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MODIFICATION REPORT
Modification P004 - Dual Energy
Contract Notification

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

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b Distribution

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The Gas and Electricity Markets Authority	Ofgem
Each BSC Panel Member	Various
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1 SUMMARY AND RECOMMENDATIONS

See the associated document 'P4_Summary' for the Summary and Recommendations.

2 INTRODUCTION

This report has been prepared by ELEXON Ltd., on behalf of 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 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 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

Dynegy raised the Modification on 28th March 2001. At its meeting on 5th April 2001, the Panel agreed (Panel paper 016/004) that Modification P004 should be submitted to the Assessment Procedure, and that the Assessment Report should be completed by 28th June 2001. The Group assessed the Modification and prepared an interim Assessment Report which was submitted to the Panel on 28th June 2001 (Panel paper 022/003) with a request that the Assessment Procedure timetable should be extended. The interim Assessment Report also recommended that the scope of the Proposed Modification should include enhanced ECVAAs reporting. The Panel rejected the request for an extended timetable, requested that enhanced ECVAAs reporting should be treated as an Alternative Modification and that the Assessment Report should be submitted to the Panel meeting on 26th July 2001.

The Panel considered the P004 Modification Group Assessment Report at its meeting on 26th July 2001 (Panel paper 026/012) and agreed that the Alternative Modification should proceed to the Report Phase, therefore resulting in the Proposed Modification being rejected, and that the draft Modification Report, to be consulted upon, should contain a recommendation to the Authority that the Alternative Modification should be approved and implemented with effect from the Implementation Date described in Section 1.1.

The draft Modification Report was sent for consultation by Parties and ten representations were received in response to the consultation on the draft Modification Report representing the views of 38 Parties. Of these responses: -

- 6 responses, representing 15 Parties, supported implementation of the Alternative Modification and rejection of the original Modification Proposal.
- 2 responses, representing 19 Parties, supported implementation of the Alternative Modification but on the basis that the original Modification Proposal was implemented as well but at a later date.
- 2 responses, representing 4 Parties, supported implementation of the original Modification Proposal and did not support implementation of the Alternative Modification.

5 DESCRIPTION OF PROPOSED MODIFICATION

A copy of Modification P004 can be found in Annex 1 of the Assessment Report produced by the Modification Group. In order to reduce significantly the commercial risks associated with Volume Notification, thereby encouraging within-day trading and reducing industry costs, the Modification proposed that dual notification of all Volume Notifications should be introduced.

The Modification would change the Volume Notification process in the Code such that:

- Each Party would notify their agreed contract volumes and only valid matched notifications would result in a contract volume being successfully notified for use in Settlements;
- Any non-matching notifications would automatically be rejected and the BSC Agent would notify both Parties of their failure to complete a valid Volume Notification;
- The BSC Agent would be responsible for notifying each Party of the acceptance of matching Volume Notifications.

The Alternative Modification considered by the Modification Group, (described in the Assessment Report) would introduce:

- New Acceptance Feedback dataflow; and
- Amendments to the existing Forward Contract Report.

The new Acceptance Feedback Report would mean that on receipt and successful business validation of a contract notification (ECVN / MVRN), a positive Acceptance Feedback dataflow covering 72 Settlement Periods forward, should be generated to the sending Notification Agent and the counterparties to the contract notification. The Forward Contract Report (ECVAA-I022 / E0221) would be changed so as to include:

- all Settlement Periods, which have not yet gate closed on the day the report is generated at the Report Snapshot Time;
- reporting on Null / Zero volumes for Settlement Periods for any relevant Notification Agent Authorisation and Trading Party; and
- the filename of the original notification last received which has been processed and incorporated in the Forward Contract Report.

6 RATIONALE FOR PANEL RECOMMENDATIONS

The Panel endorsed the views set out in the Modification Group's Assessment Report that the Alternative Modification should be implemented as it would facilitate within day trading, increase market liquidity and deliver the majority of the benefits of dual notification.

In light of the above considerations, the Panel has concluded that the Alternative Modification would better facilitate the Applicable BSC Objectives as set out in Condition 7A(3) of the Transmission Licence in comparison with the original Modification Proposal. In particular, it would meet primarily objective 7A(3)(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".

On the basis of the analysis, consultation and assessment undertaken in respect of this Modification Proposal and the Alternative Modification, the Panel recommends to the Authority that the Alternative Modification be approved and implemented with effect from the Implementation Date described in Section 1.1. The Panel also recommends to the Authority that the Proposed Modification should be rejected. This Modification Report should be read in conjunction with the Modification Group's Assessment Report.

7 LEGAL TEXT TO GIVE EFFECT TO THE PROPOSED MODIFICATION

BSC Section V to read:

7.1 Conformed Version

TABLE 3 – ECVAA REPORTING

Name of report	Frequency	Recipient	General Description
<i>Acceptance Feedback Report for valid ECVNs</i>	<i>Promptly after successful validation</i>	<i>Parties, ECVNA</i>	<i>For each Contract Trading Party, a positive feedback to report the acceptance of those ECVNs where the effective date of the ECVN is no greater than 72 Settlement Periods ahead</i>
<i>Acceptance Feedback Report for valid MVRNs</i>	<i>Promptly after successful validation</i>	<i>Parties, MVRNA</i>	<i>For each Contract Trading Party, a positive feedback to report the acceptance of those MVRNs where the effective date of the MVRN is no greater than 72 Settlement Periods ahead</i>

Although there will be physical changes to the Forward Notification Summary report there is no need to modify the details for this report within Section V of the Code.

7.2 Clean Version

TABLE 3 – ECVAA REPORTING

Name of report	Frequency	Recipient	General Description
Acceptance Feedback Report for valid ECVNs	Promptly after successful validation	Parties, ECVNA	For each Contract Trading Party, a positive feedback to report the acceptance of those ECVNs where the effective date of the ECVN is no greater than 72 Settlement Periods ahead
Acceptance Feedback Report for valid MVRNs	Promptly after successful validation	Parties, MVRNA	For each Contract Trading Party, a positive feedback to report the acceptance of those MVRNs where the effective date of the MVRN is no greater than 72 Settlement Periods ahead

8 ASSESSMENT

The following is a summary of the impacts identified in the Assessment Report produced by the Modification Group, which forms Attachment 1 to this report.

The Alternative Modification will have the following impacts:

- Amendment to Section V of the BSC. The relevant legal drafting can be found at Section 7 of this report;
- There would be an impact on the Code Subsidiary Documents, in particular the Reporting Catalogue, the NETA Data File Catalogue and the Interface Design document – Logica – Parts 1 & 2;
- The ECVAAs System would need to be modified to produce the amended and new reports;
- There would be an impact on Party and Party systems so that they can receive the new and amended flows;
- There would be an increase in the payments due under BSC Agent Contracts;
- No impact on the Core Industry Documents;
- No impact on the statutory, regulatory and contractual framework within which the Code sits; and
- No impact on the systems and processes of BSCCo.

9 SUMMARY OF REPRESENTATIONS

9.1 Initial Consultation

Copies of the original representations received and considered by the Modification Group under the initial consultation on this proposal can be found in the Assessment Report on the Proposed Modification. Of the 18 Parties which responded to the consultation undertaken in April 2001, 10 broadly supported, 3 objected and 3 provided other responses. The remaining 2 responses made no comment.

9.2 Second Consultation and Impact Assessment

Copies of the responses received and considered by the Modification Group under the second consultation and impact assessment on this proposal can be found in the Assessment Report on the Proposed Modification. There is no consensus from the 17 Parties that responded on the dual notification proposal and who should perform this role. The majority of Parties (14) stated that enhanced reporting should be introduced.

9.3 Consultation on Draft Modification Report

Ten responses were received in response to the consultation on the draft Modification Report representing the views of 38 Parties. Copies of these responses are attached at Annex 1 to this report.

Of the responses: -

- 6, representing 15 Parties, supported implementation of the Alternative Modification and rejection of the original Modification Proposal.
- 2, representing 19 Parties, supported implementation of the Alternative Modification but on the basis that the original Modification Proposal was implemented as well but at a later date.
- 2, representing 4 Parties, supported implementation of the original Modification Proposal and did not support implementation of the Alternative Modification.

The Modification Group had previously suggested to the Panel that the dual notification service could be provided following a competitive tendering exercise. The 4 responses opposing rejection of the Proposed Modification reiterated this view, although this proposal was rejected by the Panel at their meeting on 26th July 2001.

ANNEX 1 – COPIES OF REPRESENTATIONS

Responses from P4 Modification Report Consultation

See separate document 'P4 ANNEX 1' for the representations received in response to the Consultation on the draft Modification Report.