

Responses from P98 Draft Report Consultation

Consultation issued 9 January 2003

Representations were received from the following parties:

No	Company	File Number	No. BSC Parties Represented
1.	British Gas Trading	P98_DR_001	1
2.	SEEBOARD	P98_DR_002	1
3.	Aquila Networks	P98_DR_003	1
4.	Powergen	P98_DR_004	15
5.	Barclays Capital	P98_DR_005	1
6.	Scottish Power	P98_DR_006	4
7.	LE Group	P98_DR_007	7
8.	British Energy	P98_DR_008	3
9.	Scottish and Southern	P98_DR_009	4

P98_DR_001 – British Gas Trading

Re: Modification Proposal P98 – Dual Notification of Contract Positions

Thank you for the opportunity of responding to this draft modification report considering Modification Proposal P98. British Gas Trading (BGT) does not support the Modification Proposal and does not believe this would better facilitate Applicable BSC Objectives (c) or (d). BGT were supportive of the principle of dual notification at Go-Live and still are. However, BGT believe that the implementation costs of Modification Proposal P98 are cost prohibitive and the perceived benefits do not justify the additional costs.

The existing market provisions for contract notification is understood by the industry and is working reasonably well. In addition the implementation of Change Proposal (CP) 755 has resulted in enhanced ECVAA reporting. This enhancement has provided a facility that allows for discrepancies with contract notifications to be identified in a timely manner. Thereby allowing BSC Parties time to undertake corrective action to amend their position.

Furthermore the nature of the proposal, which is proposing implementation on a voluntary basis, will lead to the running of parallel contract notification schemes. As well as the cost of implementing and maintaining a single and dual notification process this will also introduce added complexity to the market place and increase the risks associated with notifying contract positions.

Yours sincerely

Mark Manley
Contract Manager

P98_DR_002 – SEEBOARD

With respect to draft modification report for P98 (Dual Notification of Contract Positions) dated 9th January. We agree with recommendations in section 1.1 of that report that this modification should not be made to BSC.

Dave Morton
SEEBOARD Energy Limited

P98_DR_003 – Aquila Networks

Please find that Aquila Networks Plc response to P98 Consultation on draft Modification Report is 'No Comment'.

regards

Rachael Gardener

Deregulation Control Group &
Distribution Support Office
AQUILA NETWORKS

P98_DR_004 – Powergen

P098 Report Comments

On behalf of Powergen UK plc*, we thank you for the opportunity to comment on the Draft Report for Modification Proposal P098 – Dual Notification

Powergen supports the Panel's decision to reject this modification. This support is based on:-

- Cost - the solution proposed is probably the cheapest that could be arrived at, but is still a very expensive way of solving the problem that the proposer perceives – a risk most parties view as having a very low likelihood of occurring.
- Missing the main problem - Operational experience has shown that the main problems with Energy Contract Volume Notifications (ECVNs) occur on intra-company balancing trades, and this modification offers no assistance in this area.
- Better Alternatives - The majority of disputed inter-party notifications identified prior to gate closure are the result of either:-
 - one of the two parties having recorded trade details incorrectly. This issue would be better addressed by parties investing in bi-lateral trade confirmation systems (outside any BSC related systems)
 - the notifying party having problems with their notification submission system, in which case the current single notification approach provides a backup that would not be available under dual notification.
- Operational Complexity – providing alternatives will increase the chances of mistakes being made, especially at times of stress.

Tim Johnson
Powergen Energy Trading

*Powergen UK plc, Powergen Retail Limited, Diamond Power Generation Limited, Cottam Development Centre Limited, TXU Europe Drakelow Limited, TXU Europe Ironbridge Limited, TXU Europe High Marnham Limited, Midlands Gas Limited, Western Gas Limited, TXU Europe (AHG) Limited, TXU Europe (AH Online) Limited, Citigen (London) Limited, Severn Trent Energy Limited (known as TXU Europe (AHST) Limited), TXU Europe (AHGD) Limited and Ownlabel Energy Limited.

P98_DR_005 – Barclays Capital

P98 Report Comments from Barclays Capital - 30 January 2002

Barclays Capital supports the proposed modification P98 and therefore disagrees with the Panel's recommendation that P98 should not be made.

Notification errors are the single largest risk associated with trading UK power. While market participants invest significant time and resources in attempting to avoid notification errors, the risk cannot be completely eradicated or shared effectively under bilateral contracts between market counterparties. In particular, there are possible – albeit unlikely – scenarios associated with deliberate mis-notification and a market participant's entry into administration, which could result in massive, unlimited liability of market participants to imbalance charges. This constitutes a major systemic risk to the UK power system, which could result in the cascading failure of several market participants. Dual notification of contracts offers the scope for removing this risk and we therefore believe that the benefits clearly outweigh the development costs. Dual notification would also promote competition in the market by reducing the cost of entry and operation imposed by single notification and by removing the unlimited liability for notification errors (which in itself could deter a potential entrant). Below we set out some brief comments on the rationale for recommendations in Section 1 of the Draft Modification Report.

Potential for Exposure to Unlimited Liability from Single Notification/Cost-Benefits from Implementation of Dual Notification

Section 1.3.2 (Cost Benefits from Implementation of Dual Notification) notes that "the assessment as to whether the implementation of dual notification is cost beneficial comes down to whether it is believed that the risk of exposure to unlimited settlement liability is manageable or not". While we accept that the decision swings on the perception of the systemic risk involved, we would stress that the risks that dual notification seeks to avoid are in fact - and not merely in opinion - unmanageable and unlimited. Even the best managed market participant will make notification errors, will be vulnerable to sabotage and will not be able to recover money under a contract which has been terminated. The decision should therefore not swing on the weight of perception on whether these risks can or cannot be managed, but on an objective assessment of the probability of a major systemic notification error and the attendant costs. In our view, the likelihood of a major problem, while small, is sufficiently large to justify the implementation of P98.

Incentives to Maintain Robust Systems

Since dual notification as proposed to P98, adds to – and does not subtract from - the current notification procedures, we cannot accept that "the consequences of Party notification system failure are potentially higher under dual notification". In particular, having dual notification as an option would not prevent counterparties resorting to single notification were they to experience system problems with dual notification. Moreover, the possibility of web-based confirmations would provide an additional alternative in the event that a participant's main systems failed. It is therefore difficult to conceive of an instance under which participants face higher risks for system failure than under the current system. At the same time, since

dual notification leads to a clearer attribution of responsibility for notification errors, participants will retain strong incentives to have robust notification systems.

Notification (Commercial) Disputes Resolution

One of the main benefits of dual notification is that it clearly delineates which counterparty is at fault for a notification error, ie, the counterparty notifying volumes that differ from the agreed commercial volumes is at fault. Under single notification, however, participants bear a dual responsibility to notify correctly and to check that notifications made on their behalf are correct. This dual responsibility often makes it difficult to assign responsibility for erroneous notifications, which can lead to drawn out disputes as to which counterparty should bear the costs of the error. This uncertainty is absent under dual notification and we therefore disagree with the contention of some members of the SSMG that "it will require as much effort to assign culpability for incorrect notifications under dual notification as it does under single."

Enhanced ECVAA Reporting

While enhanced ECVAA reporting may reduce the incidence of ongoing operational notification errors, it does not address the systemic risks posed by malicious notification and/or the events surrounding the insolvency or entry into administration of a market participant. In our view, while enhanced reporting is useful, it does not address the fundamental risk that P98 seeks to avoid.

P98_DR_006 – Scottish Power

P98 Draft Modification Report Comments

For and on behalf of: - *Scottish Power UK plc; ScottishPower Energy Trading Ltd.; Scottish Power Generation plc; ScottishPower Energy Retail Ltd.; SP Transmission plc; SP Manweb plc*

With reference to the above, we wish to reiterate the view which we have previously expressed in rejection of P98, that the costs of the Mod are substantial, both to Central Systems and to Parties and do not represent an efficient use of funds given the potential benefits. We have also identified that there may be drawbacks in adopting the dual notification method both in terms of technical compatibility and operational flexibility.

We therefore maintain the view that P98 does not satisfy the Applicable BSC Objectives and agree with the Panel's recommendation that it should not be made.

I trust that you will find these comments helpful. Nonetheless, should you require further clarification of any of the above, please do not hesitate to contact me.

Yours sincerely,

Man Kwong Liu
Calanais Ltd.

For and on behalf of: - *Scottish Power UK plc; ScottishPower Energy Trading Ltd.; Scottish Power Generation plc; ScottishPower Energy Retail Ltd.;*

P98_DR_007 – LE Group

Thank you for the opportunity to comment. We supported the Panel's unanimous recommendation to reject P98 at BSC Panel Meeting No.54, on 12th December 2002, and our views have not changed on consideration of the Draft Modification Report.

We believe that the risks of exposure to unlimited settlement liability are very low and can be considerably mitigated by the use of various mechanisms, including the enhanced reporting provided by alternative P4/CP755. Thus when the Modification is considered against the costs of nearly two million pounds for BSC Central Service Agent development and implementation costs, plus the estimated Elexon effort of approximately 500 man days and the significant costs of implementation for individual market participants - we strongly believe that the Modification goes against the applicable BSC Objective 3(d), "Promoting efficiency in the implementation and administration of the balancing and settlement arrangements."

Regards

Rob Hetherington
Wholesale Market Analyst
Energy Strategy and Regulation
LE Group

This response represents the following BSC Parties;

EPN Distribution Ltd, London Electricity plc, London Electricity Group plc,
Jade Power Generation Ltd, London Power Networks plc, Sutton Bridge Power,
West Burton Ltd

P98_DR_008 – British Energy

To: Modifications Secretary

From: Rachel Lockley

Date: 30 Jan 2003

British Energy supports the recommendation of the Panel that the Proposed Modification P98 should not be made.

The potential for exposure to unlimited settlement liability under the present arrangements, which is at the heart of this modification proposal, is we believe, manageable by other mechanisms (checking of notification reports, contractual and legal recourse). The cost of implementing dual notification is a very significant factor. The costs to industry from amending notification processes and renegotiating the Grid Trade Master Agreement (GTMA), £1,888,540, (excluding ELEXON effort of approximately 500 man days) outweighs any perceived benefits.

While some have argued that reducing notification risk may improve competition in the sale and purchase of electricity (Objective 3(c)). British Energy considers that the costs associated with the implementation of dual notification results in a decrease in the efficiency of the implementation of the balancing and settlement arrangements (Objective 3(d)) which far outweigh any benefits to competition. The Proposed Modification P98 does not therefore better facilitate achievement of the Applicable BSC Objectives.

Regards

Rachel Lockley

on behalf of

British Energy Power and Energy Trading
Eggborough Power
British Energy Generation

P98_DR_009 – Scottish and Southern

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

Further to your note of 9th January 2003, and the associated Modification Report for P98, we agree with the proposed BSC Panel recommendation to the Authority that this Modification Proposal P98 should not be made.

For the avoidance of doubt, we have come to this view based on a number of factors, including:-

- that a majority of parties do not support this Modification;
- there is insufficient justification for this proposed Modification;
- facilities are already available to mitigate the risk / exposure associated with single notification, such as check reports etc.;
- it should be up to parties to ensure their own processes / systems are robust;
- the cost and effort involved in implementing this Modification are significant, i.e. £1.8m central system costs, 500 man days of Elexon time, 64 weeks to implement, this being in addition to market participants own costs;
- the introduction of a dual notification processes will introduce complexity and runs the risk of being more confusing for market participants hence more, not less mistakes are likely to be made; and
- parties who don't use the dual notification facility should not be required to pay for it, rather the cost should be focused on those supporting this Modification / indicating they will use dual notification.

If the Modification Proposal P98 is approved, we agree with the proposed BSC Panel recommendation on the timing for the Implementation Date, as outlined in Section 1.1 of the Modification Report.

Regards

Garth Graham
Scottish & Southern Energy plc