

Lisa Charlesworth

Ofgem
9 Millbank
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8 September 2014

Dear Lisa,

The Panel recommends urgency for BSC Modification [P314 'Reduction in PAR from 500MWh to 350MWh'](#).

First Utility raised P314 on 4 September 2014. The Proposer requested that P314 be treated as an Urgent Modification Proposal. The BSC Panel has considered this recommendation in accordance with the procedures set out in [Section F 2.9](#), and it unanimously recommends to the Authority that P314 be progressed as an Urgent Modification Proposal.

We now seek the Authority's determination as to whether urgency should be granted and, if so, endorsement of the process and timetable to be followed in respect of the Urgent Modification Proposal.

Issue and proposed solution

P314 contends that the existing imbalance arrangements may have the effect of dampening imbalance price signals and may not provide sufficient indication to the market of the value of flexible capacity when margins are tight. As a result, imbalance price signals may have failed to create appropriate incentives for investment in flexible capacity.

A possible factor in this price dampening is the level of Price Average Reference (PAR), which is the maximum volume over which the weighted average of the most expensive energy actions (to the System Operator) 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.

This Modification proposes a reduction in the PAR value from 500MWh to 350MWh, with the PAR value reverting back to 500MWh on 5 November 2015. The Proposer is also suggesting an Implementation Date of 2 January 2014.

Further information on P314 can be found in the Modification Proposal Form attached to this letter. This form has also been published on the [P314 page](#) of the ELEXON website.

Interactions with P304

[P304 'Reduction in PAR from 500MWh to 250MWh'](#) was raised by National Grid on 30 May 2014 and is currently in the Assessment Procedure phase of its progression. P304 proposes a reduction in the PAR value from 500MWh to 250MWh.

In order to assess whether a PAR value of 250MWh was the most appropriate value, the P304 Workgroup completed analysis on PAR values of 100MWh, 250MWh and 350MWh. This analysis indicated that, under the current arrangements, there would be some adverse impacts across different types of industry participant, in particular independent Suppliers (i.e. small Suppliers). This analysis also showed that the higher the PAR value the smaller the impact on industry participants.

There is no alternative solution under P304. Though, at the final Workgroup meeting a member suggested a possible alternative solution for consideration by the Workgroup that was similar to the P314 proposed solution, as detailed below:

- A reduction in PAR to 375MWh (as the higher the PAR value the smaller the impact)
- PAR reverting back to 500MWh at the end of 2015
- Suggested implementation in January 2015 (to allow the industry more time to assess the effects of a lower PAR value)

The Workgroup did not take this potential solution forward as the majority of members did not support a PAR value of 375MWh and were uncomfortable with the idea of PAR reverting back to a value of 500MWh as it could create uncertainty under the current arrangements.

Full details of the P304 analysis results and the Workgroup discussions can be found in the Assessment Report published on the [P314 page](#) of the ELEXON website.

Proposer's rationale for Urgency

The Proposer is requesting that P314 be treated as an Urgent Modification Proposal to allow the Authority to make a decision on both P314 and P304 at the same time.

The Proposer is also requesting urgency due to potential negative commercial impacts to the industry following the announcement that a large generation plant will be taken offline during winter 2014/15.

Panel's views

The Panel considered the Proposer's request for Urgent status at Panel Meeting 228A on 8 September 2014.

Six voting Panel Members and the Panel Member appointed by the Transmission Company attended via teleconference along with an Ofgem representative and the P314 Proposer.

After considering the Modification Proposal, the Panel unanimously agreed that P314 should be treated as an Urgent Modification Proposal due to potential significant commercial impacts (as noted by the Proposer, above) and to allow the Authority to consider P314 alongside P304.

Proposed progression timetable

Action	Date
Panel Meeting	8 September 2014
Workgroup Meeting 1	12 or 15 September 2014
Assessment Consultation	16 – 30 September 2014

	<i>Aligned with P304 Report Phase Consultation</i>
Workgroup Meeting 2	1 or 2 October 2014
Draft Modification Report Presented to Panel	9 October 2014 <i>P304 Draft Modification Report will also be presented</i>
Modification Report Issued to the Authority	10 October 2014 <i>P304 Modification Report will also be issued</i>

Decision required

In accordance with BSC Section F2.9, the BSC Panel recommends to the Authority that Modification Proposal P314 should:

- be treated as an Urgent Modification Proposal; and
- progress according to the process and timetable outlined in this letter.

Please can you confirm the Authority's determinations in respect of the BSC Panel's recommendations as soon as you are able.

Yours sincerely

Adam Richardson
BSC Panel Secretary

Attachment A: P314 Modification Proposal Form