



**March 2001**

**INITIAL ASSESSMENT OF  
MODIFICATION PROPOSAL P4**

**Dual Energy Contract Notification**

**Prepared By ELEXON Limited**

<b>Document Reference</b>	IWA004
<b>Version no.</b>	1.0
<b>Issue</b>	
<b>Date of Issue</b>	4 <sup>th</sup> April 2001
<b>Reason for Issue</b>	Issue
<b>Author</b>	ELEXON Limited

## A DOCUMENT CONTROL

### b Authorities

Version	Date	Author	Signature	Change Reference
0.1	03/04/01	Trading Development		

Version	Date	Reviewer	Signature	Responsibility
1.0	04/04/01	Trading Strategy		

### a Distribution

Name	Organisation
BSC Panel	
BSC Parties	
BSC Agents	
The Authority	
National Electricity Consumers Council	
Core Industry Document Owners	
BSC Website	

#### • Intellectual Property Rights and Copyright

This report is confidential and intended only for the person named. Unless you are that person, or authorised to receive this report, you must not copy or use it or disclose it to anyone else. If you have received this report in error, please contact the sender.

This document contains materials the copyright and other intellectual property rights in which are vested in ELEXON Limited or which appear with the consent of the copyright owner. These materials are made available for you to review and to copy for the purposes of the establishment, operation or participation in electricity trading arrangements in Great Britain under the BSC. All other commercial use is prohibited. Unless you are a person having an interest in electricity trading in Great Britain under the BSC you are not permitted to view, download, modify, copy, distribute, transmit, store, reproduce or otherwise use, publish, licence, transfer, sell or create derivative works (in whatever format) from this document or any information obtained from this document otherwise than for personal academic or other non-commercial purposes. All copyright and other proprietary notices contained in the original material must be retained on any copy that you make. All other rights of the copyright owner not expressly dealt with above are reserved.

<b>I</b>	<b>CONTENTS TABLE</b>	
<b>a</b>	<b>Document Control.....</b>	<b>2</b>
<b>b</b>	Authorities.....	2
<b>a</b>	Distribution.....	2
<b>a</b>	Intellectual Property Rights and Copyright.....	2
<b>II</b>	<b>Contents Table .....</b>	<b>3</b>
<b>1</b>	<b>Introduction .....</b>	<b>4</b>
<b>2</b>	<b>Executive Summary .....</b>	<b>5</b>
<b>3</b>	<b>Purpose and Scope of the Report .....</b>	<b>6</b>
<b>4</b>	<b>Details of the Modification Proposal.....</b>	<b>7</b>
<b>5</b>	<b>Impact on BSC Systems and Processes.....</b>	<b>8</b>
<b>6</b>	<b>Impact on Other Systems and Processes Used By Parties.....</b>	<b>9</b>
<b>7</b>	<b>Impact on Documentation.....</b>	<b>10</b>
7.1	Impact on Balancing and Settlement Code.....	10
7.2	Impact on Code Subsidiary Documents .....	12
7.3	Impact on Core Industry Documents .....	13
<b>8</b>	<b>Impact on Other Configurable Items .....</b>	<b>14</b>
<b>9</b>	<b>Impact on ELEXON.....</b>	<b>15</b>
<b>10</b>	<b>Impact on Financial Arrangements and Budget.....</b>	<b>16</b>
<b>11</b>	<b>Impact on BSC Agent Contractual Arrangements .....</b>	<b>17</b>
<b>12</b>	<b>Process and Timetable for Progressing the Proposal.....</b>	<b>18</b>
<b>13</b>	<b>Issues .....</b>	<b>19</b>
	<b>Annex 1 – Modification Proposal.....</b>	<b>20</b>

## **1 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.

An electronic copy of this document can be found on the BSC website, at [www.elexon.co.uk](http://www.elexon.co.uk)

## 2 EXECUTIVE SUMMARY

An initial assessment of Modification Proposal P4 has identified the following potential areas of impact and issues to be considered:

- Dual notification would require a major re-consideration of the contract notification process in order to address issues such as:
  - the treatment by the central services of mismatches in notifications;
  - whether the concept of a notification agent is retained;
  - the redefinition of failure;
- there would be significant impact on:
  - Balancing and Settlement Code and subsidiary Code documents
  - Notification agents (including Party Systems); and
  - the central Energy Contract Volume Allocation agent' s processes and systems.

It is recommended that the Modification Proposal is progressed as follows:

- through the Assessment Procedure as defined in the BSC, section F, paragraph 2.6;
- The Assessment Report be submitted to the Panel Meeting on 28<sup>th</sup> June 2001.

### 3 PURPOSE AND SCOPE OF THE REPORT

Section F of the BSC 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).

When a new proposal to modify the BSC is made, it is the responsibility of the Panel to determine how it should be progressed. Options include submitting the proposal to a Definition Procedure<sup>1</sup>, submitting it to an Assessment Procedure<sup>2</sup>, amalgamating the proposal with another proposal<sup>3</sup>, or proceeding directly to the Report Phase<sup>4</sup>. With a view to assisting the Panel in taking this decision, ELEXON prepares this initial written assessment of the implications of the Modification Proposal as soon as reasonably practicable after the proposal is made<sup>5</sup>. ELEXON endeavours to complete this initial assessment such that it can be reviewed by the Panel at the Panel meeting at which the relevant Modification Proposal is first to be considered.

This initial assessment provides a preliminary view on the following:

- the potential impact of the proposed modification on BSC systems and processes;
- the potential impact of the proposed modification on other systems and processes used by Parties;
- the potential impact of the proposed modification on the BSC, Code Subsidiary Documents and Core Industry Documents;
- the potential impact of the proposed modification on ELEXON;
- the potential impact of the proposed modification on BSC financial arrangements & budget;
- the potential impact of the proposed modification on BSC Agent contractual arrangements;
- The process and timetable that should be adopted for the progression of the Modification Proposal, in light of its complexity, importance and urgency; and
- Issues that will need to be considered and addressed in progressing the Modification Proposal (including the potential need for impact assessments, consultation and analyses).

It should be noted that, as this document only represents a preliminary assessment of the Modification Proposal, the information contained herein will, in most cases, be superseded by the subsequent analysis and reports produced by the Modification Group to which the Panel assigns the proposal for consideration.

---

<sup>1</sup> see BSC F2.5

<sup>2</sup> see BSC F2.6

<sup>3</sup> see BSC F2.3

<sup>4</sup> see BSC F2.7

<sup>5</sup> see BSC F2.1.8

## 4 DETAILS OF THE MODIFICATION PROPOSAL

A copy of the Modification Proposal form, as submitted by its proposer, can be found at Annex 1 to this report. The form contains the following information provided by the proposer in relation to the proposal<sup>6</sup>:

- the name of the Proposer;
- the name of the representative of the Proposer (and his alternate) who shall represent the Proposer in person;
- a description (in reasonable but not excessive detail) of the issue or defect which the proposed modification seeks to address;
- a description (in reasonable but not excessive detail) of the proposed modification and of its nature and purpose;
- where possible, an indication of those parts of the Code which would require amendment in order to give effect to (and/or would otherwise be affected by) the proposed modification and an indication of the nature of those amendments or effects;
- the reasons why the Proposer believes that the proposed modification would better facilitate achievement of the Applicable BSC Objective(s) as compared with the then current version of the Code;
- where possible, an indication of the impact of the proposed modification on Core Industry Documents; and

where possible, an indication of the impact of the proposed modification on BSC Systems and on other relevant computer systems and processes used by Parties.

The issue identified by this Modification Proposal was a known issue early in the NETA Programme and was the subject of extensive consideration by DISG at that time. The request for Dual Notifications was declined mainly on Policy grounds in consideration of the liability and risks attached to carrying out the matching of Contracts centrally. It would also have had an impact on the implementation timescales for NETA.

---

<sup>6</sup> See BSC F2.1.2

## 5 IMPACT ON BSC SYSTEMS AND PROCESSES

BSC System / Process	Potential Impact of Proposed Modification
Registration	
Contract Notification	ECVAA to accept dual notification, check to ensure notifications match and send acceptance or rejection notice to ECVNAs.
Credit Checking	
Balancing Mechanism Activities	
Collection and Aggregation of Metered Data	
Supplier Volume Allocation	
Settlement	
Clearing, Invoicing and Payment	
Reporting	Potential Significant Impact
Dispute Resolution	Potential Significant Impact



## 6 IMPACT ON OTHER SYSTEMS AND PROCESSES USED BY PARTIES

System / Process	Potential Impact of Proposed Modification
<b>Central systems – Energy contract notification systems</b>	Major extensions to systems to accept dual notification, check to ensure notifications match and send acceptance or rejection notice to ECVNAs.
<b>Party Systems</b>	Changes to ECVAA functionality may have an impact on Party systems.
<b>Participant processes</b>	The processes for the authorisation and termination of ECVNA's will be impacted.  Contract notification processes will be significantly impacted.
<b>Extension of the Definition of ECVAA Systems Failure For Permitting Post Gate Closure Notification</b>	There is a likely interaction between this Modification Proposal (MP) and MP P001 given the existence of independent communications to two ECVNAs.

## 7 IMPACT ON DOCUMENTATION

### 7.1 Impact on Balancing and Settlement Code

BSC Section	Potential Impact of Proposed Modification
A: Parties and Participation	
B: The Panel	
C: BSCCo and its Subsidiaries	
D: BSC Cost Recovery and Participation Charges	Potential Impact
E: BSC Agents	
F: Modification Procedures	
G: Not Used	
H: General	
I: Not Used	
J: Party Agents	
K: Classification and Registration of Metering Systems and BM Units	
L: Metering	
M: Credit Cover and Credit Default	
N: Clearing, Invoicing and Payment	
O: Communications	

BSC Section	Potential Impact of Proposed Modification
P: Energy Contract Volumes and Metered Volume Reallocations	Significant Impact. The Proposal seems to propose moving some of the risks associated with Contract Notification from the Parties to the BSC and Elexon. This would need to be addressed during the Assessment Procedure.
Q: Balancing Mechanism Activities	
R: Collection and Aggregation of Metered Data from CVA Metering Systems	
S: Supplier Volume Allocation	
S: ANNEX S-1 Performance Levels and Supplier Charges	
S: ANNEX S-2 Supplier Volume Allocation Rules	
T: Settlement and Trading Charges	
U: Provisions Relating to Settlement	
V: Reporting	Potential Impact
W: Trading Queries and Trading Disputes	
X: Definitions and Interpretation	
X: ANNEX X-1 General Glossary	
X: ANNEX X-2 Technical Glossary	

## 7.2 Impact on Code Subsidiary Documents

Code Subsidiary Document	Potential Impact of Proposed Modification
BSC Procedures	<p>BSCP 71 – ECVNA and MVRNA Registration, Authorisation and Termination.</p> <p>BSCP71 is managed within Performance Management, the following BSCPs are likely to be impacted:</p> <ul style="list-style-type: none"> <li>BSCP533 – PARMS Data Provision</li> <li>BSCP534 – PARMS Techniques</li> <li>BSCP535 – Technical Assurance of Suppliers and Supplier Agents</li> </ul>
Codes of Practice	
BSC Service Descriptions	
Party Service Lines	
Data Catalogues	
Communication Requirements Documents	
Reporting Catalogue	Potential Impact

### 7.3 Impact on Core Industry Documents

Core Industry Document	Potential Impact of Proposed Modification
Grid Code	
MCUSA	
Supplemental Agreements	
Ancillary Services Agreements	
Master Registration Agreement	
Data Transfer Services Agreement	
British Grid Systems Agreement	
Use of Interconnector Agreement	
Pooling and Settlement Agreement	
Settlement Agreement for Scotland	
Distribution Codes	
Distribution Use of System Agreements	
Distribution Connection Agreements	

## 8 IMPACT ON OTHER CONFIGURABLE ITEMS

Item	Potential Impact of Proposed Modification
GTMA contract format	Possible potential impact.

## 9 IMPACT ON ELEXON

Area of Business	Potential Impact of Proposed Modification
ELEXON Systems	The PARMs system may require modifications
ELEXON Procedures	Management of central Agents with processing of dual contract notifications  Internal working procedures for PARMs will be impacted.
ELEXON Contracts (Excluding BSC Agent Contracts)	Changes to ECVAA contract and service levels.
Other (e.g. costs, staffing, etc.)	Potential Significant Impact

## **10 IMPACT ON FINANCIAL ARRANGEMENTS AND BUDGET**

Estimated as significant development and implementation costs.



## 11 IMPACT ON BSC AGENT CONTRACTUAL ARRANGEMENTS

BSC Agent Contract	Potential Impact of Proposed Modification
Logica (BMRA, CRA, CDCA, SAA, ECVAA, TAA(CVA))	Significant changes to ECVAA process and systems
EPFAL (FAA)	
ESIS (TAA(SVA))	
Cap Gemini (SVAA)	
PwC (BSC Auditor, Certification Agent)	
EASL (Teleswitch Agent, Profile Administrator)	

## **12 PROCESS AND TIMETABLE FOR PROGRESSING THE PROPOSAL**

ELEXON recommends that this Modification Proposal is progressed through the Assessment Procedure. Assessment is recommended recognising the significant impact of changes to BSC Assets and processes and the subsequent development needed.

It is recommended that the Modification Group assesses the issue raised within the Modification Proposal and then determines any other alternate modifications that can achieve this.

It is proposed that the Modification Group complete the Assessment Report to be provided to the Panel meeting on 28<sup>th</sup> June 2001.

## 13 ISSUES

The following issues will need to be considered and addressed in progressing the Modification Proposal:

- the introduction of this feature would need synchronisation of implementation across the market as it is unlikely that a solution would be able to cater for both (existing and dual) methods of notification;
- whether risks in the bilateral market as a whole benefits from the transfer of contract matching in to central services;
- whether it may be possible to provide a contract matching service outside of ECVAAs;
- the feasibility of introducing changes to the contract notification rules simultaneously for all participants;
- whether the change proposed in Modification Proposal 4 could lead to delay in the start of ECVAAs Gate Closure processes, due to processing of the extra functionality.

## ANNEX 1 – MODIFICATION PROPOSAL

<b>Modification Proposal</b>	<b>MP No: P4</b> <i>(mandatory by BSCCo)</i>
<b>Title of Modification Proposal</b> <i>(mandatory by proposer):</i> Dual Energy Contract Notification	
<b>Submission Date</b> <i>(mandatory by proposer):</i> 28 March 2001	
<p><b>Description of Proposed Modification</b> <i>(mandatory by proposer):</i></p> <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>	
<p><b>Description of Issue or Defect that Modification Proposal Seeks to Address</b> <i>(mandatory by proposer):</i></p> <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>	
<p><b>Impact on Code</b> <i>(optional by proposer):</i></p> <p>Section P, 2.3-2.38 of the BSC</p>	
<p><b>Impact on Core Industry Documents</b> <i>(optional by proposer):</i></p> <p>BSCP 71</p>	

<b>Modification Proposal</b>	<b>MP No: P4</b> <i>(mandatory by BSCCo)</i>
<b>Impact on BSC Systems and Other Relevant Systems and Processes Used by Parties</b> <i>(optional by proposer):</i> Central systems - energy contract notification systems	
<b>Impact on other Configurable Items</b> <i>(optional by proposer):</i>	
<b>Justification for Proposed Modification with Reference to Applicable BSC Objectives</b> <i>(mandatory by proposer):</i> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>	
<b>Details of Proposer:</b> <b>Name:</b> Lisa Waters <b>Organisation:</b> Dynegy UK Limited <b>Telephone Number:</b> 020 7551 6637 <b>Email Address:</b> lisa.waters@dynegy.co.uk	
<b>Details of Proposer's Representative:</b> <b>Name:</b> Lisa Waters <b>Organisation:</b> Dynegy UK Limited <b>Telephone Number:</b> 020 7551 6637 <b>Email Address:</b> lisa.waters@dynegy.co.uk	

<b>Modification Proposal</b>	<b>MP No: P4</b> <i>(mandatory by BSCCo)</i>
<b>Details of Representative's Alternate:</b> <b>Name:</b> Rekha Patel <b>Organisation:</b> Dynegy UK Limited <b>Telephone Number:</b> 020 7551 6660 <b>Email Address:</b> rekha.patel@dynegy.co.uk	
<b>Attachments: NO</b> <b>If Yes, Title and No. of Pages of Each Attachment:</b>	