response on behalf of itself and the following BSC Parties: Powergen Energy plc, Diamond Power Generation Limited, and Cottam Development Centre Limited.

In response to the modification report Powergen would raise the following points :-

- Powergen endorse the recommendation to implement the proposed modification but are surprised that these changes to software systems were not included in the decision under modification P3.
- Powergen would seek to clarify the method of implementation of the modification, ie under the proposal there would be a price adjuster added to the existing system buy price & sell price that are reported through sub flows of SAA-I014. Powergen would like to clarify whether the variables will be added to the existing flows or if new sub flows will be required under SAA-I014, and whether there will be a change to BMRA data.
- In the case of new flows Powergen would estimate that a lead time of 3 months software development time along with a further 2 months testing & implementation timescale would be appropriate. If the changes were implemented within the existing flows this timescale would be substantially reduced.

Yours Sincerely
James Hawkins
Strategy & Regulation
Energy Trading
Powergen
02476 42 4737.

P8_MR_004 – SEEBOARD

We agree with the recommendation from the modification report. However, given we do not have an actual implementation date, we assume that Elexon will keep all participants informed via its change procedures.

Sue Fraser
for DAVE MORTON
0190 328 3465

P8_MR_005 – Innogy

Below are the comments on behalf of Innogy plc, npower Ltd, npower (Yorkshire) Ltd, npower direct Ltd, Yorkshire Electricity Group, Innogy Cogeneration Trading Ltd.

We support the principle of a price adjuster however the important aspect of how the price adjuster is intended to work has not been addressed. We believe that NGC should be consulting on this issue in parallel with consideration of this modification.

Regards,
Terry Ballard
01905-340507
07989-493038

P8_MR_006 – Scottish & Southern Energy

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

We support the recommendation of the Panel that this Modification is approved and implemented. We look forward to clarification of the implementation date, in view of the recent problems with the workaround, an early implementation would be desirable. We have no further comments on the Draft Modification Report.

Regards
Robert

P8_MR_007 – Scottish Power UK plc

Modification Proposal P8 – Introduction of a Price Adjuster to Reflect Option Fees for Balancing Services Contracts in Setting SBP and SSP

Having reviewed the Draft Modification Report for P8, we support the Panel's recommendation that the Modification Proposal, as set out in Section 7 of the report, be implemented. However, as indicated in our Detailed Level Impact Assessment, the impact that this implementation will have on our systems is such that early notification of timescales is essential.

I hope that you find these comments to be helpful. If I may be of any further assistance, please do not hesitate to contact me.

Yours faithfully,
James Nixon
On behalf of:
Scottish Power UK plc, Manweb Plc and Manweb Services Ltd.

P8_MR_008 – British Gas Trading

Modification Proposal 8: Introduction of a Price Adjuster to Reflect Option Fees for Balancing Services Contracts in Setting SBP and SSP

Thank you for the opportunity of responding to this modification. British Gas Trading (BGT) support this modification although note that it would be preferable to remove option fees from the calculation

of System Buy and Sell Prices altogether. In light of Ofgem's earlier decision on Modification Proposal 3 we believe that Modification 8 provides a pragmatic solution.

The effect of Mod 8 will be to automate an existing process, Workaround 24, thus reducing the risk of human error. This will further the Applicable BSC objective to promote efficiency in the implementation and administration of balancing and settlement arrangements.

We support the proposal that the modification becomes effective from Settlement Day 5 April 2001.

Yours faithfully
Danielle Lane
Transportation Analyst

P8_MR_009 – British Energy plc
BSC Modification Proposal P008 - Introduction of a Price Adjuster to Reflect Option Fees for Balancing Services Contracts in Setting SBP and SSP

British Energy have a number of observations regarding the proposed modification:

- Modification Proposal P8 has been raised to try to rationalise the treatment of adjustments to BSC imbalance prices arising from particular NGC balancing actions. The treatment was directed by the Authority in response to Modification Proposal P3. This was not the preferred treatment of the majority of the P3 Modification Group which considered the original proposal, and does not necessarily have wide industry support. Our comments on proposal P8 are made on the basis that the direction by the Authority in respect of P3 remains in force for the foreseeable future, regardless of other views, but we cannot exclude the possibility of further or alternative changes being made in this area, as discussed below.
- Incorporation of the modified price adjustment arising from P3 into the BSC is sensible for improved visibility of the price calculation components. However, we have some concerns that the interaction between the BSC and imbalance prices and NGC's balancing related activities and BSUoS has not been properly understood yet, and other changes may be required in future to clarify or amend this.
- The cost of software system modifications is likely to be considerable and implementation is likely to take considerable time. We have concerns that proceeding immediately with systems implementation could be premature given that other changes to the pricing and imbalance mechanism could arise as a result of other proposals and reviews, and operational experience.
- We believe that alternative "workarounds" should be considered, possibly using a third party service provider, to allow BM Prices to be published more quickly and reliably. This could be part of a wider review of market information reporting under NETA, which we consider to be wanting in some areas, including price reporting.

Martin Mate
For:
British Energy Power & Energy Trading Ltd
British Energy Generation Ltd
Eggborough Power Ltd

ANNEX 2 - COPIES OF RESPONSES TO CONSULTATION ON REVISION TO THE IMPLEMENTATION DATE

The following submissions were received in response to the consultation on the revision to the Implementation Date.

No	Company	File Number
1.	NGC	P8_MR2_001
2.	Vattenfall	P8_MR2_002
3.	Powergen	P8_MR2_003
4.	Scottish and Southern Energy on behalf of Southern Electric, Keadby Generation Limited and Scottish and Southern Energy Supply Limited	P8_MR2_004
5.	TXU Europe Energy Trading Ltd on behalf of all TXU companies	P8_MR2_005
6.	SEEBOARD	P8_MR2_006
7.	Enron Europe	P8_MR2_007
8.	BGT	P8_MR2_008
9.	Northern Electric	P8_MR2_009
10.	Scottish Power UK Plc, Manweb Plc and Emerald Power Generation Ltd	P8_MR2_010
11.	London Electricity, South Western Electricity, Jade Power and Sutton Bridge Power	P8_MR2_011
12.	British Energy for British Energy Power & Energy Trading Ltd, British Energy Generation Ltd, Eggborough Power Ltd	P8_MR2_012

P8_MR2_001 – NGC

I have a minor comment on the mod report for P8

The amendments proposed to section Q still include paragraph 6.3.5 - is this still required now that the change is proposed prospectively? My view is that this paragraph was introduced to cope with an effective date of 5 April 2001, and this has now changed to 25 September 2001, so is it still required?

No other comments

Regards

John Greasley

P8_MR2_002 – Vattenfall

Based on the information given in the consultation paper of 7 September 2001 and especially the risk of delaying the implementation of the P18 Interim solution, Vattenfall is supporting a revision of the P8 Effective Date from 5 April 2001 to 25 September 2001.

Best regards,

Bo Wahrgren

P8_MR2_003 – Powergen

Proposed Variation to BSC – Modification Proposal No: 8 – Introduction Of A Price Adjuster To Reflect Option Fees For Balancing Services Contracts In Setting System Buy Price And System Sell Price.

Powergen UK plc ('Powergen') welcomes the opportunity to comment on the consultation issued for P8 on the 7th September. Powergen provides this response on behalf of itself and the following BSC Parties: Powergen Energy plc, Diamond Power Generation Limited, and Cottam Development Centre Limited.

In response to the consultation :-

- Powergen support the recommendations of Elexon under section 5 of the consultation document to revise the effective date of modification P8 to the 25th September 2001.

Yours Sincerely
James Hawkins

Strategy & Regulation
Energy Trading
Powergen
02476 42 4737.

P8_MR2_004 – Scottish and Southern Energy

In response to points raised under the above consultation, we have the following comments:

Changes in Methodology

Modification Proposal P3 proposed a Price Adjuster for System Sell Price and System Buy Price by altering the BSAD Methodology. The implementation of Workaround W024 was a temporary solution to P003. The original Modification Proposal P8 quite clearly states that "This modification proposes to retain the same functionality, but to implement the Price Adjuster within the BSC and Elexon's central systems. ". As such we believe the methodology under P08 is essentially the same. The main difference between P03, P08 and W024 is in the application of that methodology.

Effective Date and Retrospective Implementation Assessment Report dated 20th July quite clearly states on page 6 para 1.1 that Workaround 024 was originally designed to be replaced prior to the Final Reconciliation Run. This was essentially due to the identified risk of error associated with application as referred to in paragraph 5.8.3 on page 19. In recognition of that the report states that the implementation date of August 2002 was being looked at being brought forward. Paragraph 5 also clearly refers to an effective date of 5th April "on the basis that the correct BSAD data should be reflected in the BSC System in line with the Ofgem determination on Modification P003. Furthermore page 26 para 10.1.1 deals with Impact on Transmission Company. It states quite clearly that changes will be required to incorporate the revised BSAD process. It states "the Transmission company would be required to provide retrospective data for all Settlement Days from 5th April 2001 to the Modification implementation date". At no point in this report or in subsequent reports was it identified that this

might be a problem. Furthermore, no issues were identified under Legal Issues in Section 11 of that report.

Modification Report dated 30 July and 17th August again quite clearly states an effective date of 5th April and refer to a one-off requirement to re-set BSAD for days between settlement day 5th April 2001 and actual implementation date "to ensure that BSC Systems perform their next settlement calculation in line with the rules of both P3 and P8but using the more accurate software solution introduced with P8."

Conclusion

Based on the above, we believe the effective date, the intention to apply changes retrospectively, the justification for applying changes retrospectively and the consequences of having an effective date that precedes the implementation date should have been well understood by all. Workaround 24 was always envisaged to be a temporary solution and the problems associated with the risk of error and level of accuracy are well documented. Indeed they are recently referred to in Elexon Circular EL00191.

Further Comments and Concerns

As such SSE have the following comments in relation to the above consultation:

Given Ofgem and NGC involvement in the Modification Group and development of reports we are concerned that issues raised under the above consultation are emerging at this late stage.

We are not aware of any specific instances where parties have indicated that they had not appreciated the retrospective element and it is not clear how material an issue this is i.e. how many parties were unaware of this aspect of the proposal?

We are concerned that the consultation report indicates that it is not a sufficiently strong justification that all reports have specifically stated an implementation date of 5th April. If this is the view held, what action would be required in future to ensure parties understand this and any other point?

It is not clear what the legal implications are for retrospective changes to BSAD methodology, despite seeking further clarification from Elexon or that they are justified.

We believe the concerns expressed in relation to the effective date and retrospection are not particularly clear or strong arguments. Given the risk associated with the workaround, the fact that the net effect of changes is minimal and there is evidence that the methodology is viewed as being essentially the same we believe P08 should be capable of being progressed with an effective date of 5th April as originally envisaged and imbalance liabilities finalised in the most accurate way under the application of P08.

However we recognise the dependency with P18 and our overriding concern is that proceeds and becomes effective on the 25th September. We would ask that some attempt is first made to work with NGC and Ofgem to clarify and progress issues associated with P08 with an effective date of 5th April in time for the 25th September deadline, perhaps under the Urgent Modification route. Only if it is established that there are genuine issues which can't be resolved would we be agreeable to amending the effective date for P08 to 25th September and in this case we would ask that the points raised under

Further Comments and Concerns are addressed at some point in future to avoid any problems in relation to other Modification Proposals.

Response on behalf of Southern Electric, Scottish and Southern Energy, Keadby Generation Limited and Scottish and Southern Energy Supply Limited.

Regards
Beverley
Market Development

P8_MR2_005 – TXU Europe Energy Trading Ltd

Thank you for the opportunity to comment on the changes to the proposed Effective Date of Modification P8. TXU Europe Energy Trading Ltd would like to make the following comments on behalf of all TXU companies. TXU supports the proposed change to move the effective date from 5th April 2001 to 25th September 2001.

Regards
Nicola Lea
Market Development Analyst
TXU Europe Energy Trading Ltd

P8_MR2_006 – SEEBOARD

SEEBOARD supports this revision of P8 effective date to 25th September 2001.

One concern raised by our service provider with this modification is regarding data flow SAA-I014. Will two concurrent versions be provided after implementation date, 27th March 2002. That is current form for settlement runs for dates up to and including 24th September 2001, required until November 2002, and new version for 25th September 2001 onwards?

Dave Morton
SEEBOARD
0190 328 3465

P8_MR2_007 – Enron Europe

Consultation on Revision to Effective Date for Modification Proposal P8

Response by Enron Europe
14 September 2001

Enron Europe Ltd advocates that the Panel change its recommended Effective Date for P8 from 5 April 2001 to 25 September 2001.

In deciding whether to change its recommendation on P8's Effective Date, the Panel must trade off the cost of delaying P8 against the risk, and ensuing cost, that GEMA rejects P8 if it has an Effective Date of 5 April.

Delaying P8's Effective Date to 25 September means that Workaround W024 rather than P8 will determine final prices from 5 April to 24 September. Since W024 is intended to achieve the same price outcome as P8 this will have relatively little impact on final prices.

Alternatively, by retaining P8's Effective Date as 5 April, the Panel runs the risk that GEMA will reject P8. Rejection will prolong the use of W024 until a replacement modification for P8 is proposed, accepted and implemented.

Rejection of P8 may also delay implementation of P18. P18 will significantly improve the relationship between imbalance prices and the market fundamentals of supply and demand. This relationship is necessary to provide efficient price signals to the market. A delay to P18 will be costly because it will prolong the use of imbalance prices that incentivise the system to be long and stifle liquidity in the traded markets.

In balance, the likely benefits of the Panel changing P8's recommended Effective Date to 25 September outweigh the costs of the change.

It is not entirely clear why P18's Effective Date is dependent upon implementation of P8. Therefore, before changing its recommended Effective Date for P8, the Panel should investigate the possibility of retaining P18's Effective Date as 25 September, even if P8's Implementation Date is delayed till after 25 September.

P8_MR2_008 – BGT

Consultation on Revision to Effective Date for Modification Proposal 8

Thank you for the opportunity of responding to this consultation.

British Gas Trading (BGT) note the issues raised regarding the potential for retrospective changes to BSAD data if the effective date of 5 April 2001 for P8 is used. We support changing the effective date to 25 September 2001 although as Workaround 24 and P8 are intended to give the same effect we would not have anticipated any impact on either the BSAD data or NGCs licence would have been necessary.

We would like to take this opportunity to reiterate our support for modification P8. It is important that this modification is introduced as rapidly as possible particularly considering the associated risk of human error in using Workaround 24.

BGT are also concerned that the interim solution for P18 could be held up if no decision is made on the effective date of P8 by 25 September 2001. P18 was raised and progressed as an urgent modification to address a serious problem. It is imperative that P18 is implemented as soon as possible and should not be held up on the basis of problems associated with other modifications.

Yours faithfully

Danielle Lane
Transportation Analyst

P8_MR2_009 – Northern Electric

Modification Proposal P8: 'Introduction of a Price Adjuster to reflect Option Fees for Balancing Services Contracts in Setting SBP and SSP'.

Northern Electric and Gas welcomes the opportunity to comment on modification P8 'Introduction of a Price Adjuster to reflect Option Fees for Balancing Services Contracts in Setting SBP and SSP'.

Having considered the options outlined in the Modification Report of Modification Proposal P8', Northern Electric supports this proposal. We welcome the recommendation in the Modification Report that the Modification Proposal should be approved.

We hope that these comments are helpful,

Yours faithfully

Lesley Mulley
Industry Communications Manager

P8_MR2_010 – Scottish Power UK Plc

Modification Proposal P8 – Introduction of A Price Adjuster to Reflect Option

FEES FOR BALANCING SERVICES CONTRACTS IN SETTING SBP AND SSP

After further consideration of the above proposal and the Draft Modification Report, I refer you to our previous comments at the assessment stage. We supported the Panel's recommendation then and if the current proposed revision gives a greater chance of implementation, then we would also support this change. We however need further assessment of system and business implication of the proposed implementation.

I trust you find these comments helpful, and please do not hesitate to contact me should you wish to discuss any points further.

Yours sincerely,

Man Kwong Liu

Scottish Power UK Plc, Manweb Plc and Emerald Power Generation Ltd

P8_MR2_011 – London Electricity

Dear Sir,

Thank you for the opportunity to comment on the possibility of a revision to the effective date of Modification Proposal P8.

We have two reservations about the retrospective application to 5th April of Modification P8. These are:

- There has been no information available to the market about the effects of errors in the operation of Workaround WO24. This makes it impossible for market participants to make an informed judgement about retrospection in this particular case.
- In general, we are against retrospective changes to cashout prices – we believe that the integrity of NETA is compromised by the publication of prices which are subsequently changed as this can affect parties' views of likely cashout prices and therefore their actions in the near market and the balancing mechanism.

However, in this case, we are sympathetic to retrospection as we are aware that Workaround WO24 is not very robust, based on the assumption that the errors are not minor and that there is no systematic retrospective effect on cashout price. The provisions of better information would have enabled us to make a more informed judgement.

We note that there is an error in questions 6.1 and 6.2, in that 6.1 (and the text of the consultation) invites respondees to support a revised retrospective application date of 5th April, whilst 6.2 then asks them not to support this date. It is clear from the context that this is a typographical error.

Yours sincerely

Liz Anderson
(London Electricity, South Western Electricity,
Jade Power and Sutton Bridge Power)

P8_MR2_012 – British Energy

British Energy supports the proposal that P8 be implemented with effect from Settlement Day 25 September 2001 instead of 5 April 2001 in order to avoid retrospective changes to the BSC and the NGC BSAD Methodology.

We note that as a result the manual workaround process W024 implemented following approval of modification P3 will remain applicable for the period from settlement day 5 April 2001 to 24 September 2001, and hope that Elexon and NGC will continue to endeavour to ensure that the data used and calculations performed are free of significant errors.

Regards,

Martin Mate
for
British Energy Power & Energy Trading Ltd
British Energy Generation Ltd
Eggborough Power Ltd