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15 November 2001

The National Grid Company, BSC Signatories and
Other Interested Parties

Your Ref:
Our Ref : MP No: P14

Dear Colleague,

**Modification to the Balancing and Settlement Code - Decision in relation to
Modification Proposal P14: “Manifest Error Provisions Where the Bid/Offer
Acceptance In Question Has Not Been Acted Upon”**

The Gas and Electricity Markets Authority (the “Authority”) has carefully considered the issues raised in Modification Proposal P14 “Manifest Error Provisions Where The Bid/Offer Acceptance In Question Has Not Been Acted Upon”.

The Balancing and Settlement Code Panel (the “Panel”) recommended to the Authority that Modification P14 and the Alternative should be rejected.

The Authority agrees with the Panel’s recommendation.

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

Background to the proposal

Section Q7 of the Balancing and Settlement Code (“BSC”) makes provision for the claim of Manifest Errors in Bid /Offer Acceptances (“BOAs”). Under the current arrangements in the BSC an error can be treated as a Manifest Error in either of two situations. First, when erroneous price submissions by Lead Parties¹ for Bids and Offers are accepted. Secondly, when there is an erroneous selection of Bids and Offers by NGC. An error will only be considered manifest where it is self-evidently an error. Manifest Error claims are referred to the Trading Disputes Committee (“TDC”) for resolution.

¹ The Lead Party is the Party registered or to be registered in respect of the BM Unit.

Section Q7.2 of the BSC sets out the process to be followed by a Party when making a claim for a Manifest Error. This process states that the Party must make a claim to NGC for a Manifest Error within four hours after the BOA Time, and that NGC must then make a claim to ELEXON for a Manifest Error within four hours after the BOA Time. In addition, when either a Party or NGC refers a Manifest Error claim to the TDC for resolution it is required to make an unrecoverable payment of £5,000 for each claim. The TDC can only amend the resultant imbalance prices and award a compensation payment where a party can demonstrate that a Manifest Error has occurred.

The provisions in the BSC for Manifest Errors only apply where the Bid or Offer was actually accepted by NGC. Under the current system, if NGC determines that an error has occurred before the Bid or Offer has been delivered it must either allow the Bid/Offer to be delivered, or issue an "unwinding" acceptance. It was suggested by NGC that it would be more effective and efficient to simply cancel or rescind the erroneous instruction.

On 22 May 2001 NGC proposed a modification to the BSC, P14: "Manifest Error Provisions Where The BOA In Question Has Not Been Acted Upon".

The Modification Proposal

Modification Proposal P14 seeks to enable NGC to cancel or rescind an erroneous instruction when this has been agreed bilaterally, before the instruction has been acted upon. The Bid/Offer should be treated as a Manifest Error and therefore excluded from setting imbalance prices.

The proposed process would work as follows:

1. NGC identifies that a BOA would constitute a Manifest Error;
2. NGC contacts the counter party and identifies to what extent the Bid/Offer can be rescinded and what volume is already being delivered;
3. NGC rescinds the volume of the Bid/Offer that can be cancelled. The BOA stands for the volume that is already being delivered; and
4. NGC will call a Manifest Error if either the counter party requests it on the basis that it has incurred material costs, or NGC believes it is justified on the cost of the volume already delivered.

The only further action will be to inform the market of the Error and exclude the relevant BOA from imbalance price calculations. The Modification Proposal put forward a fully automated solution within Central Systems.

NGC argued that the Modification Proposal would better facilitate the Relevant BSC Objectives² on the basis that it represents a more effective and efficient way of dealing with BOA errors that are identified before they have been acted upon. This would better facilitate the objective of promoting efficiency in the implementation and administration of the balancing and settlement arrangements.

During the Modification Process the Modification Group (the “Group”) developed an Alternative Modification Proposal which sought to provide a lower cost solution based on a procedure that uses an existing Workaround (W018) to submit revised data to Settlement by the Initial Settlement Run. However, using W018 in the Alternative Modification Proposal would result in a delay (compared to the original Modification Proposal) in the provision of pricing information when Errors had occurred that could be treated under P14.

The Group recommended in its Assessment Report, on the basis of the analysis, consultation and assessment undertaken, that both the Modification Proposal and the Alternative Modification Proposal should be rejected as neither furthers the Relevant BSC Objectives. The rationale set out in the Assessment Report for rejecting the Modification Proposal and the Alternative Modification Proposal was on the basis that:

- there is an existing means of resolution, albeit with some clarification required;
- projected cost savings from the implementation of P14 were probably only slightly greater than the cost of performing a detailed impact assessment;
- Manifest Errors that could be treated under the P14 proposal are expected to be rare (a maximum of 10 occurrences per annum); and
- there were concerns about moving the decision making function of the TDC to NGC in terms of decreasing transparency.

The Panel considered the Assessment Report at its meeting on 23 August 2001. The Panel noted the Group’s recommendations and concluded that there is an existing means of resolving the issue raised in the Proposal, namely the Manifest Errors process, although it recognised that some clarification of the process is required.

The Panel progressed the Modification Proposal to go to Report Phase and recommended that the Modification Proposal and its Alternative should be rejected. ELEXON published a Draft Modification Report for consultation on 28 August 2001.

² The Relevant BSC Objectives are defined in standard condition C3.3 of NGC’s Transmission Licence

Respondents' views

In total, ELEXON received five responses to the consultation on Modification Proposal P14. Of the responses, all five supported the recommendation to reject the Modification Proposal and the Alternative Modification Proposal.

Respondents had concerns over the proposal to allow NGC to make the decision on whether a Manifest Error had occurred as opposed to the Panel (or TDC). Some respondents suggested that the proposal would allow NGC to act in a discretionary manner in determining if a Manifest Error had occurred and that the safeguards incorporated in the Modification Proposal were not satisfactory. It was also argued that the frequency at which these Errors are occurring does not justify the costs of implementation. There was support for the recommendation in the Modification Report that clarification of the existing Manifest Error provisions should be produced.

Panel's Recommendation

The Panel met on 20 September 2001 and considered the Modification Report, the views of the Modification Group and the consultation responses received.

The Panel recommended that the Authority should reject Modification Proposal P14 and the Alternative.

Ofgem's view

Ofgem³ agrees with the Panel's recommendation and therefore does not consider that Modification Proposal P14 or its Alternative better facilitates the relevant BSC objectives. Ofgem considers that adequate provisions already exist which allow BOAs to be unwound prior to delivery and accommodate Manifest Errors when they are alleged to have occurred.

Ofgem agrees with the Panel that the efficiency gains of both the Modification Proposal and its Alternative are likely to be modest when the implementation costs and the infrequency of such errors are taken into account. Therefore, neither the Modification Proposal nor the Alternative will better facilitate the objective of promoting efficiency in the implementation and administration of the balancing and settlement arrangements, as set out in Condition C3.3 (d) of NGC's Transmission licence.

Ofgem agrees with a number of the respondents that the decision on whether a Manifest Error has occurred should lie with a transparent and independent decision making body such as the TDC and not with the Parties involved, as proposed by the Modification. Ofgem recognises that accepting either this Modification Proposal or its Alternative may reduce the

³ Ofgem is the office of the Authority. The terms "Ofgem" and "the Authority" are used interchangeably in this letter.

transparency of the current Manifest Error provisions and will, therefore, not better facilitate the promotion of effective competition in the generation and supply of electricity, as set out in Condition C3.3 (c) of NGC's Transmission licence.

The Authority's decision

The Authority agrees with the Panel's recommendation that Modification Proposal P14 and the Alternative should be rejected.

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 BSC⁴.

If you have any queries in relation to the issues raised in this letter, please feel free to contact me on the above number.

Yours sincerely,

Sonia Brown

Head of Electricity System Operation

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

⁴ Due to the overwhelming support for rejection of both the Modification and its Alternative the Panel did not consider that the cost involved in commissioning relevant legal drafting was justified, and therefore no proposed legal text is attached.