

Modification Proposal – BSCP40/03	MP No: P304 <i>(mandatory by BSCCo)</i>
<p>Title of Modification Proposal <i>(mandatory by originator):</i></p> <p>Reduction in PAR from 500MWh to 250MWh</p>	
<p>Submission Date <i>(mandatory by originator):</i></p> <p>30 May 2014</p>	
<p>Description of Proposed Modification <i>(mandatory by originator)</i></p> <p>This Modification Proposal is submitted in order to fulfil the requirement of the direction to National Grid Electricity Transmission plc (NGET) by the Authority to raise modifications arising from the Electricity Balancing Significant Code Review (EBSCR) process.</p> <p>In line with that direction, this modification proposes to amend the main energy imbalance price calculation by reducing the PAR volume from 500MWh to 250MWh.</p> <p>The Authority is seeking implementation of this proposal ahead of winter 2014/15, and strongly urges the industry to progress and complete the modification process in time to allow for this.</p> <p>For the avoidance of doubt, this modification does not propose to make any changes to the Replacement PAR (RPAR), which is currently set at 100MWh.</p>	
<p>Description of Issue or Defect that Modification Proposal Seeks to Address <i>(mandatory by originator)</i></p> <p>The existing cash-out arrangements, which have the effect of dampening cash-out price signals, do not provide sufficient signals to the market of the value of flexible capacity when margins are tight. As a result, cash-out price signals have failed to create appropriate incentives for investment in flexible capacity (such as flexible generation, Demand Side Response (DSR) services and storage).</p> <p>A chief cause of this price dampening is the level of PAR. PAR is the maximum volume over which the weighted average of the most expensive energy actions (to the SO) are taken. This is currently set at 500MWh. Deriving a weighted average from a volume of 500MWh creates an imbalance price which does not reflect the marginal cost of balancing energy for a given Settlement Period. This is especially true at times of system stress when differences between the costs of accepted balancing actions are greatest.</p> <p>The EBSCR Final Policy Decision sets out a package of reforms to the existing cash-out arrangements designed to improve the efficiency of imbalance price signals to the market. These reforms have been targeted for implementation by winter 2015/16 and are captured in a separate BSC modification. In order to improve the strength of the cash-out price signals for the intervening period, in particular winter 2014/15, and to help parties to transition to more marginal pricing, this modification proposes to reduce the PAR volume to 250MWh by November 2014. A PAR volume of 250MWh will reduce the extent to which the cost of the marginal action is diluted by averaging and will provide a relatively</p>	

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stronger price signal ahead of the package of EBSCR reforms anticipated for winter 2015/16.	
<p>Impact on Code <i>(optional by originator)</i></p> <p>BSC Section T.1.10.1 specifies the level of PAR, currently set to 500MWh; this figure would require amending to 250MWh.</p>	
<p>Impact on Core Industry Documents or System Operator-Transmission Owner Code <i>(optional by originator)</i></p> <p>None identified</p>	
<p>Impact on BSC Systems and Other Relevant Systems and Processes Used by Parties <i>(optional by originator)</i></p>	
<p>Impact on other Configurable Items <i>(optional by originator)</i></p> <p>None anticipated</p>	
<p>Justification for Proposed Modification with Reference to Applicable BSC Objectives <i>(mandatory by originator)</i></p> <p>Submitted in order to fulfil the requirement of the direction to NGET by the Authority with respect to raising modifications arising from the EBSCR process.</p> <p>The proposed modification would better facilitate Applicable BSC Objectives (b) and (c):</p> <p style="padding-left: 40px;"><i>(b) The efficient, economic and co-ordinated operation of the National Electricity Transmission System</i></p> <p>Making the main cash-out price signal more cost reflective strengthens the incentive on market participants to balance their positions ahead of Gate Closure, particularly during times of system stress. This should reduce the balancing actions required to be taken by the System Operator.</p> <p>Making cash-out prices sharper signals the commencement of reforms designed to better reflect the value of flexible plant in the balancing arrangements. It may therefore contribute to deferring the mothballing of flexible plant and help counteract potential tightening of margins.</p> <p>Making cash-out sharper in steps starting with PAR250 this winter, provides parties with the time required to get used to lower PAR values and to change behaviours accordingly.</p> <p style="padding-left: 40px;"><i>(c) 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</i></p>	

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<p>Strengthening the energy imbalance price signal should incentivise market participants to trade to balance their positions ahead of Gate Closure, increasing liquidity in the forward market and benefitting competition by encouraging investment in flexible capacity (flexible generation, demand participation and other technologies).</p> <p>PAR reform makes arrangements more cost reflective and thereby allows parties best able to manage their energy imbalances to gain a competitive advantage according to the value delivered to the consumer, ultimately supporting competition.</p> <p>This reform may alter the incentives for parties to enter the market. Current inefficiencies could limit the potential for some parties, in particular those offering services that facilitate flexibility and balance (such as DSR or storage), to participate in the wholesale electricity market. PAR reform contributes to the removal of a distortion that undermines incentives for these parties to enter and participate.</p>	
<p>Is there a likely material environmental impact? <i>(optional by originator)</i></p> <p>No</p>	
<p>Urgency Recommended: No <i>(delete as appropriate) (optional by originator)</i></p>	
<p>Justification for Urgency Recommendation <i>(mandatory by originator if recommending progression as an Urgent Modification Proposal)</i></p> <p>N/A</p>	
<p>Self-Governance Recommended: No <i>(delete as appropriate) (optional by originator)</i></p>	
<p>Justification for Self-Governance Recommendation <i>(mandatory by originator if recommending progression as Self-Governance Modification Proposal)</i></p> <p>N/A</p>	
<p>Fast Track Self-Governance Recommended: No <i>(delete as appropriate) (optional by originator)</i></p>	
<p>Justification for Fast Track Self-Governance Recommendation <i>(mandatory by originator if recommending progression as Fast Track Self-Governance Modification Proposal)</i></p> <p>N/A</p>	
<p>Should this Modification Proposal be considered exempt from any ongoing Significant Code Reviews? <i>(optional by originator in order to assist the Panel decide whether a Modification Proposal should undergo a SCR Suitability Assessment)</i></p> <p>No ongoing SCRs (this proposed modification is consequential to the EBSCR)</p>	

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Attachments: No (delete as appropriate) (mandatory by originator)	
If Yes, Title and No. of Pages of Each Attachment:	