

Responses from P144 Assessment Consultation

Consultation issued 23 October 2003

Representations were received from the following parties:

No	Company	File Number	No. BSC Parties Represented	No. Non-Parties Represented
1.	Gaz de France	P144_ASS_001	1	0
2.	First Hydro	P144_ASS_002	1	0
3.	ScottishPower	P144_ASS_003	6	0
4.	ConocoPhillips	P144_ASS_004	2	0
5.	Powergen	P144_ASS_005	14	0
6.	InterGen	P144_ASS_006	4	1
7.	British Gas Trading	P144_ASS_007	5	0
8.	RWE	P144_ASS_008	9	0
9.	Scottish and Southern	P144_ASS_009	4	0
10.	British Energy	P144_ASS_010	3	0
11.	National Grid	P144_ASS_011	1	0
12.	EdF Energy	P144_ASS_012	9	0
13.	Aquila Networks	P144 ASS_013	1	0
14.	Barclays Capital	P144 ASS_014	1	0

P144_ASS_001 – GdF

Q	Question	Response	Rationale
1.	Do you support P144, namely that, in principle, the Continuous Acceptance Duration Limit (CADL) should be removed from the Balancing and Settlement Code?	No	The case for full removal has not, at this time, been proven.
2.	Do you believe that CADL Tagging is redundant with the implementation of NIV Tagging? CADL Tagging is the differentiation of system and electricity balancing by removing acceptances of less than a defined duration and NIV Tagging is the differentiation of system and electricity balancing by removing equal and opposite volumes	No	We have yet to experience a winter of operation under the P78 rules. To amend the baseline at this point in time would not appear to be a risk free strategy. The retention of CADL was addressed during the P78 development process and remained a valid option at that time therefore we see no valid reason in changing this approach at this time.
3.	What impact do you think P144, if implemented, will have on incentives to contract ahead for this winter (2003 / 2004)?		Participants will be subject to spikier, higher prices if CADL is removed. This is a great concern as prices have recently been very high and unpredictable with a CADL value in place. Removing CADL would be seen as exacerbating not improving conditions.
4.	Does P144 raise any issues that you believe have not been identified so far and that should be considered by the Modification Group?		Has a clear case proving the benefit of removing CADL from the code been made? If this is the case then this has not been communicated through this report.

Q	Question	Response	Rationale
5.	Do you believe Urgent Modification P144 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state which objective(s)	No	Efficiency would suggest that a CADL, set from time to time by the BSc Panel following consultation with participants, be retained as an option within the BSC as the flexibility around such an approach far outweighs any future requirement to re-instate the value once permanently removed from the code.
6.	Are there any further comments on P144 that you wish to make?	Yes	Why this modification was deemed to warrant urgent treatment at a time when a CADL review is currently being undertaken is puzzling. It may be that the review concludes that it is appropriate to set CADL to zero as a result, in which case a paper containing that recommendation would be presented to the BSC Panel for action. The benefit of utilising such a route would be to ensure that the review is undertaken in a timely manner rather than that offered under the constraints imposed under an urgent modification timetable. We appreciate that there is a subtle difference in that P144 suggests that CADL is removed totally from the coding of the BSC however, knowing that in reality the solution is to simply set the value to zero anyway this appears to be rather an expensive and resource intensive approach to achieve virtually the same end result.

P144_ASS_002 – First Hydro Company

Q	Question	Response	Rationale
1.	Do you support P144, namely that, in principle, the Continuous Acceptance Duration Limit (CADL) should be removed from the Balancing and Settlement Code?	Yes	<p>CADL is an arbitrary mechanism that attempts to differentiate between system and energy trades by assuming that all trades with a duration less than CADL have been taken for system balancing. If, for example, flexible generation is called on for a short duration due to plant loss, arguably this flexible generation is replacing energy lost from the system. The CADL mechanism will tag out this energy even though a substantial volume may have been delivered. Since there is a time lag (the Notice to Offer parameter) between issuing and delivering a bid-offer acceptance, this action is different to frequency response as defined in the Grid Code which is provided immediately via governor action which should be treated as a system action.</p> <p>It has been argued that cashout prices should exclude actions of a short duration since suppliers are only obliged to balance at the half hourly level, and therefore cannot hedge against intra-settlement period actions. This does not make sense - suppliers will integrate their forecast of minute by minute energy requirements (including TV pick ups) across the half hour and contract at this MWh level. Those that forecast accurately will not be exposed to the SBP. Those that fail to take into account the extent of TV pick ups in their energy forecast should rightly be charged for failing to contract sufficiently to meet their half hourly demand. (TV pickups are easily predictable and therefore should rightly feature in suppliers expectations) . Therefore, given that the profile in demand within each settlement period has its own characteristics (is demand ever absolutely flat across a whole half-hour?) this will be reflected in the half-hourly price for that period which <i>can</i> be hedged by suppliers and others.</p> <p>It is appropriate that parties are exposed to imbalances that they have failed to contract for regardless of when in the half hour this imbalance occurs.</p>

Q	Question	Response	Rationale
2.	Do you believe that CADL Tagging is redundant with the implementation of NIV Tagging?	Yes	P78 provides a mechanism to differentiate between system and energy trades which makes the need for the tagging of short duration trades redundant
3.	What impact do you think P144, if implemented, will have on incentives to contract ahead for this winter (2003 / 2004)?		Whilst ELEXON's analysis of some historic data indicates that removing CADL has an overall negligible effect on cashout prices, the occasions when it does impact, especially at times of system stress should in theory improve incentives to contract ahead
4.	Does P144 raise any issues that you believe have not been identified so far and that should be considered by the Modification Group?	Yes / No	Concerns have been raised that P144 will lead to more extreme marginal prices if P136 or P137 is introduced. ELEXON's analysis of 10,174 settlement periods shows that the P144 would result in an increase in the SBP in only 172 settlement periods. So for 10,002 settlement periods, the P78 tagging methodology adequately tags out short duration trades that would have raised the SBP without the need for the CADL mechanism. Of the 172 settlement periods where the SBP increased, there are only 18 settlement periods, where the increase is greater than 10%. If marginal pricing is introduced, for a short duration trade to set the marginal price, it will first have to not be tagged and second have to be at the top of the untagged stack. From ELEXON's analysis, the combination of these two seems unlikely.

Q	Question	Response	Rationale
5.	Do you believe Urgent Modification P144 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state which objective(s)	Yes	<p>The modification proposal will better facilitate Objective (a) relating to the efficient discharge by the Transmission Company of the obligations imposed under the Transmission Licence by more appropriately targeting the costs of electricity balancing and incentivising parties to balance for the benefit of all market participants.</p> <p>The NIV tagging methodology is intended to ensure that system and electricity balancing actions are properly identified and appropriately targeted. Including short duration trades in the price calculation will strengthen the signals to the market, in particular at times of system stress. This will further encourage participants to avoid going short reducing the actions that NGC must take to balance the system. The proposal therefore better facilitates Objective (b) relating to the efficient, economic and co-ordinated operation by the Transmission Company of the Transmission System.</p> <p>By improving the cost reflectivity of the calculation of the main price, the modification will better facilitate Objective (c) by promoting effective competition in the generation and supply of electricity, and (so far as consistent therewith) promoting such competition in the sale and purchase of electricity. Removal of CADL and associated cross subsidies will ensure that the costs of electricity balancing are appropriately targeted at the parties that cause them.</p> <p>The CADL methodology requires the Panel to define certain short duration trades as system related while others are electricity related in a process that is complex and cumbersome to manage and is reviewed at frequent intervals. Therefore removing CADL from the BSC will remove risk and uncertainty and therefore better facilitate Objective (d) by promoting efficiency in the implementation and administration of the balancing and settlement arrangements.</p>
6.	Are there any further comments on P144 that you wish to make?	No	

P144_ASS_003 – ScottishPower

Q	Question	Response	Rationale
1.	Do you support P144, namely that, in principle, the Continuous Acceptance Duration Limit (CADL) should be removed from the Balancing and Settlement Code?	No	We believe that CADL is still appropriate under the current mechanism as it performs a different type of system – electricity balancing differentiation to NIV Tagging, and therefore should continue to perform the function as envisaged in Mod P18A. See our answers below.
2.	Do you believe that CADL Tagging is redundant with the implementation of NIV Tagging? CADL Tagging is the differentiation of system and electricity balancing by removing acceptances of less than a defined duration and NIV Tagging is the differentiation of system and electricity balancing by removing equal and opposite volumes	No	We believe that CADL Tagging is still appropriate under the current mechanism as it performs a different type of system – electricity balancing differentiation to NIV Tagging. NIV Tagging addresses the differentiation from the ‘equal and opposite’ aspect and does not actively address the system – electricity balancing differentiation for intra Settlement Period system events where (short duration) acceptances are made that do not necessarily have an equal and opposite action taken, such as TV pick up and/ or Transmission Company response to system frequency.

Q	Question	Response	Rationale
3.	What impact do you think P144, if implemented, will have on incentives to contract ahead for this winter (2003 / 2004)?		<p>Any artificial increase to imbalance prices brings with it the problems most recently highlighted in the industry response to Modification P135. Increasing imbalance prices does not encourage capacity to be made available at times of system stress and will increase the risk that less reliable plant will not be made available due to the potentially damaging imbalance charges associated with unexpected plant failure. It would not better facilitate the BSC objective (b) "the efficient, economic and co-ordinated operation by the Transmission Company of the Transmission System".</p> <p>Also, Acceptance of the modification will greatly increase the risk of generators going out of business and also significantly increase the cost to participants in managing their risk exposure. P144 therefore would not better facilitate the BSC Objective (c) – "promote competition...".</p> <p>It would also seem pertinent to take an appropriate length of time in order that the implications of the proposed changes are fully explored and understood.</p>
4.	Does P144 raise any issues that you believe have not been identified so far and that should be considered by the Modification Group?	No	No comment
5.	Do you believe Urgent Modification P144 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state which objective(s)	No	See our comment on Qu. 3 above.

Q	Question	Response	Rationale
6.	Are there any further comments on P144 that you wish to make?	Yes	<p>In our previous responses on proposed pricing Mods, we have indicated our concern that pricing modification proposals did not undergo a more thorough analysis because of their fast tracked treatment.</p> <p>In the case of P144, we feel that this modification is untimely; moreover, extraneous, given that there is already a BSCCo review of CADL underway at the request of the Panel. The expedited nature of this modification again does not provide enough time for a thorough analysis of all the issues associated with CADL. In our opinion, any decision on the principle of CADL will be best served by the publication of the current review recommendations prior to any assessment.</p>

P144_ASS_004 – ConocoPhillips UK Ltd

Q	Question	Response	Rationale
1.	Do you support P144, namely that, in principle, the Continuous Acceptance Duration Limit (CADL) should be removed from the Balancing and Settlement Code?	No	The reason for CADL's introduction are still valid. Cashout prices should be reflective of energy prices at the Settlement Period level.
2.	Do you believe that CADL Tagging is redundant with the implementation of NIV Tagging? CADL Tagging is the differentiation of system and electricity balancing by removing acceptances of less than a defined duration and NIV Tagging is the differentiation of system and electricity balancing by removing equal and opposite volumes	No	Although imperfect, NIV tagging is still the most effective and fairest way of removing system trades (where equal and opposite above market BOA's are made) to counteract system constraints. It helps ensure that cashout prices are more representative of the energy value only. CADL tagging is used to help eradicate system actions of a different type. We believe that energy balancing should occur at the settlement period level (this is the level that energy exposure can be managed in the markets) and so BOA's made for energy balancing need to be 'relatively long'. Similarly, intra period acceptances should be classed as system balancing. We are happy that acceptances longer than 15 minutes are considered to be 'relatively long'.
3.	What impact do you think P144, if implemented, will have on incentives to contract ahead for this winter (2003 / 2004)?	Reduce incentives	Generator's will be more inclined to self-insure against a more volatile SBP by holding generation back.
4.	Does P144 raise any issues that you believe have not been identified so far and that should be considered by the Modification Group?	No	We believe this modification to be superfluous given that a CADL review is already in progress by ISG and the Panel. We hope, however, the CADL review process is as transparent and inclusive as this modification has been.
5.	Do you believe Urgent Modification P144 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state which objective(s)	No	No, the market will work more efficiently if cashout is reflective of energy balancing and the removal of CADL works against this.
6.	Are there any further comments on P144 that you wish to make?	No	

P144_ASS_05 – Powergen

Q	Question	Response	Rationale
1.	Do you support P144, namely that, in principle, the Continuous Acceptance Duration Limit (CADL) should be removed from the Balancing and Settlement Code?	No	Whilst the removal of the effects of CADL may appear appropriate at present on the grounds that the empirical evidence shows that it has little effect under P78 price setting rules, it would seem prudent to retain the mechanism and simply set CADL to zero.
2.	Do you believe that CADL Tagging is redundant with the implementation of NIV Tagging? CADL Tagging is the differentiation of system and electricity balancing by removing acceptances of less than a defined duration and NIV Tagging is the differentiation of system and electricity balancing by removing equal and opposite volumes	No	CADL certainly appears to have little effect on P78 prices based on the work carried out on historical data. However, a full year's worth of data is not available yet so it would be premature to consider its removal at this stage. A more sensible approach would be to wait for the results of the periodic review of CADL and, if appropriate, set the value to zero.
3.	What impact do you think P144, if implemented, will have on incentives to contract ahead for this winter (2003 / 2004)?		As mentioned above, the historic analysis suggests that CADL has little effect on prices and where it does its removal seems to tend to dampen prices. Therefore, we cannot see how the modification can strengthen signals for this winter and thereby affect contracting incentives.
4.	Does P144 raise any issues that you believe have not been identified so far and that should be considered by the Modification Group?	No	

Q	Question	Response	Rationale
5.	Do you believe Urgent Modification P144 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state which objective(s)	No	If the effects of CADL are to be removed then it should be set to zero. To remove it entirely would entail an unnecessary expenditure on legal drafting and, potentially, systems changes. Additionally, it would remove the flexibility to reintroduce CADL should it turn out to be necessary in the future.
6.	Are there any further comments on P144 that you wish to make?	No	

P144_ASS_006 – InterGen UK Ltd

Q	Question	Response	Rationale
1.	Do you support P144, namely that, in principle, the Continuous Acceptance Duration Limit (CADL) should be removed from the Balancing and Settlement Code?	No	Removing CADL from the BSC reduces the flexibility to set it to an appropriate level in the future. The value of CADL should be subject to a regular review to determine whether 0, or any other value, is appropriate going forwards.
2.	Do you believe that CADL Tagging is redundant with the implementation of NIV Tagging? CADL Tagging is the differentiation of system and electricity balancing by removing acceptances of less than a defined duration and NIV Tagging is the differentiation of system and electricity balancing by removing equal and opposite volumes	No	Neither tagging process on its own will always differentiate between system and energy balancing. A hybrid process therefore is the most appropriate.
3.	What impact do you think P144, if implemented, will have on incentives to contract ahead for this winter (2003 / 2004)?		Don't believe it will make any difference at all. The continuing volatility in system prices is already a strong incentive on Parties to balance where they are able to do so. Removal of CADL will not have any predictable impact on system prices and so there will not be an enhanced incentive to balance.
4.	Does P144 raise any issues that you believe have not been identified so far and that should be considered by the Modification Group?	No	
5.	Do you believe Urgent Modification P144 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state which objective(s)	No	Since the same end can be achieved by the simpler, more cost-efficient process of setting CADL to zero, approval of P144 would go against Applicable BSC Objective 3 (d).
6.	Are there any further comments on P144 that you wish to make?	No	

P144_ASS_007 – British Gas Trading

Q	Question	Response	Rationale
1.	Do you support P144, namely that, in principle, the Continuous Acceptance Duration Limit (CADL) should be removed from the Balancing and Settlement Code?	No	BGT believe the CADL parameter should remain and should not be removed from the BSC. Governance arrangements for amending CADL were introduced as part of the P18A solution. This allows the Panel to consult on the appropriate duration and with the approval of the Authority amend the duration limit. BGT support the maintenance of a flexible parameter, which can be set to the appropriate level to exclude the highest proportion of system actions possible. Thereby preventing system actions from corrupting the energy imbalance price. Retaining this flexibility is particularly important in the light of other proposed changes to the energy imbalance price methodology (P136 and P137) which could affect the need for and the significance of CADL.
2.	Do you believe that CADL Tagging is redundant with the implementation of NIV Tagging? CADL Tagging is the differentiation of system and electricity balancing by removing acceptances of less than a defined duration and NIV Tagging is the differentiation of system and electricity balancing by removing equal and opposite volumes	No	BGT does not believe the P78 tagging process has made CADL Tagging redundant. NIV tagging does not directly address the differentiation of system from energy balancing for intra Settlement Period system events where short duration acceptances are made that do not necessarily have an equal and opposite action. BGT therefore believes utilising CADL as well as NIV tagging makes the tagging process more robust and reduces the likelihood of system actions polluting the energy imbalance price. On the basis of the analysis provided approximately 22 per cent of settlement periods are impacted by the removal of CADL. Whilst BGT note the relatively minor impact on prices under the current baseline it does not necessarily follow that the impact would be so minimal under a post P145 regime. BGT supported the principle of CADL being implemented and BGT believes the CADL parameter is an essential part of maintaining the integrity of energy imbalance prices. BGT continues to believe CADL is a valid parameter in determining of imbalance prices. The original rationale for P18A is still valid.

Q	Question	Response	Rationale
3.	What impact do you think P144, if implemented, will have on incentives to contract ahead for this winter (2003 / 2004)?	None	<p>The request for urgency was predicated on increasing the incentives on Parties to contract sufficiently to avoid imbalance charges. BGT do not believe P144 will place any additional incentives on Parties to contract ahead for winter 2003/04. BGT believe there are sufficient incentives on Parties to contract under the current baseline without the need to remove CADL tagging.</p> <p>Furthermore based upon the analysis of the 10 December 2002 the removal of CADL tagging in the majority of settlement periods would have reduced the Imbalance Price. If this modification proposal is approved, based on this analysis provided, BGT do not believe Parties will be provided with further incentives to contract ahead.</p>
4.	Does P144 raise any issues that you believe have not been identified so far and that should be considered by the Modification Group?	No	

Q	Question	Response	Rationale
5.	Do you believe Urgent Modification P144 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state which objective(s)	No	<p>BGT do not believe P144 will better facilitate the applicable BSC Objectives.</p> <p>BGT do not agree that incorporating more system actions into the energy imbalance price will allow the System Operator to more effectively discharge its' licence obligations. The proposer believes this modification will more appropriately target the costs of electricity balancing. In view of the analysis provided BGT would argue that factoring system actions into the derivation of the electricity imbalance prices does not more appropriately target electricity balancing actions on Parties who are short and in the view of the proposer causing the problem.</p> <p>BGT do not believe that P144 will place any additional incentive properties on Parties to balance their contract position. Therefore the actions taken by the system operator will not necessarily be reduced as a consequence of P144. Thus this modification will not necessarily assist the system operator in managing an efficient, economic and co-ordinated Transmission System.</p> <p>BGT do not concur with the view of the proposer that imbalance prices would be more cost reflective if this modification was approved. The energy imbalance price should be calculated, as far, as is possible based on energy balancing actions. BGT do not agree that effective competition in the generation and supply of electricity will be better facilitated by including more system actions in the energy imbalance price. Removing CADL will increase the potential for cross subsidies between participants as imbalance prices will be less reflective of the prices and costs incurred by NGC in buying and selling electricity to keep the system in energy balance.</p> <p>Whilst BGT concur that removing CADL will reduce some of the complexity from the process of calculating imbalance prices. BGT believe this benefit is significantly outweighed by the negative impact on the other 3 applicable BSC Objectives.</p>
6.	Are there any further comments on P144 that you wish to make?	No	

P144_ASS_008 – RWE

Q	Question	Response	Rationale
1.	Do you support P144, namely that, in principle, the Continuous Acceptance Duration Limit (CADL) should be removed from the Balancing and Settlement Code?	Yes	The concept of NIV tagging under P78 removes the requirement for CADL tagging.
2.	Do you believe that CADL Tagging is redundant with the implementation of NIV Tagging? CADL Tagging is the differentiation of system and electricity balancing by removing acceptances of less than a defined duration and NIV Tagging is the differentiation of system and electricity balancing by removing equal and opposite volumes	Yes	Short duration trades involve changes to the delivery of electricity onto the system and should therefore contribute to electricity balancing in a settlement period. CADL is an arbitrary mechanism that allows certain trades to be removed from price setting while enabling other trades that may have been taken for "system" reasons to remain (e.g. constraint trades). A consistent approach towards determining energy and system trades is required and this is achieved through NIV Tagging.
3.	What impact do you think P144, if implemented, will have on incentives to contract ahead for this winter (2003 / 2004)?		P144 is likely to have a limited impact on contracting strategies for winter 2003/2004. However, the removal should ensure that the correct price signals emerge.
4.	Does P144 raise any issues that you believe have not been identified so far and that should be considered by the Modification Group?	Yes	It has been proposed that trades of less than 15 minutes are somehow a special case in relation to system frequency. We do not believe that such a case can be sustained. Short duration trades require the delivery of energy on to the system and as such there is no justification for excluding such trades from cash out price calculations.
5.	Do you believe Urgent Modification P144 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state which objective(s)	Yes	The proposal better facilitates Objective (b) by providing consistent price signals to parties that should reduce the overall cost of energy balancing.
6.	Are there any further comments on P144 that you wish to make?	No	

P144_ASS_009 – Scottish and Southern Energy

Q	Question	Response	Rationale
1.	Do you support P144, namely that, in principle, the Continuous Acceptance Duration Limit (CADL) should be removed from the Balancing and Settlement Code?	No	<p>As the Authority has made clear in its decision letters approving the introduction of CADL (P18), the approval of the revised definition of SBP and SSP (P78) and in rejecting the previous suggested Modification by the Proposer of P144 to remove CADL (P90) there remains a clear need to differentiate, within the cash-out arrangements, between those trades that are taken for electricity balancing and those taken for system balancing purposes.</p> <p>The question the Proposer has singularly failed to answer is "there was a reason for introducing CADL - has it gone away?". The answer to this question is a resounding "No" - the reason for introducing CADL has not gone away, and therefore CADL should remain within the BSC.</p> <p>On the matter of the principle of CADL, for the differentiation of system and electricity balancing actions, we firmly believe that this is an appropriate and efficient mechanism within the BSC. Therefore we believe that the principle of CADL should remain within the BSC.</p> <p>Please note our response to any of the following questions should not be construed to lend support whatsoever to this Modification.</p>

Q	Question	Response	Rationale
2.	<p>Do you believe that CADL Tagging is redundant with the implementation of NIV Tagging?</p> <p>CADL Tagging is the differentiation of system and electricity balancing by removing acceptances of less than a defined duration and NIV Tagging is the differentiation of system and electricity balancing by removing equal and opposite volumes</p>	No	<p>Neither the Proposer, nor any other party at the Modification Group meeting, has been able to categorically prove beyond any reasonable doubt that ALL those system balancing actions 'captured' via the existing CADL mechanism would be 'captured' via the existing NIV Tagging mechanism. It therefore follows that if P144 were to be approved that some system balancing actions taken by the System Operator would feed through to the energy imbalance prices. This would be in direct contravention of the principle established by the Authority in its P18 decision letter (and endorsed by the Authority in its subsequent decision letters relating to P78 and P90) that the costs of system balancing (which are not caused directly by any particular users) should be targeted back to all users via BSUoS.</p>
3.	What impact do you think P144, if implemented, will have on incentives to contract ahead for this winter (2003 / 2004)?		<p>If the Proposer is correct, and CADL is "obsolete" as all system balancing actions are excluded via the NIV Tagging mechanism, then the answer has to be that there will be NO incentive to contract ahead as all the system balancing actions 'captured' via the CADL mechanism would, in their view, be 'captured' via NIV Tagging and so be excluded from setting the energy imbalance price and thus could not incentives the market going forward.</p> <p>In our opinion, if CADL were removed, we believe it would place wholly inappropriate system balancing costs into the energy imbalance prices and it is therefore an incorrect way to incentives plant back onto the system. In particular in a dual cash-out regime we believe it could results in harsher and more extreme costs/losses for demand side (whether by top-up in the BM or through increased generation or increased market cover) who have less control over this decision and would increase the cost to the end consumer.</p>

Q	Question	Response	Rationale
4.	Does P144 raise any issues that you believe have not been identified so far and that should be considered by the Modification Group?	No	Besides those outlined in our answers to these questions, none
5.	Do you believe Urgent Modification P144 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state which objective(s)	No	For the reasons outlined above we believe that the principle (and application) of CADL to better facilitate the achievement of the Applicable BSC Objectives. For the avoidance of doubt, we do not believe that P144 will better facilitate the achievement of the Applicable BSC Objectives.
6.	Are there any further comments on P144 that you wish to make?	No	None at this time

P144_ASS_010 – British Energy

Q	Question	Response	Rationale
1.	Do you support P144, namely that, in principle, the Continuous Acceptance Duration Limit (CADL) should be removed from the Balancing and Settlement Code?	No	The ability to estimate the duration of balancing actions and hence to distinguish those balancing trades which do not encompass a whole settlement period is a valuable tool in determining which balancing actions are most appropriately included in the determination of imbalance prices applying to party imbalance measured over a half-hour settlement period.
2.	Do you believe that CADL Tagging is redundant with the implementation of NIV Tagging? CADL Tagging is the differentiation of system and electricity balancing by removing acceptances of less than a defined duration and NIV Tagging is the differentiation of system and electricity balancing by removing equal and opposite volumes	No	NIV tagging makes a crude assumption that all balancing actions in the "reverse" direction, and an equal volume of the most extremely priced actions in the main direction have been taken for "system balancing" purposes and should not be reflected in imbalance prices. In reality, the reasons for taking individual balancing actions are various, and the extent to which it is reasonable to include them in imbalance prices applied to half-hour imbalances is variable, and the CADL functionality is a refinement which we believe complements the NIV methodology.
3.	What impact do you think P144, if implemented, will have on incentives to contract ahead for this winter (2003 / 2004)?		Very little. The impact on imbalance prices in individual periods appears to be relatively unpredictable and relatively small on average. However, if applied in conjunction with a marginal pricing regime such as proposed under P136/P137, the proposal would further increase largely unmanageable risk for participants and increase the market power of marginal plant.
4.	Does P144 raise any issues that you believe have not been identified so far and that should be considered by the Modification Group?	Yes	We do not consider that removal of CADL functionality is desirable or would better meet the BSC Objectives. However, we do consider that the feature whereby other acceptances with duration longer than CADL on the same BM Unit within the same settlement period are unpriced to be a potential defect, which an alternative to P144 may wish to address.

Q	Question	Response	Rationale
5.	Do you believe Urgent Modification P144 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state which objective(s)	No	We believe the applicable BSC Objectives will be better met by reviewing, and if appropriate following review, revising the value of CADL.
6.	Are there any further comments on P144 that you wish to make?	Yes	See below.

P144_ASS_011 – National Grid Transco

Q	Question	Response	Rationale
1.	Do you support P144, namely that, in principle, the Continuous Acceptance Duration Limit (CADL) should be removed from the Balancing and Settlement Code?	No	<p>As System Operator, we call off a number of Balancing Services in each Settlement Period in order to maintain the integrity and security of the transmission system and balance generation and demand in real time (taking account of transmission system constraints). Some of these actions will be required as a direct result of resolving energy imbalances caused by Market Participants. Other actions are taken regardless of the imbalance positions of Market Participants, and these actions are generally referred to as 'system' balancing actions. We believe that participants who have an energy imbalance should be exposed to imbalance prices which are reflective of the cost of balancing energy.</p> <p>Currently CADL designates balancing actions that are short in duration (<15 mins) as 'system' actions. Such actions are generally taken to manage within half-hour effects and control system frequency in real time. At the time of introduction, it was our view that it was not appropriate for such actions to feed into the calculation of imbalance prices.</p> <p>Short duration actions continue to be taken to manage within half-hour effects and control system frequency in real time. We therefore believe it is appropriate to retain CADL as a mechanism for removing these actions from the calculation of energy imbalance prices. CADL is a variable within the BSC that can be changed at the discretion of the BSC Panel (and approval by the Authority), and is the subject of periodic review by Elexon. We believe that this is the appropriate way to ensure that CADL continues to serve the purpose of using Duration to pragmatically distinguishing between actions which are taken for energy balancing reasons and those for system related reasons.</p> <p>In summary we believe that if CADL were to be removed from the BSC, the likelihood of the costs of 'system' related actions feeding into energy imbalance prices would be increased.</p>

Q	Question	Response	Rationale
2.	Do you believe that CADL Tagging is redundant with the implementation of NIV Tagging? CADL Tagging is the differentiation of system and electricity balancing by removing acceptances of less than a defined duration and NIV Tagging is the differentiation of system and electricity balancing by removing equal and opposite volumes	No	<p>The BSC employs a set of rules for determining which balancing actions should be allowed to feature in the calculation of imbalance prices, and which should be discarded for this purpose by 'tagging' them out of the price calculation. NIV tagging removes the volume of balancing actions taken in the opposite direction to market length (i.e. the reverse stack) from the volume of actions taken in the same direction as market length, starting with the most expensive.</p> <p>The NIV tagging methodology is based on the principle that 'system' actions taken in the opposite direction to market length must be replaced by actions in the same direction as market length. Hence it is appropriate to consider these 'replacement actions' as 'system' actions, as they would have been required regardless of the imbalance position presented to the SO by the market. It is our view that the definition of 'system' actions should not be limited to 'replacement actions' as described. If actions exhibit characteristics which make them more likely to be taken for system reasons, then it is appropriate to remove them from the calculation of imbalance prices. It is our view that within half-hour actions are an example of this and the existing mechanism for removing them from the imbalance price calculation compliments NIV tagging rather than NIV tagging rendering all other definitions of 'system' actions redundant.</p>
3.	What impact do you think P144, if implemented, will have on incentives to contract ahead for this winter (2003 / 2004)?		<p>It is our view that the analysis of imbalance prices under P144 provided by Elexon, indicates that P144 will not improve incentives on Market Participants to contract ahead of this winter, as the signals provided by imbalance prices are not altered sufficiently. Further we do not believe that increasing the likelihood of allowing system actions to feed into the calculation of imbalance prices provides a more appropriate price signal.</p>
4.	Does P144 raise any issues that you believe have not been identified so far and that should be considered by the Modification Group?	No	

Q	Question	Response	Rationale
5.	Do you believe Urgent Modification P144 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state which objective(s)	No	<p>It is our view that P144 does <u>not</u> better facilitate the achievement of the Applicable BSC objectives:</p> <p>(a), (b) or (c), as removal of CADL from the BSC increases the likelihood that balancing actions taken for system reasons will feed into the calculation of energy imbalance prices. We do not believe that this will strengthen the signals provided by imbalance prices as asserted by the Proposer – rather that it could result in inappropriate signals being created by reducing the cost reflectivity of energy imbalance prices and increasing cross subsidies.</p> <p>It is not our understanding that the process for reviewing CADL periodically is complex or cumbersome to manage. We work closely with Elexon to ensure that ISG and the BSC Panel have the appropriate information they require in order to determine an appropriate value for CADL. We believe that removing CADL from the BSC, when the ability to change the value to zero (should that ever be deemed appropriate) already exists, does not better facilitate BSC object (d).</p>
6.	Are there any further comments on P144 that you wish to make?	No	

P144_ASS_012 – EdF Energy

Q	Question	Response	Rationale
1.	Do you support P144, namely that, in principle, the Continuous Acceptance Duration Limit (CADL) should be removed from the Balancing and Settlement Code?	No	EDF Energy believes that CADL should not be removed from the BSC and the Energy Imbalance Price calculations should not be changed. However, we do support the planned review of CADL this November to see if 15 minutes is still the optimal value
2.	Do you believe that CADL Tagging is redundant with the implementation of NIV Tagging? CADL Tagging is the differentiation of system and electricity balancing by removing acceptances of less than a defined duration and NIV Tagging is the differentiation of system and electricity balancing by removing equal and opposite volumes	No	NIV-tagging has not yet been tested through a full year, however, experience of NIV tagging (Mod 78) in parallel with the operation of Mod 18a (CADL) has not yet revealed serious flaws. However, the imperfect way CADL was implemented does mean that Bid-Offer Acceptances that are longer than CADL (15 minutes) can on occasions be erroneously tagged out.
3.	What impact do you think P144, if implemented, will have on incentives to contract ahead for this winter (2003 / 2004)?		The impact on prices shows that there would be a general decrease in the spread if P144 were passed, i.e increase in SSP and decrease in SBP. This would mean that there would be less risk exposure. We consider that this would weaken the incentive to forward-contract.

Q	Question	Response	Rationale
4.	Does P144 raise any issues that you believe have not been identified so far and that should be considered by the Modification Group?	No	Any further analysis should be carried out by the Imbalance Settlement Group.
5.	Do you believe Urgent Modification P144 better facilitates the achievement of the Applicable BSC Objectives?	No	We consider that the weakening of the incentive to forward-contract would mean that Applicable BSC Objective (c) is less well achieved than at present.
6.	Are there any further comments on P144 that you wish to make?	Yes	We believe that the CADL review by the Imbalance Settlement Group during November, for the panel's decision in early December, represents a better, less precipitate way forward than the passing of Urgent mod P144. There is no requirement to implement a modification as setting CADL to zero, or any other value identified as optimal, can be performed by the BSC Panel prior to the winter.

P144_ASS_013 – Aquila Networks

No Comment returned against all questions.

P144_ASS_014 – Barclays Capital

Q	Question	Response	Rationale
1.	Do you support P144, namely that, in principle, the Continuous Acceptance Duration Limit (CADL) should be removed from the Balancing and Settlement Code?	No	<p>The electricity market involves the trading and settlement of MWh delivered “flat” in a Settlement Period and it is therefore essential that Energy Imbalance Prices are set on a consistent basis. Imbalance prices should reflect the costs of balancing actions taken to meet imbalances across the Settlement Period, and not the cost of balancing actions which are taken for very short-durations to meet a dynamic profile of deliveries within a Settlement Period. Setting the Energy Imbalance Price for a Settlement Period’s worth of electricity with the price of a balancing action taken for a very short-duration is unlikely to be cost reflective or to send a consistent economic imbalance price signal to the forward markets. It is therefore essential that short duration actions be removed from the calculation of cash-out prices. CADL was designed as the best practical means of removing short duration trades and, to date, a better method of weeding out short duration trades from cash-out has not emerged. There is therefore an overriding justification for the retention of CADL as a concept in the BSC.</p> <p>CADL was initially set to 15 minutes to separate those balancing actions that were likely to be related to profiles within a half-hour and those which were likely to be related to energy balancing across the half-hour. Significant weight was given to the views of the transmission company in choosing 15 minutes as an appropriate dividing line. However, CADL was set as a</p>

Q	Question	Response	Rationale
			<p>parameter to incorporate the flexibility for the Panel to change its value in response to changes in the pattern of balancing actions. This was - and remains – a well justified approach to the removal of short duration actions from setting cash-out prices given the absence of a definitive dividing line between system and energy actions. There is therefore significant value in both retaining CADL and the flexibility to alter its value. This flexibility is particularly valuable in the light of potential future changes to the Energy Imbalance Price methodology, which could affect the need for, and significance of, CADL in the Energy Imbalance Price methodology (including Modification Proposals P136 and P137 currently being considered).</p> <p>The fact that CADL could be set to zero under the current rules also completely negates any arguments in favour of removing the concept of CADL from the BSC. If there was a genuine and substantiated case for CADL to be set to zero, then the Panel would set CADL to zero.</p>
2.	<p>Do you believe that CADL Tagging is redundant with the implementation of NIV Tagging?</p> <p>CADL Tagging is the differentiation of system and electricity balancing by removing acceptances of less than a defined duration and NIV Tagging is the differentiation of system and electricity balancing by removing equal and opposite volumes</p>	No	<p>CADL is not made redundant with the implementation of NIV tagging since CADL and NIV tagging are designed to achieve entirely different objectives. NIV tagging is designed to tag out constraint-related actions and other system actions by deeming that only those actions taken to meet the net system imbalance can be seen as energy balancing actions. In contrast, CADL is designed to remove short-duration actions from setting cash-out prices because short-duration actions relate to dynamic profiles within a half-hour rather than to the energy balance across the half-hour. It is therefore necessary to remove these actions from cash-out to avoid sending inconsistent and inefficient signals to the forward markets on the cost of balancing the system.</p>

Q	Question	Response	Rationale
			The modification proposal is also inconsistent on the interplay between CADL and NIV tagging. On the one hand, it claims that removing CADL would improve cash-out price signals. However, it also argues that NIV tagging effectively does the job that CADL was introduced to do and that CADL is therefore obsolete (indicating that removing CADL would have no impact). At no point does the modification offer any independent justification that CADL is removing trades that should be included in cash-out.
3.	What impact do you think P144, if implemented, will have on incentives to contract ahead for this winter (2003 / 2004)?		The analysis within the Consultation Document indicates that removing CADL will have little if any effect on cash-out prices. If anything, the analysis suggest that removing CADL would actually dilute the current incentives to contract ahead for this Winter by lowering SBP and increasing SSP. As a result, not only is there no theoretical justification for removing CADL, there appears to be no practical justification either.
4.	Does P144 raise any issues that you believe have not been identified so far and that should be considered by the Modification Group?	No	
5.	Do you believe Urgent Modification P144 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state which objective(s)	No	<p>The modification will undermine the promotion of effective competition in the generation and supply of electricity and the sale and purchase of electricity by allowing non-energy related balancing actions to set the cash-out price for energy imbalances. These distorted cash-out price signals will in turn distort the short and longer-term electricity markets.</p> <p>The modification will lead to inefficiency in the implementation and administration of the balancing and settlement arrangements. By removing the "concept" of CADL - as opposed to just setting CADL to zero - the</p>

Q	Question	Response	Rationale
			modification removes the option of reintroducing CADL without additional cost at some point in the future. The fact that CADL could be reintroduced following its removal also means that there is no additional “risk and uncertainty” associated with keeping CADL than with removing it. The current annual, routine review of CADL also falls far short of the frequent, “complex and cumbersome process” alluded to in the Modification proposal.
6.	Are there any further comments on P144 that you wish to make?	Yes	The modification proposal includes no independent economic or practical justification for the removal of CADL and instead relies on the unsubstantiated assertion that “short duration trades will be contributing to energy balancing and should be included in the imbalance price calculation”. This does no more than paraphrase the modification proposal and does nothing to establish that short duration trades should be included in the calculation of imbalance prices. The modification proposal therefore lacks any justification for its main contention that including short duration trades in the calculation of cash-out prices would provide better economic signals to the electricity market. The empirical evidence on the effects of removing CADL also fail to provide any supporting evidence for the Modification’s claims that it will improve price signals. Overall, therefore, there is no evidence that CADL should be removed and the Modification should therefore be rejected.