



Direct Dial: 020-7901 7355

5 August 2002

The National Grid Company, BSC Signatories and
Other Interested Parties

Our Ref: MP No P66

Dear Colleague,

Modification to the Balancing and Settlement Code (“BSC”) - Decision and Notice in relation to Modification Proposal P66: “ECVNAs and MVRNAs to receive ECVAAs Forward Contract Report”

The Gas and Electricity Markets Authority (the “Authority”)¹ has carefully considered the issues raised in the Modification Report² in respect of Modification Proposal P66, “ECVNAs and MVRNAs to receive ECVAAs Forward Contract Report”.

The Balancing and Settlement Code Panel (the “Panel”) recommended to the Authority that Modification Proposal P66 should not be made.

The Authority has decided not to direct a Modification to the BSC.

This letter explains the background and sets out the Authority’s reasons for its decision.

Background

Modification Proposal P66, “ECVNAs and MVRNAs to receive ECVAAs Forward Contract Report”, was submitted on 18 January 2002 by TXU UK Ltd. The justification for the Modification Proposal was that it better facilitated achievement of the Applicable BSC Objectives³ C3 (3) (c) and (d) of National Grid Company’s Transmission Licence. The Panel, at

¹ Ofgem is the office of the Authority. The terms “Ofgem” and “the Authority” are used interchangeably in this letter.

² ELEXON document reference MR066, Version No. 1, dated 17 May 2002

³ The Applicable BSC Objectives, as contained in Condition C3 (3) of National Grid Company’s Transmission Licence, are:

- (a) the efficient discharge by the licensee of the obligations imposed upon it by this licence;
- (b) the efficient, economic and co-ordinated operation by the licensee of the licensee’s transmission system;
- (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;
- (d) promoting efficiency in the implementation and administration of the balancing and settlement arrangements.

their meeting of 14 February 2002, considered the Initial Written Assessment and agreed that Modification Proposal P66 should be submitted to the Assessment Procedure.

Modification Proposal P66 was raised as a result of Modification Proposal P17, 'ECVNAs to receive 7-Day Report'. As the Contract Notification Modification Group (the Group) had been responsible for the evaluation of Modification Proposal P17, the Panel felt it was appropriate that this Group also consider Modification Proposal P66.

The Group met on 19 February 2002 and 19 March 2002. Two consultations and one impact assessment were issued. The responses to the first consultation and the impact assessments (issued concurrently) were provided to the Group for discussion at their meeting of 19 March 2002. At the same meeting, the Group agreed that a second consultation would be required as well as details of the relevant costs in order to determine the likely demand for the new Notification Agent Forward Contract Report and to request reaffirmation of the previous consultation responses from BSC Parties. The second consultation document was issued on 5 April 2002, with responses requested for 15 April 2002.

The Modification Proposal

Under the New Electricity Trading Arrangements (NETA), Contract Trading Parties⁴ notify their traded energy volume(s) to the Energy Contract Volume Aggregation Agency (ECVAA) central settlement system via the appointed Energy Contract Volume Notification Agent (ECVNA). Contract notifications⁵ are only registered if they are correctly notified to the ECVAA prior to Gate Closure. If a contract is notified incorrectly, or not notified at all and the Contract Trading Parties/Notification Agent do not rectify this, the Contract Trading Parties and/or the Notification Agent will be exposed to Electricity Imbalance Prices if their notified generation/demand does not equal their metered generation/demand.

Under the provisions of the Balancing and Settlement Code⁷, Contract Trading Parties receive a 'Forward Contract Report' from the ECVAA detailing notifications effective over the next seven days. The Forward Contract Report allows Trading Parties to identify errors and omissions in contract notifications. However, Notification Agents who are not Trading Parties do not receive the Forward Contract Report⁸. Modification Proposal P66 proposes to enable Notification Agents to receive such confirmation which will help them to minimise their own errors and so reduce the risks to all Parties and Party Agents involved in Settlement.

Modification Proposal P66 follows Modification Proposal P17 'ECVNAs to receive 7-Day Report', the intent of which was to introduce the same report. In considering Modification Proposal P17, the Group had recommended that the costs of development and ongoing operational expenditure should be payable by all BSC Parties (via the BSCCo⁹ cost recovery mechanism). The Authority rejected Modification Proposal P17 based on costs being allocated in this way. The Authority stated that the costs of developing, implementing and operating the new report should be targeted at its users and not to all BSC Parties. Therefore the intent of

⁴ A contract Trading Party is a Party which holds energy accounts i.e. accounts used for the purpose of accounting in settlement of electrical energy.

⁵ Reference to 'contract notifications' includes both Energy Contract Volume Notifications (ECVNs) and Metered Volume Reallocation Notifications (MVRNs).

⁷ BSCV Section V, Annex V-1

⁸ It is noted that for some Notification Agents, this is not material, as they are Notification Agents for themselves as a Party, and therefore receive the report as a BSC Party.

⁹ ELEXON is referred to as BSCCo in the BSC.

Modification Proposal P66 is to implement the functionality required by Modification Proposal P17, and whilst doing so, address the Authority's concerns regarding targeting of the costs associated with the implementation, development and operation to the Notification Agents intending to utilise the new report.

Having considered the responses to the Initial Written Assessment and the impact assessment undertaken, the Group determined the costs for allocation under Modification Proposal P66 and defined the relevant cost recovery mechanism. The Group agreed that the BSC enabled costs to be recovered under the provisions of Section D, Annex D-3, Paragraph 6.1, which enables BSCCo to charge BSC Parties and non-Parties for the provision of a service 'sufficient to cover the relevant costs'. The Group noted that any cost-recovery mechanism would be targeted at those Notification Agents (BSC Party or not) who chose to receive the report. Allocating costs to the recipient Notification Agent would effectively mean that these costs would then be passed on to the BSC Parties using that Notification Agent. The Group considered that in this way costs would be targeted to users of the service in accordance with the manner indicated by the Authority in its Modification Proposal P17 decision letter.

The Group agreed that the charging mechanism for Modification Proposal P66 should be implemented as an annual charge in advance levied on the Notification Agent. At the Assessment Stage, the Group acknowledged that the first consultation responses indicated a low number of Notification Agents would request the report, which would make the charge for the report an even more significant factor. Therefore, in the second consultation Notification Agents were asked to provide an indication of their potential take up of the reports on the basis of costs presented. The Group agreed that the Panel should be responsible for determining the level of the charge.

The Group recognised that Modification Proposal P17 had incurred development and implementation costs pending the Authority decision on the Modification Proposal. The Group agreed that all development and implementation costs (including those from Modification Proposal P17) and operational costs associated with Modification Proposal P66 should, in principle, be recovered from users of the new Notification Agent Forward Contract Report. ELEXON published a draft Modification Report on 24 April 2002, which invited respondents' views by 9 May 2002.

Respondents' views

ELEXON received seven responses to the consultation on Modification Proposal P66. Five responses (representing 21 Parties) expressed support for the provisional recommendation that the Proposed Modification should not be made. One response (representing 1 Party) supported the recommendation that the Modification should not be made but supported the Forward Contract Report being implemented and distributed, with the costs recovered from all Parties under the BSCCo Cost Recovery mechanism. One response (representing 1 Party) made no comment.

The respondents' views are summarised in the Modification Report for Modification Proposal P66, which also includes the complete text of all respondents' replies.

Panel's recommendation

The Panel met on 16 May 2002 and considered the Modification Proposal P66, the draft Modification Report, the views of the Modification Group and the consultation responses received.

The Panel recommended that the Authority should reject Modification Proposal P66. Although they acknowledged that the majority of BSC Parties supported the principle of the Modification Proposal and believed that it better facilitated achievement of the Applicable BSC Objectives, the Panel supported the Group view that it was not cost efficient to proceed with the development and implementation of a Modification Proposal which was not likely to be requested and utilized to a significant degree and therefore for which costs were not likely to be recovered. Furthermore, the Panel supported the view that the lack of demand was not solely attributable to the associated charge for receipt of the report, but that Notification Agent internal system development costs for receipt of the report was also a factor. The Panel considered this in conjunction with the fact that the majority (all but one) of current Notification Agents are also BSC Parties and therefore receive the BSC Party variant of the Forward Contract Report.

The Panel stated that, if approved, the Proposed Modification should be implemented on 10 December 2002, where an Authority decision is received no later than 10 September 2002. Where an Authority decision is received no later than 10 November 2002, the Proposed Modification was recommended for implementation on 25 February 2003. Moreover, the Panel recommended that if the Authority were to approve the Modification Proposal, that the initial charge (per Notification Agent, per annum) should be set at £20,600¹⁰, but subject to Panel review at the time of implementation.

Ofgem's view

Ofgem considers, having had regard to its statutory duties, that the implementation of Modification Proposal P66 would not better facilitate achievement of the Applicable BSC Objectives. The majority of industry participants have indicated that they would not request the report, therefore the allocation of the necessary finance and manpower to pursue this would constitute an inefficient use of industry resources.

Ofgem agrees with the principle of the Modification Proposal to introduce a report which should reduce the trading risks on Parties. It has also been suggested that the existence of such a report would address the inequality of the provision of information from the ECVA to Notification Agents and lead to a fair and equitable position between BSC and non-BSC Parties. However, Ofgem notes that the majority of existing Notification Agents are also BSC parties. As such, they already receive the BSC Party variant of the Forward Contract Report. It is Ofgem's view that responses from both consultations indicate that demand for the new Notification Agent Forward Contract Report will be low and that associated cost are not likely to be recovered. Ofgem agrees with the Panel view that that the lack of demand for the report is not solely attributable to the associated charge for its receipt, but is also due to internal systems development costs for Notification Agents who may be interested in receiving the report.

¹⁰ Based on the assumptions laid out in the Assessment Report for Modification Proposal P66 (Reference 1) that all development and implementation costs are recovered (including those incurred under Modification Proposal P17) over three years, with operational costs recovered annually, and the resultant costs spread over five Notification Agents.

In Ofgem's view, the principle of allocating the development and implementation costs of introducing the variant report to those Notification Agents who request it is in keeping with the Authority decision in Modification Proposal P17. The allocation of costs in this way addresses Ofgem's concerns on the issue of cross-subsidisation. It remains Ofgem's view that it is inappropriate for the costs of providing the report to Notification Agents to be borne by all Trading Parties.

It is Ofgem's view that the development and implementation costs associated with Modification Proposal P17 should not be attributed to Modification Proposal P66 and included in the costs targeted for recovery. Ofgem considers that in this context, each Modification Proposal should be regarded individually and such costs associated with one Modification Proposal should not be attributed to the development costs of a subsequent Modification Proposal which seeks to address the same or a similar issue.

Ofgem therefore agrees with the Panel's recommendation that Modification Proposal P66 should not be made.

The Authority's decision

The Authority has therefore decided not to direct that Proposed Modification P66, as set out in the Modification Report for Modification Proposal P66, should be made and implemented.

Having regard to the above, the Authority, in accordance with Section F1.1.4 of the BSC, hereby notifies NGC that it does not intend to direct NGC to modify the BSC as set out in the Modification Report.

If you have any questions, please contact me on the above number.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'A. N. Simpson', with a horizontal line underneath.

Nick Simpson

Director of Industry Code Development

Signed on behalf of the Authority and authorised for that purpose by the Authority