

March 2002

URGENT MODIFICATION REPORT MODIFICATION PROPOSAL P57

**Amendment to the BSC Failing Supplier process to
allow a Legal Entity to have two Party Ids for a short
period**

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

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I DOCUMENT CONTROL

a Authorities

Version	Date	Author	Signature	Change Reference
0.1		Trading Development		Initial Draft

Version	Date	Reviewer	Signature	Responsibility
0.1		Trading Strategy		Review
0.2		Parties		Industry Consultation
0.3		Panel		Panel Approval
1.0		Trading Strategy and Modifications		Authority Decision

b Distribution

Name	Organisation
Each BSC 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

c Related Documents

Reference 1	Urgent Modification Report - Modification Proposal P57: Amendment To BSC Failing Supplier Process To Allow A Legal Entity To Have Two Party Ids For A Short Period (P57_UMR)
Reference 2	Interim Report - Modification Proposal P57: Amendment To BSC Failing Supplier Process To Allow A Legal Entity To Have Two Party Ids For A Short Period (O13MMU)
Reference 3	Modification Report - Termination Process for ECVNA and MVRNA Authorisations (MR047)

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1 SUMMARY AND RECOMMENDATIONS

1.1 Recommendation

Modification Proposal P57 seeks to amend the Failing Supplier Process to allow the transfer of the Failing Supplier's Party Id to the Replacement Supplier in the event of an emergency trade sale or Supplier of Last Resort (SoLR) appointment.

On the basis of the analysis and consultation undertaken in respect of Modification Proposal P57, and the resultant findings of this report, the Panel recommends to the Authority that:

- **The proposed Modification, as set out in section 4 of this Report, should not be made.**

1.2 Background

British Gas Trading (BGT) raised P57 as an Urgent Modification pursuant to BSC F2.9 on 03 December 2001. The Panel subsequently agreed on 13 December 2001 that there was no longer a requirement to expedite the Modification Proposal any quicker than the normal Definition and Assessment Procedures, but P57 should still be treated as an Urgent Modification.

P57 sought to allow a Replacement Supplier to adopt the Failing Supplier's Party Id. This would result in the Replacement Supplier having 2 Party Ids, and the Failing Supplier would be issued with a new Party Id (Reference 2, section 3).

A Modifications Group was established and following an initial set of deliberations by the Group, a consultation document was issued. Analysis of the Balancing and Settlement Code (the Code) was then carried out to determine the full impact of P57. The second meeting of the Modification Group considered two main areas of analysis; (i) the responses to the consultation and (ii) P57's impact on the Code and BSC Systems. The Modification Group presented an Interim Report to the Panel at its meeting of the 14 February 2002 which made recommendations, on the basis of this analysis.

The Panel agreed with the Modification Group that P57 should be recommended to the Authority for rejection and a final consultation document, which would include a summary of the full impact of P57 on the Code and BSC Systems, should be issued (in accordance with the original agreed timetable).

This final consultation has now been concluded and this report provides the final recommendations, based on this consultation.

1.3 Rationale for Recommendations

On the basis of the analysis and consultation undertaken in respect of this Modification Proposal P57, the Panel recommends to the Authority that the proposed Modification should not be made.

The Panel believes, on consideration of the Modification and the associated consultation responses, that:

- The 21 January 2002 consultation document did not highlight the full impact of P57 which was presented to the Panel on the 14 February 2002;

- The Panel noted that the Modification Group, including the Proposer, recommended rejection of P57 after the full impact of P57 on the Code and BSC Systems became apparent;

The responses to the 21 February 2002 consultation all supported the conclusions of the Group and of the Panel, subject to a number of specific observations, that the proposed Modification (P57) did not better achieve the Applicable BSC Objectives and should not be made.

2 INTRODUCTION

This Report has been prepared by ELEXON Ltd., on behalf of the Balancing and Settlement Code Panel ('the Panel'), in accordance with the terms of the BSC. The BSC 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 BSC.

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 PROCEDURE AND TIMETABLE

Section F2.9 of the Balancing and Settlement Code makes provision for Proposals to be treated as Urgent Modification Proposals upon the recommendation of the Transmission Company and BSCCo. Under the circumstances the Panel agreed (03 December 2001) that P57 should be treated as an Urgent Modification Proposal (Reference 2). A timetable was submitted for approval with the Authority, and following the agreement of the Authority, the key steps for this Modification Process were undertaken, as listed below:

- (i) The Modification Group held their first meeting on 08 January 2002 and a consultation document was issued on 21 January 2002;
- (ii) A second meeting of the Modification Group was held on 30 January 2002 to assess the consultation responses, review further analysis of the Code and impacts on BSC Systems, and make a recommendation to the BSC Panel on the most appropriate way forward;
- (iii) An Interim Report was submitted to the Panel meeting on 14 February 2002;
- (iv) Panel agreed with the recommendations of the Modification Group;
- (v) Final consultation on P57 was issued which included the full impact on the Code and BSC Systems; and
- (vi) Urgent Modification Report to be submitted to the Panel meeting 14 March 2002.

4 DESCRIPTION OF PROPOSED MODIFICATION

P57 suggests a process to allow a Replacement Supplier to continue to operate the assets of the Failing Supplier by transferring the ownership of the Failing Supplier's Party Id to the Replacement Supplier. This would allow the Replacement Supplier to have 2 Party Ids; their original Party Id and the Party Id of the Failing Supplier. A full description of the proposed P57 process and the current process may be found in the P57 Interim Report on the BSC Website at www.elexon.co.uk (Reference 2, section 3).

This arrangement only allows the complete and total transfer of all BM Units as well as all liabilities and obligations accrued against the Failing Supplier Party Id. However, if a trade sale does not involve the purchase of all of the Party's liabilities and assets (e.g certain BM Units) then a process is required to allow those liabilities and entitlements to be transferred back to the Failing Supplier. The Failing Supplier will need to be allocated a new Party Id, and any unaffected BM Units will be transferred to the new Party Id of the Failing Supplier by a Change of BM Unit Ownership (COBO).

P57 also proposes a transitional period of three months for a Replacement Supplier to operate the old Party Id of the Failing Supplier. The implication of this transitional period is that the Replacement Supplier will have to execute a COBO or Change of Supplier process during the transitional period so that that all BM Units registrations are transferred from the old Id of the Failing Supplier to the Replacement Supplier's original Party Id.

5 RATIONALE FOR PANEL RECOMMENDATIONS

After the Panel meeting on the 14 February 2002, the Panel concluded that P57 would not better facilitate the Applicable BSC Objectives as set out in the Transmission Licence.

The implementation of P57 would require significant development of BSC Systems, particularly given that these systems, like the BSC itself were all developed on the basis that there would only ever be one identifier per Party.

At the Panel meeting on 14 February 2002, the Panel considered the 21 January 2002 consultation responses. The majority of responses supported P57, however, some responses noted that there was a requirement for further analysis to determine the impact on the Code and BSC Systems. Following this further analysis it became apparent, in the opinion of the Group, that the intent of the proposal to deliver a process that was a practical and fast method of transferring assets and responsibilities would not be delivered. Considerable complexity, cost and processing would be required to implement and execute the proposed P57 arrangements. The Panel noted these conclusions and also noted that the current processes in place could actually enable the transfer of both Supplier BM Units and non-Supplier BM Units under a rapid time scale in the event of an emergency trade sale or SoLR. The Panel agreed that in the light of the considerations above, the proposed Modification would not better facilitate the Applicable BSC Objectives.

The Panel noted that the Authority should be consulted as to whether there was a requirement for legal text. The Authority replied that there was no requirement for legal text to be drafted.

Subsequently, further consultation based on the further work of the Group has shown support for the views of the Group and of the Panel.

6 ASSESSMENT

This section of the report summarises the assessment carried out by the Modification Group during its consideration of the proposal. Full details are contained in the P57 Interim Report, which may be found on the BSC website at www.elexon.co.uk (Reference 2 sections 6 - 8).

The Modification Group considered Modification Proposal P57 at meetings on 08 January 2002 and 30 January 2002. In particular the Modification Group considered whether the Modification Proposal would better facilitate the Applicable BSC Objectives.

There were 2 consultations issued; one after the 08 January 2002 meeting and the final consultation was issued after the Panel meeting on 14 February 2002. The final consultation responses are presented in section 7.

The Modification Group, felt that the current processes in place were sufficient to deal with the transfer of both Supplier BM Units and non-Supplier BM Units in the event of a Failing Supplier. If the Modification Proposal were to be implemented, it would mean that there would be a fundamental change to the Code to allow a Party to have 2 identifiers. Both the Code and BSC Systems were designed on a one identifier per Party basis. Hence, in order to implement and execute the arrangements, as proposed in P57, changes to BSC Systems and processes would be required (for example, the use of from/to dates on Party ID) and complex processes would need to be undertaken (for example, recourse to one or more Change of BM Unit Ownership), in the event of a trade sale or a SoLR appointment.

7 SUMMARY OF REPRESENTATIONS FROM THE FINAL CONSULTATION

Eleven responses representing 45 Parties were received to the final consultation on the Interim Report. No new substantive issues were raised above those already discussed in the Interim Report and the Urgent Modification Report. All responses endorsed the recommendations in the Urgent Modification Report, subject to a number of observations and remarks.

7.1 Issues Raised from the final consultation

The following points were raised regarding P57:

- i) The Failing Supplier Process in Section K7 of the Code does not cover the transfer of non-Supplier assets and it was suggested by one respondent that the Replacement Supplier should have the option of transferring non-Supplier assets on the same time scales as for Supplier BM Units.
- ii) This respondent also stated that, in the case of an emergency trade sale or appointment of a Supplier of Last Resort, the Replacement Supplier would require Metered Volume Reallocation Notification Agent and Energy Contract Volume Notification Agent (MVRNAs and ECVNAs) Authorisation to be processed in a short timescale, for example after 2 hours of being submitted to the Energy Contract Volume Aggregation Agent (ECVAA). It was stated that under current conditions it could take up to 2 days for the Authorisations to be registered to the Replacement Supplier which could leave the Failing Supplier exposed to imbalance charges;

- iii) One respondent suggested that issues raised during the Modification process could be addressed through a separate Modification Proposal; and
- iv) Finally, it was pointed out that the fundamental hindrance to P57 is that the Party Id does not have Effective From and Effective To Dates.

7.2 Discussion of Issues Raised

The Modification Group on 30 January 2002 discussed Point (i) and agreed that Section K7 details the Failing Supplier Process for Supplier BM Units and does not deal with non-Supplier assets. It was also noted that non-Supplier BM Units can be transferred via a COBO process. In an emergency trade sale or SoLR in the event of a Failing Supplier, as with other circumstances, COBO processes can be carried out under urgent time scales so as to coincide with the transfer of Supplier BM Units as defined in Section K7 of the Code.

Point (ii) was not raised at the Modification Group meeting, only the transfer of Authorisations was discussed and not the timing of Authorisations. This issue has been raised in Modification Proposal P47 'Termination Process for Energy Contract Volume Notification Agent (ECVNA) and Metered Volume Reallocation Notification Agent (MVRNA) Authorisations'. This proposal was raised to deal with the problems associated with the termination of Authorisations for the allocation of energy (Reference 3, full details are contained in the P47 Modification Report, which may be found on the BSC website at www.elexon.co.uk). P47 sought to align the Code with the current functionality of ECVAA systems. At the moment, after a Party has submitted an Authorisation termination notice, the earliest time it can become effective will be one calendar day after receipt by the ECVAA, although the BSC implies that the notice takes effect on receipt. Modification Proposal P47 was not made because of the benefit to Parties of enabling Authorisations to terminate on receipt of request, without the requirement for one calendar day notice. Subsequently, ELEXON are raising a Change Proposal (CP) to amend ECVAA functionality to accord with the requirements of the BSC. This CP will also address the acceptance time for a new Authorisation to be effective on the same day once received and proposes an enduring automated solution.

The respondent who raised Points (i) and (ii) suggested that they be raised as an Alternative Modification Proposal. However another respondent suggested that any outstanding issues should be addressed by a new Modification Proposal, as described in Point (iii). It should also be noted that the agreed timescales for this Modification do not allow for further consideration, or for further Modification Group meetings. This timetable would therefore need to be revisited if an Alternative Modification Proposal were to be developed. Any Alternative Modification Proposal would need to take account of the above considerations.

Point (iv) was discussed at the Modification Group meeting and it is true that BSC Systems do not contain Effective To and Effective From Dates against Party Id and this feature would need to be developed as part of the implementation of P57.

8 ANNEX 1 - MATRIX OF RESPONSES FROM THE FINAL CONSULTATION

File name	Company	No. Parties Represented	Agree with the recommendations of the Modification Group?	Comments
P57_UMR4_001	London Electricity Group	4	Yes	N/A
P57_UMR4_002	Powergen UK plc	4	Yes	N/A
P57_UMR4_003	Innogy Group	9	Yes	N/A
P57_UMR4_004	British Gas Trading	1	Endorse the recommendations of the Modification Group	The principle behind the modification is sound and could meet the Applicable BSC Objectives. Disappointed that no development has been carried out to find a potential alternative Modification Proposal.
P57_UMR4_005	National Grid Company	1	Yes	N/A
P57_UMR4_006	TXU Europe	14	Yes	Another Modification Proposal could address the issue the Proposer was seeking to address. The fundamental problem with P57 is that Party ID does not have Effective From and Effective To Dates.
P57_UMR4_007	Seeboard	2	Yes	N/A
P57_UMR4_008	GPU Power UK	1	Yes	N/A
P57_UMR4_009	Scottish & Southern Energy	4	Yes	N/A
P57_UMR4_010	British Energy Group	3	Yes	P57 appears to provide a simple method of transferring all the responsibilities of one Party to another Party in certain circumstances, thus fulfilling the BSC Objectives of promoting competition. Other means appear to have been found to achieve the desired end at reasonable cost. We support the Modification Group and Panel recommendation to reject the proposal.
P57_UMR4_011	EdF Trading Ltd	2	Yes	N/A

9 ANNEX 2 – REPRESENTATIONS FROM THE FINAL CONSULTATION

Responses from P57 Final Urgent Modification Report Consultation

Consultation issued 21 February 2002

Representations were received from the following parties:

No	Company	File Number	No. of Parties Represented
1.	LE Group	P57_UMR4_001	4
2.	Powergen	P57_UMR4_002	4
3.	Innogy Group	P57_UMR4_003	9
4.	British Gas Trading	P57_UMR4_004	1
5.	NGC	P57_UMR4_005	1
6.	TXU Europe	P57_UMR4_006	14
7.	SEEBOARD	P57_UMR4_007	2
8.	GPU Power UK	P57_UMR4_008	1
9.	Scottish & Southern Energy	P57_UMR4_009	4
10.	British Energy Group	P57_UMR4_010	3
11.	EdF Trading Ltd	P57_UMR4_011	2

P57_UMR4_001 – LE Group

P57 Final Urgent Consultation
Issued 21 February 2002, Deadline for responses: 28 February 2002.
Response from London Electricity Group

Consultation Questions

Q	Issue	
1.	In view of the practical implications of the proposal that the Modification Group have now considered, do you agree with the conclusions of the Modification Group and the Panel that the proposal does <u>not</u> better achieve the Applicable BSC Objectives and the Panel should recommend rejection of P57?	Yes
2.	If you do not agree with the conclusions of the Modification Group and the Panel, please give reasons as to why and how P57 better achieves the Applicable BSC Objectives.	Reason(s): N/A

This response is made on behalf of the following BSC Parties:
London Electricity plc, SWEB Ltd, Jade Power Generation Ltd and Sutton Bridge Power Ltd.

Paul Chesterman
for Liz Anderson
Energy Strategy & Regulation Manager
London Electricity Group
22 February 2002

P57_UMR4_002 – Powergen

Consultation Questions: Paul Jones - Powergen UK plc, Powergen Retail Limited, Diamond Power Generation Limited and Cottam Development Centre Limited

Q	Issue	
1.	In view of the practical implications of the proposal that the Modification Group have now considered, do you agree with the conclusions of the Modification Group and the Panel that the proposal does <u>not</u> better achieve the Applicable BSC Objectives and the Panel should recommend rejection of P57?	Yes
2.	If you do not agree with the conclusions of the Modification Group and the Panel, please give reasons as to why and how P57 better achieves the Applicable BSC Objectives.	Reason(s):

P57_UMR4_003 – Innogy Group

Response on behalf of Innogy Group (Innogy plc, Innogy Cogen Limited, Innogy Cogen Trading Limited, Npower Limited, Npower Direct Limited, Npower Northern Limited, Npower Northern Supply Limited, Npower Yorkshire Limited and Npower Yorkshire Supply Limited)

Q	Issue	
1.	In view of the practical implications of the proposal that the Modification Group have now considered, do you agree with the conclusions of the Modification Group and the Panel that the proposal does <u>not</u> better achieve the Applicable BSC Objectives and the Panel should recommend rejection of P57?	Yes
2.	If you do not agree with the conclusions of the Modification Group and the Panel, please give reasons as to why and how P57 better achieves the Applicable BSC Objectives.	Reason(s): N/A

P63_UMR4_004 – British Gas Trading

Thank you for the opportunity of responding to this consultation. This response is on behalf of British Gas Trading Ltd (BGT).

We note the recommendation of the Panel that this modification should be rejected. BGT recognise this modification will require extensive changes to BSC Systems that were not initially identified in the first consultation. We accept that as this makes the modification complex and expensive to implement and so does not further the applicable BSC objectives and so endorse the view of the modification group. However, we are disappointed that no development has been carried out to find a potential alternative modification. The overwhelming support for P57, prior to the knowledge of full costs and BSC system impacts of the modification, suggests that although the method may not be appropriate the principle behind the modification is sound and would meet the applicable BSC Objectives.

Under current arrangements detailed in Section K of the BSC, in the event of a SOLR or Trade Sale where a party (or multiple parties) acquires the assets of another supplier the base BMUs are transferred to the ownership of the purchasing party. The purchaser does not have the option of transferring non base BMUs on the same timescales. We believe the option should be made available to Parties to allow the de-registration and re-registration of non base BMUs to happen on the same timescales as for base BMUs.

Also there are problems associated with the timing of authorisations for the allocation of energy. Almost certainly the acquiring company would require MVRNAAs and/or ECVNAAs to be processed in a short timescale, for example 2 hours from submission to Imserve. Under current arrangements this can take up to two days, from the time the authorisation is signed by an appropriate party on the side of the outgoing company. The current timescales would be insufficient and outgoing company will potentially be exposed to significant imbalance charges through no fault of its own. We believe one solution to the problem which the original modification sought to address would be to change the process so that authorisations are processed and made effective the same day as they are submitted to Imserve.

We recognise these changes will impact on a number of areas of the Code and associate procedures and have not be fully discussed at the modification group but believe the issue should be considered further. Therefore we would like to formally raise this as an alternative modification to P57.

We hope these comments have been helpful and should you wish to discuss any of the points raised above in more detail in creating the documentation for this as an alternative modification proposal please contact Simon Hadlington on 01753 758056.

Yours faithfully
Danielle Lane
Transportation Analyst

P57_UMR4_005 – NGC

Consultation Questions

Q	Issue	
1.	In view of the practical implications of the proposal that the Modification Group have now considered, do you agree with the conclusions of the Modification Group and the Panel that the proposal does <u>not</u> better achieve the Applicable BSC Objectives and the Panel should recommend rejection of P57?	Yes
2.	If you do not agree with the conclusions of the Modification Group and the Panel, please give reasons as to why and how P57 better achieves the Applicable BSC Objectives.	Reason(s):

P57_UMR4_006 – TXU Europe

Respondent: Philip Russell
BSC Parties: TXU Europe (14 BSC Parties)

Q	Issue	
1.	In view of the practical implications of the proposal that the Modification Group have now considered, do you agree with the conclusions of the Modification Group and the Panel that the proposal does <u>not</u> better achieve the Applicable BSC Objectives and the Panel should recommend rejection of P57?	Yes in so far that as drafted the proposal is unworkable. It may well be that the defect that the proposer was seeking to address could be remedied through alternative means. Given that this Mod is still being treated as Urgent then if the former is correct the issue could be addressed through another Modification Proposal in future.
2.	If you do not agree with the conclusions of the Modification Group and the Panel, please give reasons as to why and how P57 better achieves the Applicable BSC Objectives.	Reason(s):

The fundamental problem is that the Party ID does not have Effective From and Effective To Dates – this may have been a design decision, but the best that can be said about it is that it was a singularly unhelpful one.

P57_UMR4_007 – SEEBOARD

Response from: SEEBOARD Energy Limited & SEEBOARD Power Networks plc

Consultation Questions

Q	Issue	
1.	In view of the practical implications of the proposal that	Yes

	the Modification Group have now considered, do you agree with the conclusions of the Modification Group and the Panel that the proposal does <u>not</u> better achieve the Applicable BSC Objectives and the Panel should recommend rejection of P57?	
2.	If you do not agree with the conclusions of the Modification Group and the Panel, please give reasons as to why and how P57 better achieves the Applicable BSC Objectives.	Reason(s):

P57_UMR4_008 – GPU Power Uk

Please find that GPU Power UK response to P57 - Amendments to the BSC Failing Supplier Process is 'No Comment'.

regards

Rachael Gardener

Deregulation Control Group &

Disribution Support Office

GPU POWER.NETWORKS (UK) plc

* 08457 353637 Ext: 09 - 3802

Fax: 01384 405177

Email: rachael.gardener@gpupower.co.uk & dcg@gpupower.co.uk

P57_UMR4_009 – Scottish & Southern Energy

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

In relation to the two consultation questions listed in the Final Industry Consultation contained within your note of 21st February 2002 concerning Modification P57, our comments are as follows:

1. In view of the practical implications of the proposal that the Modification Group have now considered, do you agree with the conclusions of the Modification Group and the Panel that the proposal does not better achieve the Applicable BSC Objectives and the Panel should recommend rejection of P57?

Yes, we agree with the Panel's recommendation to reject this proposed Modification P57, for the reasons given in the consultation document.

2. If you do not agree with the conclusions of the Modification Group and the Panel, please give reasons as to why and how P57 better achieves the Applicable BSC Objectives.

Not applicable.

Regards

Garth Graham
Scottish & Southern Energy plc

P57_UMR4_010 – British Energy

From: Mate Martin[SMTP:martin.mate@british-energy.com]
Sent: 28 February 2002 19:42
To: 'ELEXON-Modifications'
Cc: Capener John; Ace Rachel
Subject: P57 Final Urgent Consultation - Multiple Party Ids

To: Modifications Secretary, BSCCo

Modification Proposal P57 appears to provide a simple method of transferring all the responsibilities of one party to another party in certain circumstances, thus fulfilling the BSC Objective of promoting competition.

The Modification Group have identified a number of detailed issues which would require further investigation before implementing such a change. The administrative cost of progressing this modification proposal is likely to be significant, although I suspect the operational cost could turn out to be relatively low as some of the issues may have simple solutions.

The recent Enron transfers appear to have been achieved without benefit of this modification. The total costs associated with the recent Enron transfers are unknown, but presumed to be relatively small.

The immediate need to implement this proposal appears to have been avoided, and other means appear to have been found to achieve the desired end at reasonable cost. Therefore pursuit of this proposal may not fulfil the BSC Objective of efficiency.

In light of these facts, and unless or until a clearly defined requirement for the change is identified, we support the modification group and Panel recommendation to reject the proposal. However, I have a view that many of the detailed issues identified in the interim modification report may not be difficult to resolve if a future need arises.

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

This message has been sent from the British Energy Group.

British Energy plc

P57_UMR4_011 – EdF Trading Ltd

Can you please note that EDF Trading Ltd and EdF (Generation) agree with the findings as expressed in the following consultative Modification Proposal report:

P57

The report gives appropriate and understandable justifications for the recommendations to which EDFT and EdF concur.

With kind regards
Steve Drummond
EdF Energy Merchants Ltd
07884 310870