

September 2001

MODIFICATION REPORT

MODIFICATION PROPOSAL P14

**Manifest Error Provisions where the Bid-Offer
Acceptance in question has not been acted upon**

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

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I DOCUMENT CONTROL

a Authorities

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Each BSC Panel Member	Various
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1 SUMMARY AND RECOMMENDATIONS

1.1 Recommendation

On the basis of the analysis, consultation and assessment undertaken in respect of this Modification Proposal during the Assessment Phase, and the resultant findings of this report, the BSC Panel concluded that there is an existing means of resolving the issue raised in the Proposal namely the Manifest Error process, although it recognised that some clarification of this process is required. It noted that errors that could be treated under the P14 proposal are expected to be rare (a maximum of 10 occurrences per annum). It also noted that although the Proposal would provide better indicative pricing information when such errors occurred, the BSC System changes required would be significant and costly. It noted that the Alternative developed during the Assessment Phase would provide a lower cost solution but would not provide better pricing information. It also had concerns that both the Proposal and the Alternative undermined the existing role of the Trading Disputes Committee by transferring responsibility for confirmation of a Manifest Error to the Parties involved. The Panel therefore concluded that neither the Proposal nor the Alternative better facilitated achievement of the Applicable BSC Objectives. It therefore recommends to the Authority that:

Modification Proposal P14 and the Alternative be rejected.

1.2 Background

The National Grid Company plc (NGC) raised the Modification on 22nd May 2001. Modification P14 proposes that Bid-Offer Acceptances can be bilaterally agreed as erroneous between the Transmission Company and the counter-party when they have not yet been acted upon. At its meeting on 31st May 2001, the Panel agreed (Panel paper 19/003) that Modification P14 should be submitted to the Assessment Procedure.

The initial consultation was conducted in June and the responses were predominantly negative with a widespread concern at decision making moving from the Trading Disputes Committee and a subsequent loss of transparency.

The P14 Modification Group was drawn from the Error Processing Modification Group and additionally included a governance expert by request from the Panel. The Group assessed the Modification, considered the consultation responses, developed an Alternative, and prepared an Assessment Report. It recommended that the Modification and its Alternative should be rejected, and that a clarification of the Manifest Error should be produced. The clarification has been subsequently developed by ELEXON and NGC and is being presented to the Trading Disputes Committee on 18 September 2001.

The Panel considered the Assessment Report at its meeting on 23 August 2001 (Panel paper 29/015) and agreed that that the draft Modification Report to be consulted upon should contain a recommendation to the Authority that the Modification and its Alternative should be rejected. The draft Report was sent out for consultation on 28th August and the responses unanimously supported the recommendation.

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 Balancing and Settlement Code ('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 PURPOSE AND SCOPE OF THE REPORT

BSC Section F sets out the procedures for progressing proposals to amend the BSC (known as 'Modification Proposals'). These include procedures for proposing, consulting on, developing, evaluating and reporting to the Authority on potential modifications.

The BSC Panel is charged with supervising and implementing the modification procedures. ELEXON provides the secretariat and other advice, support and resource required by the Panel for this purpose. In addition, if a modification to the Code is approved or directed by the Authority, ELEXON is responsible for overseeing the implementation of that amendment (including any consequential changes to systems, procedures and documentation).

A Modification Report must be prepared and submitted to the Authority in respect of each proposed modification and must contain:

- (a) The recommendation of the Panel as to whether or not the Proposed Modification or any Alternative Modification should be made;
- (b) The proposed Implementation Date for implementation of the Proposed Modification or any Alternative Modification;
- (c) The matters set out in Annex F-1 of the BSC. This will usually be in the form of the relevant Assessment Report where the Proposal has been submitted to a Modification Group prior to the Report Phase;
- (d) An explanation of the Panel's rationale should the Panel form a different view of any matters contained in the Modification Group Report; and
- (e) A summary of the representations made by Parties and interested third parties during the consultation undertaken in respect of the Proposed Modification and any Alternative Modification.

4 HISTORY OF PROPOSED MODIFICATION

The National Grid Company plc (NGC) raised the Modification on 22nd May 2001. Modification P14 proposes that Bid-Offer Acceptances can be bilaterally agreed as erroneous between the Transmission Company and the counter-party when they have not yet been acted upon. At its meeting on 31st May 2001, the Panel agreed (Panel paper 19/003) that Modification P14 should be submitted to the Assessment Procedure.

The initial consultation was conducted in June and the responses were predominantly negative with a widespread concern at decision making moving from the Trading Disputes Committee and a subsequent loss of transparency.

The P14 Modification Group was drawn from the Error Processing Modification Group and additionally included a governance expert by request from the Panel. The Group assessed the Modification, considered the consultation responses, developed an Alternative, and prepared an Assessment Report. It recommended that the Modification and its Alternative should be rejected, and that a clarification of the Manifest Error should be produced. The clarification has been subsequently developed by ELEXON and NGC and is being presented to the Trading Disputes Committee on 18 September 2001.

The Panel considered the Assessment Report at its meeting on 23 August 2001 (Panel paper 29/015) and agreed that that the draft Modification Report to be consulted upon should contain a recommendation to the Authority that the Modification and its Alternative should be rejected.

5 DESCRIPTION OF PROPOSED MODIFICATION

The BSC makes provision for the claim of Manifest Errors in Bid-Offer Acceptances which are referred to the Trading Disputes Committee for resolution. In the event that the claim is upheld the appropriate revisions to Settlements are made for the Final Settlement (SF) run.

Modification P14 proposes that Bid-Offer Acceptances can be bilaterally agreed as erroneous between the Transmission Company and the counter-party when they have not yet been acted upon. A rescinding instruction is proposed as the new mechanism for achieving this and to ensure accurate and timely pricing information and so that Settlement takes account. Referral to the Trading Disputes Committee is thus avoided, although the right to claim is retained if agreement is not reached.

A procedurally based Alternative was also developed as a lower cost solution than the fully automated original. The Alternative exploits the existing workaround (W018) to submit revised data to Settlement by the SF run, but the pricing information is not provided as soon as in the original proposal.

6 RATIONALE FOR PANEL RECOMMENDATIONS

The recommendation to reject the Original Proposal and the Alternative was on the grounds that:

- There is an existing means of resolution, the Manifest Error process, albeit with some clarification required (this is in hand with analysis input from ELEXON and NGC);
- Errors that could be treated under the P14 proposal are expected to be rare (a maximum of 10 occurrences per annum) and the projected cost savings modest (the analysis was carried out by the Modification Group);

In relation to the BSC Objectives:

- a) The efficient discharge by the Transmission Company of the obligations imposed under the Transmission Licence – **neither P14 nor the Alternative further this objective;**
- b) The efficient, economic and co-ordinated operation by the Transmission Company of the Transmission System - **neither P14 nor the Alternative further this objective;**
- 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 - **neither P14 nor the Alternative further this objective;**
- d) Promoting efficiency in the implementation and administration of the balancing and settlement arrangements; **The original P14 furthers this objective by provision of better indicative pricing information when such errors occur, but is an expensive solution involving significant BSC System changes. The Alternative is lower cost but does not provide better pricing information. In addition concerns remain in both cases over decision-making moving from the Trading Disputes Committee to the counter-parties involved. Given that the type of Manifest Error that is the subject of this Modification is expected to occur only rarely, any efficiency benefits produced by the modification are considered to be marginal. Therefore, it is most unlikely that the benefits of either the Modification or the Alternative Modification would justify the implementation costs and the loss of transparency noted by some respondents to the consultation.**

7 LEGAL TEXT TO GIVE EFFECT TO THE PROPOSED MODIFICATION

Given 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.

8 ASSESSMENT

The historic position was that three Manifest Error claims had arisen during live operation. Of these, only one would have been amenable to resolution by the mechanisms of the Proposal or its Alternative. It was also noted that all three Manifest Errors had occurred during the first two months of operation. The assumption used by NGC was that 10 such incidents would occur per annum; some members of the Modification Group were of the view that the number would be lower.

Analysis undertaken by NGC and ELEXON showed potential savings of 5 man-days per incident, split between the organisations. On this basis, and using the assumption of 10 incidents per annum; a total cost saving of 50 man-days per annum (i.e.£25K @ £500 per man day). The estimated costs of proceeding with the Detailed Analysis were £20K, and this was a factor in the Group's majority decision not to proceed further.

In relation to the specific Applicable BSC Objectives the Modification Group came to the following views on P14:

- a) The efficient discharge by the Transmission Company of the obligations imposed under the Transmission Licence – **neither P14 nor the Alternative further this objective;**
- b) The efficient, economic and co-ordinated operation by the Transmission Company of the Transmission System - **neither P14 nor the Alternative further this objective;**
- 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 - **neither P14 nor the Alternative further this objective;**
- d) Promoting efficiency in the implementation and administration of the balancing and settlement arrangements; **The original P14 furthers this objective by provision of better indicative pricing information when such errors occur, but is an expensive solution involving significant BSC System changes. The Alternative is lower cost but does not provide better pricing information. In addition concerns remain in both cases over decision-making moving from the Trading Disputes Committee to the counter-parties involved. Given that the type of Manifest Error that is the subject of this Modification is expected to occur only rarely, any efficiency benefits produced by the modification are considered to be marginal. Therefore, it is most unlikely that the benefits of either the Modification or the Alternative Modification would justify the implementation costs and the loss of transparency noted by some respondents to the consultation.**

The ten initial consultation responses to P14 were predominantly negative with a widespread concern at decision making moving from the Trading Disputes Committee and loss of transparency. The group subsequently determined that neither the proposal nor the alternative warranted the cost of progressing to a detailed impact assessment.

Concern was raised by NGC that clarification of the Manifest Error process was required, particularly regarding the utilisation of the existing workaround W018 (which provides a means of revising data input to settlements).

9 SUMMARY OF REPRESENTATIONS

9.1 Initial Consultation

Ten responses were received in response to the initial consultation undertaken in May 2001:

- 5 did not support the Modification Proposal;
- 4 did not support the specifics of the Modification Proposal but agreed with the need to improve or clarify the Manifest Error process;
- 1 stated that there was insufficient information to assess the Modification Proposal.

9.2 Consultation on Draft Modification Report

Five responses were received in response to the consultation on the draft Modification Report which was circulated for comment on 28th August 2001. Copies of these responses are attached at Annex 1 to this report.

All five responses supported the recommendation to reject the Modification Proposal and the Alternative.

ANNEX 1 – COPIES OF REPRESENTATIONS FROM CONSULTATION ON THE DRAFT MODIFICATION REPORT

The following submissions were received.

No	Company	File Number
1.	Scottish & Southern	P14_MR_001
2.	Seeboard	P14_MR_002
3.	Northern Electric & Gas	P14_MR_003
4.	ScottishPower	P14_MR_004
5.	British Gas Trading	P14_MR_005

P14_MR_001 Scottish & Southern

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

We support the recommendation of the Panel that the Modification and its Alternative are rejected. The existing Manifest Error provisions provide a means of resolution that is transparent and independent, that any benefit from these Modifications is at best marginal and therefore that they do not further the BSC objectives. However, we agree that clarification is required of the existing Manifest Error process and support that this is being undertaken.

Regards

Robert Hackland

P14_MR_002 Seeboard

Seeboard agrees with the recommendations summarised in this report.

Sue Fraser
for Dave Morton
0190 328 3465

P14_MR_003 Northern Electric & Gas

Northern Electric and Gas welcomes the opportunity to comment on modification P14 'Manifest Error provisions where the Bid/Offer Acceptance in Question has not been acted upon'.

Having considered the options outlined in the Modification Report of Modification Proposal P14', Northern Electric does not support this proposal. We support the recommendation in the Modification Report that the Modification Proposal and the Alternative be rejected.

Our overriding concern towards P14 regards allowing the National Grid Company (NGC) to make the decision on whether a Manifest Error has occurred. As stated in our response to the Initial Assessment,

we believe safeguards are required to ensure that competition in the Balancing Mechanism isn't undermined. What would the consequences be if NGC cancelled a bid/offer by mistake?

We note the recommendation that the existing Manifest Error process requires clarification and that this is being addressed in a forthcoming Panel paper and we look forward to the findings of that paper.

We hope that these comments are helpful,

Yours faithfully

Lesley Mulley
Industry Communications Manager
Northern Electric and Gas

P14_MR_004 ScottishPower

After further consideration of the above proposal and the Draft Modification Report, I refer you to our previous comments at the assessment stage. While we agree with the principle of the proposal, we do not feel that our concerns have been satisfactorily dealt with, particularly with regard to the need for additional safeguards to be built into the process. ScottishPower therefore agrees with the Panel's recommendation to reject the proposal.

We however understand the need for some clarification of the Manifest Error Process and support the Panel's pursuance of this issue.

I trust you find these comments helpful, and please do not hesitate to contact me should you wish to discuss any points further.

Yours sincerely,

Man Kwong Liu
Scottish Power UK Plc, Manweb Plc and Emerald Power Generation Ltd

P14_MR_005 British Gas Trading

Thank you for the opportunity of responding to this modification. British Gas Trading supports the rejection of both this modification and the Alternative.

We believe that there is insufficient evidence of these errors occurring at a significant level to justify the costs of implementation. In addition, the Manifest Error process, which is the current means of resolving these errors, is due to be clarified shortly.

Yours faithfully

Sarah Grimes
Commercial Manager

ANNEX 2 – COPIES OF REPRESENTATIONS FROM ASSESSMENT CONSULTATION

The following submissions were received.

No	Company	File Number
1.	Scottish & Southern	P14_ASS_001
2.	Seeboard	P14_ASS_002
3.	GPU Power	P14_ASS_003
4.	TXU Europe	P14_ASS_004
5.	British Energy	P14_ASS_005
6.	Northern Electric	P14_ASS_006
7.	ScottishPower	P14_ASS_007
8.	London Electricity	P14_ASS_008
9.	Dynegy	P14_ASS_009
10.	Powergen	P14_ASS_010

P14_ASS_001 Scottish & Southern

Comments are submitted on behalf of Scottish and Southern Energy, Southern Electric, Keadby Generation Limited and SSE Energy Supply Limited.

Background

This modification proposal suggests a Bid / Offer acceptance should be capable of being cancelled prior to delivery where it is established that an error has occurred. The modification has been raised to try and improve effectiveness and efficiency of current arrangements. Whilst SSE agrees with this principle we have several concerns regarding the detail and do not believe this proposal would facilitate better achievement of the applicable BSC objectives.

Criteria

The modification proposal seems to suggest the criterion for deciding whether an error has occurred would be based on whether material cost has been incurred and whether NGC believes the claim is justified. Provisions already exist under the Balancing and Settlement Code for defining and determining a Manifest Error. BSC provisions were set after a period of extensive consultation. The BSC states the error must be "self-evidently an error". Given the difficulty associated with defining and determining what constitutes a Manifest Error, the Party claiming the error is required to provide evidence and information which will be considered by the Panel or Trading Disputes Committee. SSE believes it inappropriate at this stage to deviate from these guidelines.

Furthermore it is difficult to see how a decision on whether an manifest error has occurred or not could be made in the short timescales proposed and how you could ensure consistency and fairness. The Trading Disputes Committee currently operate a precedents register and can spend considerable time debating new precedents. SSE is concerned there would be insufficient time to consider all the facts and past experience if this modification were implemented. One suggestion might be to introduce post event analysis but this would increase the effort involved and reduce efficiency.

Responsibility for Making Decision

Of further concern is the fact that responsibility for considering details and making a final decision would move from the Panel or Trading Disputes Committee to NGC. During the original consultation on Manifest Error provisions, concern was expressed regarding NGC' potential role in the process and the potential conflict of interest, given their role in the Balancing Mechanism. These concerns still exist. SSE believes it is inappropriate for NGC to act as "judge and jury" in respect of such claims. We believe there is a potential conflict of interest. We would not wish to see decision moving away from the Panel or TDC.

Process

There is very little detail regarding the process for considering and determining a claim and in particular how other participants would be notified or kept informed.

Frequency and Materiality

SSE believes further consideration should be given to the likely frequency and materiality of such claims. Materiality should be considered in respect of impact on the individual participant and BM prices generally. Further consideration should also be given to the materiality in respect of impact on central systems.

Other Modifications

This proposal must be considered in light of the Ofgem / DTI intention to review Gate Closure and Modification Proposal P12 which suggests it should be reduced to 1 hour. SSE believes this would exacerbate the problems listed above, giving even less time to consider details and ensure consistency and fairness in decisions.

Beverley Grubb
Market Development
Scottish and Southern Energy plc

P14_ASS_002 Seeboard

We do not feel there is enough information to fully assess this proposal. However, it appears a sensible, if controversial, solution.

Sue Fraser
for DAVE MORTON 0190 328 3465

P14_ASS_003 GPU Power

Whilst we understand the motives behind this modification, the Innogy Group of Companies are concerned that the suggested approach would, in some circumstances, move the decision on whether a manifest error has occurred from the Panel (or TDC) to NGC. We believe that NGC already has considerable discretion under the NETA arrangements.

Implementation of this modification could leave NGC open to criticisms that they may have acted in an arbitrary or unaccountable manner. It is therefore appropriate that the Mods Group contains governance expertise. It would be unreasonable to extend the discretionary powers of NGC without ensuring that sufficient safeguards are put in place that allow the audit of NGC's actions.

Terry
01905-720943
07989-493038

P14_ASS_004 TXU Europe

TXU Europe Energy Trading Ltd (on behalf of all TXU Europe companies) would like to make the following comments on Modification P14 - Manifest Error Provisions Where the Bid/Offer Acceptance in Question Has Not Been Acted Upon.

TXU do not currently support this proposal. We do not believe that it is appropriate for NGC to determine whether or not a manifest error has occurred. Further we believe that the proposal as drafted is very one-sided. If NGC were able to rescind a BOA prior to delivery time due to a manifest error, then the same rules should apply to participants - and we don't believe that this would be appropriate either as there would be huge opportunities for gaming. TXU believe that decisions relating to manifest errors should only be taken by the Panel or TDC.

Regards

Nikki Lea
Market Development Analyst

P14_ASS_005 British Energy

British Energy agree that improvements to the method of handling manifest errors are required. The broad aim of the proposal should be carried forward to definition and assessment phase. However, we do not agree with the detail of the proposed process because it reduces the incentive on NGC to instruct acceptances in an accurate and timely manner, and reduces transparency in the balancing mechanism, in particular the BMRA reporting system.

Our preference would be that upon identifying an acceptance which is not required in advance of or during its delivery NGC should accept a cancelling acceptance for the volume which can at that point be cancelled in the normal way. NGC should then raise a manifest error claim in respect of the original erroneous acceptance and the TDC should be given increased flexibility in determining the appropriate remedy.

Regards

Rachel Ace

For
British Energy Power and Energy Trading
British Energy Generation Ltd
Eggborough Power Ltd

P14_ASS_006 Northern Electric

Northern Electric and Gas welcomes the opportunity to comment on modification P14 'Manifest Error provisions where the Bid/Offer Acceptance in Question has not been acted upon'.

Having considered the options outlined in the 'Initial Assessment of Modification Proposal P14', Northern Electric does not support this proposal. We believe that the current system of allowing bids/offers to be delivered or issuing an 'unwinding' acceptance, even if the System Operator realises that an error has occurred, does require improvements. However, we have concerns regarding the proposed controls of this modification.

Our overriding concern regards allowing the National Grid Company (NGC) to make the decision on whether a Manifest Error has occurred. We believe safeguards are required to ensure that competition in the Balancing Mechanism isn't undermined. What would the consequences be if NGC cancelled a

bid/offer by mistake? This proposal will only have our support when NGC's role and responsibilities are clearly defined.

We note that Modification P14 is being submitted to a Modification Group under the definition procedure as section F2.5 of the BSC and we look forward to the outcome of the deliberations of this Group.

We hope that these comments are helpful,

Yours faithfully

Lesley Mulley
Industry Communications Manager
Northern Electric and Gas

P14_ASS_007 ScottishPower

ScottishPower is pleased to provide our comments on Modification Proposal P14: Manifest Error Provisions where the Bid/Offer Acceptance in Question has not been Acted upon. Please note that these comments are provided on behalf of ScottishPower plc, Manweb plc and Manweb Services Ltd. Please also be aware that ScottishPower has not undertaken a full review of this proposal at this stage, and that the points raised below may be superseded by subsequent analysis as the proposal progresses to Report Phase.

In general terms, ScottishPower supports the intent of this Modification Proposal and believes that it would better facilitate achievement of the Applicable BSC Objectives, in particular the efficient implementation of the trading arrangements (Condition 7A(3)(d)). However, we have some concerns around how this change will be delivered and we therefore need to assess the proposed drafting of the changes to the BSC and Grid Code before determining our final position.

ScottishPower has specific concerns around how NGC would implement the proposed process which we would wish to see addressed before any change to the arrangements is implemented. In particular, we would wish to see clarification, in terms of the amended legal drafting of the relevant provisions of Section Q, of how the proposed process will be applied equitably across all Trading Parties to minimise the potential risk of a subjective judgement being applied by NGC in the treatment of bid/offer data which may be considered manifestly erroneous. We would be in favour of safeguards being built into the process to ensure it is used in the manner in which it is intended. These might include:

- a) Assurance from NGC that their despatch systems are robust enough to limit the number of occasions on which NGC would invoke these provisions.
- b) That NGC should be subject to an application fee, should it wish to use the proposed process, to incentivise it to ensure that its despatch systems are robust in identifying manifest errors prior to delivery of the relevant bids/offers by Trading Parties.
- c) That the affected counterparty should retain the option to pursue the normal Manifest Error procedure which allows for an ultimate determination to be made by the TDC. We would wish to be assured that a Party would not be prevented from seeking recourse to an objective investigation of the circumstances surrounding a potential manifest error which would be undertaken by the TDC, particularly if NGC chose subjectively not to call a manifest error under the proposed process.

In the Initial Written Assessment, a question is posed as to whether the proposal could discourage participation in the Balancing Mechanism, presumably because Parties will not know if NGC acceptances are firm or not. ScottishPower recognises this concern, but believes that (if appropriate safeguards are in place), this would not be an issue.

In addition, we would consider it appropriate, should the BSC eventually be redrafted to incorporate the proposal, that corresponding Grid Code changes should be made in parallel for the sake of consistency between documentation.

I hope you find these comments helpful, and that they can be considered by the Modification Group during the further assessment of P14. If you have any questions on this response, please do not hesitate to contact me.

Yours sincerely,

Steve Field

P14_ASS_008 London Electricity

Thank you for the opportunity to comment on Modification Proposal P14. This relates to circumstances where a bid/offer acceptance has been issued by NGC, which has not been acted on by a power station, and which NGC wishes to withdraw - with the power station's agreement.

The modification could, in the context of NGC's current poor systems, make a minor contribution to objective (b) "The efficient, economic and co-ordinated operation by the Transmission Company of the Transmission System". This contribution would only occur to the extent that NGC's existing offer/bid assessment and acceptance systems were not operating correctly (the need implied by the submission of this modification to regularly withdraw acceptances within moments of their issuance is not a good sign). The modification ought, if implemented, to have only a limited life span.

However, areas of real concern to London Electricity Group companies include :

- * New bid/offer rescindation flagging/tracking systems will be required by participants, and probably centrally as well. There should be a proper assessment of the time required by participant to implement; we would suggest that implementation of this modification should not take place for a period of 9 months, given the current efforts to create stable, robust and optimal trading and settlements systems in all respects.

- * There could be a potential lack of transparency if this modification were implemented

- * There would be a need for greater clarity that the offer-rescinding procedure would only be operated when the generator was in clear written or electronically-sent agreement, with clear acknowledgement that the default position would be a requirement to operate the manifest error provisions including TDC

The cost and complications of the modification (in terms of new rescindation systems) constitute a negative contribution to (d) "Promoting efficiency in the implementation and administration of the balancing and settlement arrangements".

It has to be said that given that this modification is only likely to be useful for a relatively short period of time, the cost-benefit case for it is far from clear.

Yours sincerely

Liz Anderson

(London Electricity, South Western Electricity, Jade Power and Sutton Bridge Power)

P14_ASS_009 Dynegy

Dynegy are sympathetic towards the National Grid Company's (NGCs) attempt to ensure lower prices are achieved by eliminating manifest errors where bid/offer acceptances in question have not been acted upon. However, we are concerned that the proposal does transfer the decision making on

whether a manifest error has occurred from the Trading Disputes Committee to NGC. Our main concern stems from NGC's own interest in these actions as the requirement to "undo" errors via alternative trades has a direct financial impact on NGC via its incentive.

Dynegy believe it is not appropriate for NGC to determine what constitutes a manifest error, without the introduction of some form of reporting and auditing mechanism. NGC could undertake an official reporting process allowing the Trading Disputes Committee to audit NGC's actions, the Disputes group must have the right to over turn NGC's decisions. The audit will determine whether NGC had made a real "error" and the impact on its incentives, possibly fining NGC in the event that it looks as if it was merely trying to save its self money against its balancing incentive. The Trading Disputes Committee is an independent body that can ensure that manifest errors are not simply raised to remove the costs that impact NGC incentives.

The principle of the modification should be persuade, but with some checks and balances put in place to protect the industry from NGC pursuing its own agenda at the expense of the industry.

Yours sincerely,

Rekha Patel.

P14_ASS_010 Powergen

Thank you for giving us the opportunity to make some initial comments on this proposal.

Powergen do not support this proposal. Although the proposal may be motivated by a belief that it will ensure it greater efficiency it creates some dangerous precedents for the future. In our view once a contract has been made between NCG and the BM participant by NGC accepting a BOA, that contract should stand except in very special limited circumstances where a claim for manifest error can be entertained. Allowing one of the parties (the system operator) to unilaterally rescind such a contract could potentially be abused.

If NGC has in error accepted a BOA will whenever possible use this route to cancel transactions - this is also likely to benefit them under their energy incentive. However, it is not clear how NGC would respond to a 'manifest error' request by a counter party. Too low a price for an offer could have been made - as this would lower energy balancing costs why would NGC choose to rescind such a BOA. The system operator might choose to allow some requests to rescind some transactions but deny other similar requests.

It is inevitably that some errors will occur from time to time. This proposal unfortunately weakens incentives on both BM participants and NGC to establish robust systems and procedures to minimise such errors. It also creates significant uncertainty as to the integrity of the contract agreed between NCG and a BM participant, and the transparency of NGC's balancing actions in particular.

We therefore do not believe it is appropriate to give the system operator powers to unilaterally cancel erroneous instructions. The proper route for resolving these issues remains with the Trading Disputes Committee who are in a better position to dispassionately assess costs and any necessary amendments to imbalance prices. One party to a contract is not best placed to decide the validity or otherwise of such a contract.

It may also be useful to consider similar 'precedents' that have occurred in the gas market. On 6 June 2000, Transco made an error in accepting bids for daily system entry capacity from gas shippers. Instead of simply buying-back such oversold capacity from shippers using the gas "capacity flexibility mechanism" they unilaterally decided to void contracts for the original sale of capacity. Although a specific Network Code modification aimed at obtaining damages from Transco was rejected, Ofgem were clear in their view that Transco should have dealt with this matter by buying-back the oversold capacity. The voiding of transactions for the purchase of capacity is analogous to rescinding an

instruction and the more appropriate buying-back capacity is analogous to "unwinding" an acceptance under the BM.

Yours sincerely

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