

September 2002

**INITIAL ASSESSMENT OF
MODIFICATION PROPOSAL P96 -
Merger of Assessment and
Definition Phases in the
Modification Process**

Prepared by ELEXON Limited

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I DOCUMENT CONTROL

a Authorities

| Version | Date | Author | Signature | Change Reference |
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| 0.1 | 04/09/02 | Richard Clarke | | |
| 0.1 | 04/09/02 | Chris Rowell | | |

b Distribution

| Name | Organisation |
|---|--------------|
| Each BSC Party | Various |
| Each BSC Agent | Various |
| The Gas and Electricity Markets Authority | Ofgem |
| Each BSC Panel Member | Various |
| energywatch | energywatch |
| Core Industry Document Owners | Various |

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1 SUMMARY

Modification Proposal P96 'Merger of Assessment & Definition Phases in the Modification Process' (P96) was submitted by Dynegy on 02 September 2002.

P96 seeks to reduce the overall timescale to process a Modification Proposal through the Modification Process by merging the Assessment and Definition Procedures.

An initial assessment of P96 has identified the following potential areas of impact and issues to be considered:

- Section F will need to be amended to reflect any changes to the current definitions of the Definition and Assessment Procedures.
- Any revisions to the Modification Procedures will need to continue to satisfy due process requirements to allow robust decisions on modifications to be made.
- It is not envisaged that this modification will impact any BSC Systems, although the working practices of ELEXON and parties would need to be amended to reflect any changes to the Modification Procedures.

The Panel is invited to:

- a) NOTE the results of the Initial Written Assessment;**
- b) DETERMINE that Modification Proposal P96 should be submitted to Assessment Procedure in accordance with section F2.6 of the Code;**
- c) AGREE the Assessment Procedure timetable such that an Assessment Report should be completed and submitted to the Panel for consideration at their meeting of 14 November 2002;**
- d) DETERMINE that the Assessment Procedure should be undertaken by the Governance Standing Modification Group; and**
- e) AGREE any refinement to the Standard Modification Group Terms of Reference**

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.

An electronic copy of this document can be found on the BSC website, at www.elexon.co.uk

3 DESCRIPTION OF THE MODIFICATION PROPOSAL

A proposal to reduce the number of stages during the lifecycle of a Modification Proposal to ensure timely progress was raised in June 2001 by Dynegy. This proposal (P24) considered shortening the Definition, Assessment Procedures and Report Phase within the Modification Procedures and removing unnecessary reports being presented to the Panel where such reports hold up progress of a modification. This proposal was amalgamated with P21 and P23 to form Modification Proposal P28.

Following consideration by the Authority, the Proposed Modification P28 was not made and instead an Alternative Modification without the requirement to join the Assessment and Definition Procedures was approved. The Authority considered that "a separate Definition phase is vital for clarifying the scope of issues to be considered in the Assessment phase, thereby contributing to the longer-term efficiency of each Modification Proposal under evaluation".

P96 has been raised by Dynegy. It seeks to shorten the existing process of separate Definition and Assessment Procedures by amalgamating them. This will allow each modification to be defined and assessed in one complete stage prior to reporting a proposal to the Panel. The Proposer of P96 feels that the current process is confusing, as activities undertaken during the Definition Procedure can sometimes stray into the areas more properly to be considered during the Assessment Procedure. This is seen by the Proposer to be a time-consuming exercise as discussions are often repeated during the different phases. As well as increasing efficiency the Proposer believes that combining the two procedures should free up resources for both participants and ELEXON and provide opportunity for smaller BSC Parties to be involved in the process.

It is argued that a combined process should still allow for a rigorous examination of a proposal and provide sufficient opportunity for any analysis required.

The proposed amalgamated phase will produce an Assessment Report and a Final report for the Panel's consideration. It may also include interim updates and/or further policy explanation and discussion papers to be produced by the Modification Group if necessary.

It is also argued that a combined process should also reduce the amount of paperwork, as there would be one less report to produce. The argument has also been made that this would increase efficiency for the members of the Modifications Group, ELEXON who produce papers and participants who have to review them.

A copy of the Modification Proposal, as submitted by its proposer, can be found at Annex 1 to this report.

4 IMPACT ON BSC SYSTEMS AND PROCESSES

No impact has been identified on any of the following BSC Systems and Processes:

- Registration
- Contract Notification
- Credit Checking
- Balancing Mechanism Activities
- Collection and Aggregation of Metered Data
- Supplier Volume Allocation
- Settlement
- Clearing, Invoicing and Payment
- Reporting
- Contingencies
- Dispute Resolution

5 IMPACT ON OTHER SYSTEMS AND PROCESSES USED BY PARTIES

Changes may be required to Parties' internal processes. This will require further investigation during any Assessment Procedure.

6 IMPACT ON DOCUMENTATION

6.1 Impact on Balancing and Settlement Code

Section F (Modification Procedure) would require revision to reflect any change to the Modification Procedures.

Section X: Annex X-1 (General Glossary) may require changes to reflect any revised terms or redundant definitions used in Section F.

6.2 Impact on Code Subsidiary Documents

No impact has been identified on any of the Code Subsidiary Documents.

6.3 Impact on Core Industry Documents

No impact has been identified on any of the following Core Industry Documents:

- Grid Code
- MCUSA
- Supplemental Agreements
- Ancillary Services Agreements

- Master Registration Agreement
- Data Transfer Services Agreement
- British Grid Systems Agreement
- Use of Interconnector Agreement
- Settlement Agreement for Scotland
- Distribution Code
- Distribution Use of System Agreement
- Distribution Connection Agreement

7 IMPACT ON OTHER CONFIGURABLE ITEMS

No impact has been identified.

8 IMPACT ON ELEXON

There may be an impact on ELEXON procedures to reflect any revisions to Section F. These changes may, in turn, impact on the BSC website.

Until the solution is finalised, no definite cost savings have been identified. This modification may lead to a reduction in the overall administrative burden on the ELEXON demand led budget.

9 IMPACT ON FINANCIAL ARRANGEMENTS AND BUDGET

No impact has been identified at this stage.

10 IMPACT ON BSC AGENT CONTRACTUAL ARRANGEMENTS

No impact has been identified at this stage.

11 PROCESS AND TIMETABLE FOR PROGRESSING THE PROPOSAL

Modification Proposal P96 seeks to merge the Definition and Assessment phases of the Modification Processes. As the content of P96 has already been assessed and rejected by the Authority as part of the consideration of P28, the Panel may feel that this Modification should be submitted directly to the Report phase, with a recommendation to reject the Proposed Modification.

There are however clearly issues relating to the Definition and Assessment Procedures, which may benefit from further analysis in order to produce a clearer and more streamlined process.

ELEXON therefore recommends that this Modification Proposal be submitted to the Assessment Procedure with the assessment being undertaken by the Governance Standing Modification Group. The Governance Standing Modification Group should be requested to provide its report to the Panel meeting on 14 November 2002.

12 ISSUES

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

- The content of this modification has already been considered, and rejected, as part of Modification Proposal P28. The Authority considered it vital that the two Procedures (Definition and Assessment) remain separate in order to contribute to the longer-term efficiency of each Modification Proposal under evaluation. However, with more experience in using the Modifications Procedure, it may be possible to address the issues identified in this proposal in a different manner whereby the two phases remain separate but more clarity and rigour could be added to the definition of each procedure within Section F of the Code.
- The proposal suggests that the overall Modifications Procedure timescale should be shortened, with a maximum time allowed of the order of 5 months. By introducing such a maximum timescale, the Authority's ability to direct changes to the timetables that exceed the times allowed under Section F2.29 may be reduced.

ANNEX 1 – MODIFICATION PROPOSAL

| | |
|---|---|
| Modification Proposal | MP No: 96 <i>(mandatory by BSCCo)</i> |
| Title of Modification Proposal <i>(mandatory by proposer):</i> Merger Of Assessment & Definition Phases In The Modification Process | |
| Submission Date <i>(mandatory by proposer):</i> 13 August 2002 | |
| Description of Proposed Modification <i>(mandatory by proposer):</i> <p>The modification procedures should be shortened so that instead of the existing process of a definition stage followed by an assessment stage, each modification will be defined and assessed as one complete stage in working up a modification proposal ready to report to the BSC Panel. The same work would be covered, but in a single process.</p> <p>The modification groups should still be able to recommend that the Panel moves quickly to a report stage if a modification is felt to be unworkable.</p> <p>The timescales for the combined process [say a maximum of 5 months] should still allow for a rigorous examination of a proposal and any necessary analysis that the groups may feel are necessary.</p> <p>Each modification would in future have an Assessment Report and a Final report, though interim updates, or further policy explanation and discussion papers may be produced by the modification group where it is felt necessary.</p> | |
| Description of Issue or Defect that Modification Proposal Seeks to Address <i>(mandatory by proposer):</i> <p>The existing definition process invariably strays into the assessment of the modification, and by dealing with the two processes together the modification process should become quicker, more efficient and easier to understand. The process would also facilitate more effective consultation, in some cases, by allowing participants to only respond to fully worked up proposals during the modification process.</p> <p>The more compact process will also reduce the quantity of paper work for both Elexon and the participants. Many of the reports undertaken during the modification process are repetitive and very lengthy. A shorter modification process could produce one, more detailed report that would allow participants greater chance to read more detail on all the changes going on in the industry.</p> | |
| Impact on Code <i>(optional by proposer):</i> Change to section F | |
| Impact on Core Industry Documents <i>(optional by proposer):</i> | |
| Impact on BSC Systems and Other Relevant Systems and Processes Used by Parties <i>(optional by proposer):</i> none | |
| Impact on other Configurable Items <i>(optional by proposer):</i> none | |

| Modification Proposal | MP No: 96 <i>(mandatory by BSCCo)</i> |
|---|---|
| <p>Justification for Proposed Modification with Reference to Applicable BSC Objectives <i>(mandatory by proposer):</i></p> <p>The Applicable BSC Objectives are set out in paragraph 3 of Condition C3 of the Transmission Licence, as follows:</p> <p>(a) The efficient discharge by the Transmission Company of the obligations imposed under the Transmission Licence;</p> <p>NGC, like all other companies, should find it easier to participate in a quicker, more efficient governance process. It should slightly reduce the resources that they have to put into modification groups improving the efficiency of their resource allocation. It should also make it simpler for them to participate in more groups, adding their expertise to the groups to the benefit of the industry as a whole.</p> <p>(b) The efficient, economic and co-ordinated operation by the Transmission Company of the Transmission System;</p> <p>No impact.</p> <p>(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;</p> <p>A more streamlined process of altering the BSC will allow more companies to participate and that will serve to improve the level of competition within the industry. Smaller participants may also feel more able to raise modifications themselves if the process of seeing a modification through is less onerous, which would better facilitate competition by allowing smaller players greater access to the development process.</p> <p>(d) Promoting efficiency in the implementation and administration of the balancing and settlement arrangements.</p> <p>The current process is confusing and the debates on modifications invariably strays between the assessment and the definition process. By running the two processes together, we should be able to reduce the number of meetings without reducing the rigorous process of ensuring that modifications proposed to the Panel are workable and do better achieve the relevant objectives of the code. The increased efficiency from a more timely process, where we do not have groups reiterating their arguments time and again, will help all participants, and Elexon, by freeing up resources, as well as better facilitating the inclusion of smaller players in the governance process. The more streamlined process should also have the option of having less consultations if appropriate, so that BSC parties do not have to restate their positions on numerous occasions.</p> <p>A combined process will also reduce the paper work for the industry as a whole. Again this will increase the efficiency of the process by allowing the participants to review one, more detailed report, on modification issues. Smaller participants should also find it easier to keep up with the many changes in the industry if the process can reduce the workload on them.</p> <p>This modification is supported by - TXU, Williams Energy, UK Electric Power Ltd, Barclays Capital, Campbell Carr Ltd, BOC, and Entergy-Koch Trading Ltd.</p> | |

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|--|---|
| Modification Proposal | MP No: 96 <i>(mandatory by BSCCo)</i> |
| | |
| Details of Proposer: Name: Lisa Waters Organisation: Dynegy UK Limited Telephone Number: 020 8403 1257 Email Address: lisa.waters@dynegy.co.uk | |
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| Details of Representative's Alternate: Name: Organisation: Telephone Number: Email Address: | |
| Attachments: NO If Yes, Title and No. of Pages of Each Attachment: | |