

Modification Proposal	MP No: P4 <i>(mandatory by BSCCo)</i>
Title of Modification Proposal <i>(mandatory by proposer):</i> Dual Energy Contract Notification	
Submission Date <i>(mandatory by proposer):</i> 28 March 2001	
Description of Proposed Modification <i>(mandatory by proposer):</i> <p>In order to significantly reduce the commercial risks associated with contract notification, there by encouraging trading and reducing industry costs, Dynegy propose that dual notification of all energy contract notifications be introduced.</p> <p>The contract notification process in the BSC would be altered such that both ECVNAs notify each energy contract and only matched notifications result in a contract being successfully notified. Any non-matched notifications will automatically be rejected by the ECVAA, notifying both ECVNAs of their failure to complete an energy contract notification. The ECVAA will be responsible for checking that the matching nominations are accepted and again each ECVNA is notified that the contract notification is accepted.</p> <p>Where the two ECVNAs are notified that their energy contract notifications do not match, it is the responsibility of those two parties to then resolve their positions, correct any errors and renotify match notifications.</p> <p>Central systems would also need to be altered. Dynegy estimate that this would take some 3-4 months and cost less than £1million to develop the necessary software. The current costs of the notification system (manpower to check reports, chase positions, manage risks, reduced liquidity, etc) are significantly greater than the cost of implementation.</p>	
Description of Issue or Defect that Modification Proposal Seeks to Address <i>(mandatory by proposer):</i> <p>The existing notification system relies on the 7 day report and significant manpower in checking and altering positions during the early evening. The system has a high risk of failure, already experienced by a number of players, with associated high costs that will ultimately be born by customers. The 7 day report can also not confirm notifications of trades close to real time and thus acts as a disincentive for physical players to trade into position during each day, as the risks of incorrect notification are very high (£500 imbalance prices have already been seen). The risk seems to be acting as a barrier to trading, reducing the liquidity in the market and thereby its efficiency. Assuming the new market starts to encourage more trading, we are all already aware of the potential problems that central systems has with increased notification volumes, suggesting the system will require alteration anyway.</p>	
Impact on Code <i>(optional by proposer):</i> Section P, 2.3-2.38 of the BSC	
Impact on Core Industry Documents <i>(optional by proposer):</i> BSCP 71	
Impact on BSC Systems and Other Relevant Systems and Processes Used by Parties <i>(optional by proposer):</i> Central systems - energy contract notification systems	
Impact on other Configurable Items <i>(optional by proposer):</i> 	

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Justification for Proposed Modification with Reference to Applicable BSC Objectives (mandatory by proposer):

The existing energy contract volume notification process puts significant risk of imbalance on the contract parties. While this can, to a degree, be managed contractually, it would be more efficient and cost effective to have a central system that only registered agreed trades, so that it correctly reflects to the central systems operators the actual deals agreed between the parties, minimising any disputes and associated legal costs.

A more robust system will also facilitate effective and efficient trading by minimising the risk to players of unknowingly ending up with an imbalance position. This will improve the operation of the SO, who will have more players trying to trade into position ahead of gate closure, rather than just within the window that allows trades to be registered in the 7 day report. The more players contract for their own energy needs the lower the cost of delivered energy will be to customers and the smaller the role of the SO.

Such a dual notification system has been proposed by a number of industry players and is used in other markets, such as UK gas and German power markets.

This modification better fulfils the relevant objectives by improving the efficiency of the market, promoting effective competition in generation and supply, by encouraging and facilitating trading, and helping NGC to more efficiently discharge their licence obligations.

This modification is also supported by: El Paso, Cinergy, British Gas Trading, Magnox Electric Plc, Axia, Duke Energy, Scottish Power and TXU European Energy Trading.

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Attachments: NO

If Yes, Title and No. of Pages of Each Attachment: