ELEXON

Stage 04: Draft Mod Report

What stage is this document in the process?

01 Initial Written Assessment

02 Definition Procedure

03 Assessment Procedure

04 Report Phase

P257: Removal of the Concept of Trading Queries

P257 seeks to improve the efficiency and clarity of the Trading Dispute process by removing the concept of Trading Queries and to allow ELEXON to close Trading Disputes that have not satisfied the relevant criteria.

Initially, the Panel unanimously recommends The **approval** of P257.

High Impact:
The Trading Disputes Committee and BSCCo

Low Impact:
Parties who want to raise a Trading Query/Dispute

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About this document:

This document is a Draft Modification Report, which ELEXON is issuing for Report Phase Consultation.

The Consultation seeks your views on:

- The Panel's initial recommendation that P257 should be/not be approved/rejected;
- The Panel's initial recommended Implementation approach of:
  - **04 November 2010** if a decision is made by 24 September 2010; or
  - the **Next Available Release** if a decision is made after 24 September 2010.
- The Panel's proposed redlined changes to the BSC (Attachment A) and to the impacted Code Subsidiary Documents (CSDs) (Attachment B).

This is the final opportunity to comment on P257 before it is submitted to the Authority. The Panel invites you to respond to the questions in the attached response form (Attachment C).

The Panel will consider your responses at its meeting on 12 August 2010, when it will agree its final recommendations. ELEXON will then submit a Final Modification Report to the Authority.

You can download further P257 documents here, including the Transmission Company's impact assessment and copies of the full industry responses to the Group's previous Assessment Consultation.

Any questions?

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1 Summary

Why Change?

The Trading Disputes process was last reviewed in 2002. This led to the implementation of Modification Proposal P131 in 2004. Subsequent industry feedback has indicated that the process is inefficient and too complex.

The Trading Dispute Committee (TDC) instigated a review of its processes in 2009, which resulted in 12 recommendations design to address areas of complexity, improve clarity and streamline the assessment Trading Disputes. Eight of these recommendations are being progressed via 3 Modification Proposals (P256, P257 and P258).

Solution

P257 proposes to streamline and increase the efficiency of the Trading Dispute Process, by removing the concept of Trading Queries[1] and allowing ELEXON to close invalid Trading Disputes[2] when the Raising Party agrees that it is invalid.

Impacts & Costs

The P257 solution involves no system impacts. The main impact will be on Section W to remove Trading Queries, but some other Code Sections will need updating to remove any references to Trading Query. BSCP11 will also need changes to reflect the Section W changes. The CSD changes can be seen in attachment B, and will be consulted on as part of the Report Phase consultation. The estimated implementation costs are £2,400 equating to 10 Man Days of ELEXON effort.

Implementation

If approved, the Panel's initial recommendation is that P257 is implemented on:

- **04 November 2010** if a decision is made by 24 September 2010; or
- the **Next Available Release** if a decision is made after 24 September 2010.

The Case for Change

The Panel's initial unanimous view is that P256 is better than the current baseline and will better facilitate the achievement **of Applicable BSC Objective (d)**.

The Panel agrees with the Group that P257:

- will address the confusion and duplicated effort that arises from the existence of both Trading Queries and Disputes. Removing the concept of Queries will save time, effort and reduce the complexity of the process.
- The process will be easier for Parties to use and understand since if a Party identifies a settlement error, they only need to raise it once as a Dispute.
- The data collection and analysis involved is the same regardless of whether the matter is raised as a Query or Dispute. A number of administrative steps which add no value are required in order to progress a Query to a Dispute.
- Allowing ELEXON to close invalid Disputes will mean that they do not need to be taken to the TDC for closure. This will help save time and effort that will be spent instead investigating and resolving valid Disputes.

Recommendation

The Panel therefore unanimously recommends that P257 should be approved.

[1] 'Trading Query/Queries', will be referred to as Query or Queries throughout the rest of this document.

[2] 'Trading Disputes/ Dispute' will be referred to as Disputes or Dispute throughout the rest of this document.

Trading Disputes Committee

The role of the Trading Disputes Committee is to ensure that all Trading Disputes are resolved so that errors are corrected and the integrity of Settlement is maintained.

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2 Why Change?

The Trading Disputes Process

The Trading Disputes process is a remedial Performance Assurance technique that provides a mechanism for correcting identified settlement errors where the Code has not been followed or the error was not previously identified. Any data can be corrected before the Initial Settlement (SF) Run but after this can only be changed through the Disputes process or if the Code explicitly allows it.

Trading Disputes can arise as a result of errors in the data, processes and/or application of the rules used for the purposes of Settlement, where such errors affect the determination of Trading Charges paid to or from Parties. The Trading Disputes process allows for incorrectly derived Settlement data to be re-calculated, and for the corrected Trading Charges to be adjusted accordingly. The process is defined in Section W 'Trading Queries and Trading Disputes' of the BSC and BSCP11 'Trading Disputes and Trading Queries'.

The 2009 Review

The last time the Trading Disputes process review was carried out was in 2002 resulting in Modification Proposal P131[3]. Over the recent years feedback from the industry has indicated that the current process is too complex. It includes steps that add no value and some Disputes criteria are no longer fit for purpose. This has stopped some Parties participating in the process and has reduced the number of Disputes being raised each year.

As a result of this feedback and the time elapsed since the last review, the Trading Disputes Committee (TDC) instigated a review of the Trading Disputes process to identify improvements that would make the process more user-friendly, simpler and efficient.

Why has P257 been raised?

The TDC identified 12 changes that would streamline and speed up the overall process, encourage participation and make the process easier to understand. Modification P257 is progressing two of these which are:

1. Removal of the concept of Trading Queries; and
2. Enabling ELEXON to reject invalid Trading Disputes.

All the recommended changes were issued for industry consultation during November 2009 and the two that P257 progresses received unanimous support among the small number of responses that were received.

Related changes

P257 is one of three Modifications that are taking forward the outcomes of the Trading Dispute process review. The other two cover:

- P256 - Improving Efficiency and Clarity of the Trading Disputes Process; and
- P258 - Including Party Agents in the Trading Disputes process.

A Change Proposal (CP) is also being prepared to take forward the non Code related changes to BSCP11.

What does the Code say on updating data?

Section U2.1.2 enables data to be updated between the 1st Reconciliation (R1) Settlement Run to the Final Reconciliation (RF) Settlement Run without the need for a Dispute

What are Performance Assurance Techniques?

The PAF is a complementary set of preventive, detective, incentive and remedial assurance techniques. These techniques are used flexibly to address Settlement Risks.

[3] P131 – Introduction of further provisions relating to the determination of Trading Disputes

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What is P257 is trying to do?

Trading Queries and Trading Disputes

The Trading Disputes process can be split into two broad stages, a Trading Query stage and a Trading Dispute stage. The reason for the split is down to historical reasons. The original intention of a Trading Query was to act as a precursor to the Trading Disputes process to determine that there was a Dispute.

Currently, if a Party believes they have identified an error in Settlement data that impacts their Trading Charges they first raise a Trading Query. ELEXON will then investigate the Trading Query and perform three validation checks to ensure that:

1. All affected Settlement Periods lie within the applicable Query Deadline;
2. It is confirmed that a settlement error exists; and
3. The materiality of the Trading Query is greater than the materiality threshold (set in BSCP11).

If the Trading Query is valid against all three checks, ELEXON will present its findings to the TDC who will either agree or disagree with the findings and determine if and how any settlement error should be corrected. Many Queries are closed without a need for further correction since the Party has often corrected the error during the normal course of Settlement. Parties that disagree with the findings of the TDC can refer the matter to the Panel.

Disputes are raised in a number of circumstances:

- If ELEXON finds the Query to be invalid, and the Party does not agree with these findings they may raise the error as a Dispute;
- A Query is converted to a Dispute where the Final Reconciliation (RF) Settlement Run has taken place for any affected Settlement Periods falling within it; or
- Where an error is identified in the RF Volume Allocation Run this must be raised as a Dispute rather than a Query.

Once a Trading Dispute is raised ELEXON will collate any necessary additional information, not presented when it was a Query, to the TDC. The TDC will then determine whether to uphold or reject the Dispute. If the Party disagrees with the TDC decision they may refer the matter to the BSC Panel.

After reviewing this process it is apparent that the concept of Trading Queries is obsolete, as it isn't really a precursor to, but an initial stage, of a Trading Dispute. Further, this initial stage only applies in some situations (depending on when the error occurred and the timing of the Settlement Runs). If a Party disagrees with ELEXON's findings then a Trading Dispute can always be raised. Therefore a Trading Query is a complicated way of saying that ELEXON validates the claim and presents its findings to the TDC.

The terms 'Trading Queries' and 'Trading Disputes' can also lead to confusion for Parties using the process, as it implies two distinct phases. Removing the concept of Trading Queries and incorporating any elements of the Query process into the Trading Disputes process would help to streamline and clarify the process.

What is a 'settlement error'?

A settlement error is where a breach of the BSC has occurred which has had an impact on Trading Charges.

What is the Settlement Calendar?

The Settlement Calendar is put together for each BSC Year by the SAA, and covers each Settlement Day in each BSC Year, and the Initial Settlement Run (SR) and each of the timetabled reconciliation runs to be carried out.

What is the BSC Panel?

The BSC places an obligation on the BSC Panel to ensure that the provisions of the BSC are given effect: fully, promptly, fairly, economically, efficiently, transparently and in such a manner as will promote effective competition in the generation, supply, sale and purchase of electricity.

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Closing invalid Trading Disputes

As noted above, ELEXON carries out an initial validation on all Queries and Disputes against three criteria. If the claim meets the three criteria the Query or Dispute is presented to the TDC for decision.

If the claim is declared invalid by ELEXON but the Party disagrees, the claim is presented to the TDC for a decision. This is sensible practice, however, when a claim is found to be invalid by ELEXON and the Party agrees with the decision, it still needs to be presented to the TDC before it can be formally closed. This uses up the time and effort of the Raising Party, ELEXON and the TDC, which could be spent on valid Disputes.

An overview of the current process including Trading Queries and Disputes and the TDC closure of invalid Queries can be seen in diagram 1.

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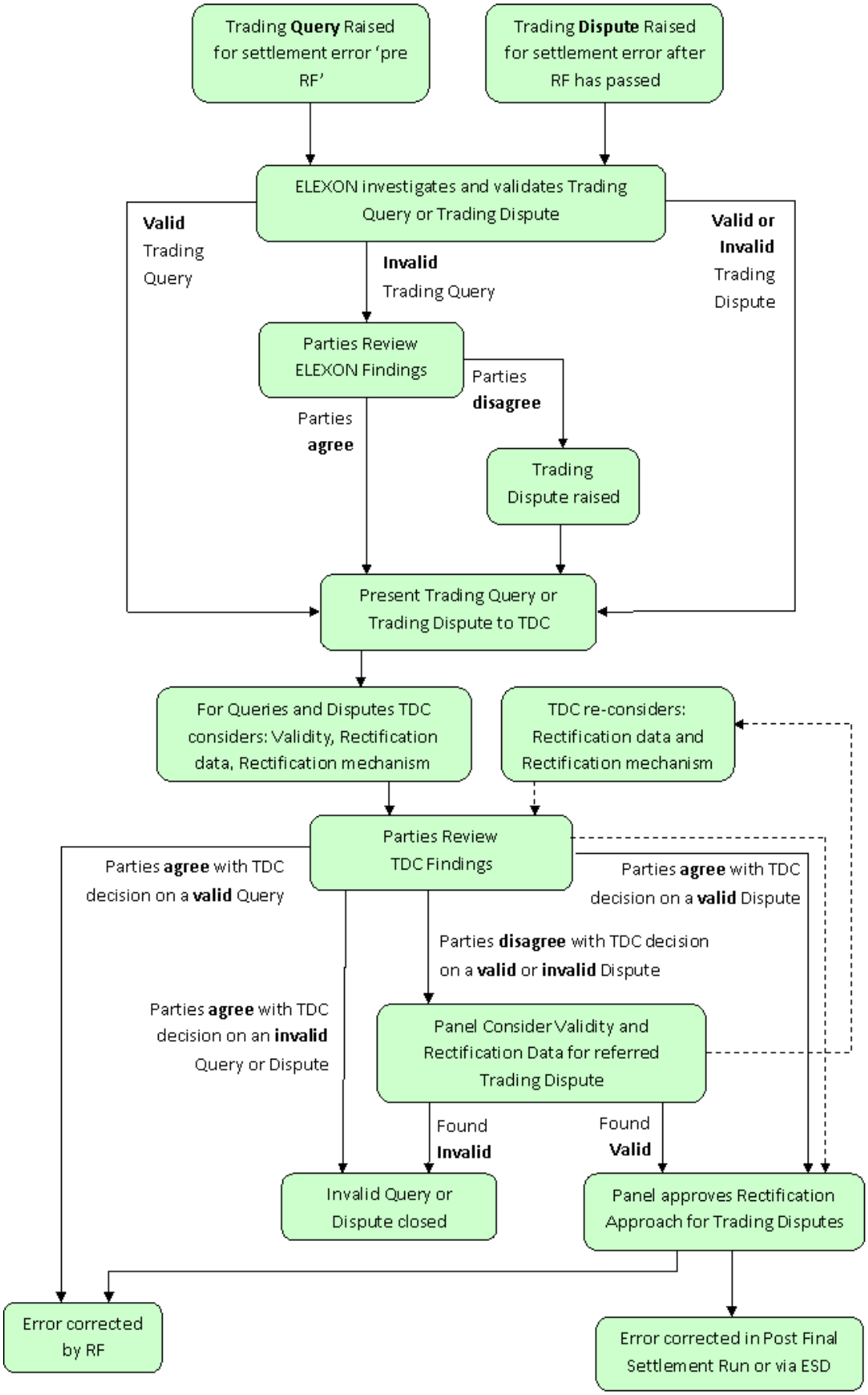
Diagram 1 – High level overview of current Trading Query/Disputes process



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How will the P257 solution resolve the issues?

To resolve the identified issues, the following changes are Proposed:

Trading Queries or Trading Disputes?

To streamline the Disputes process, and to reduce confusion from Parties, it is proposed to remove the concept of Queries.

If a Party believes they have identified an error in Settlement then they would simply raise a Dispute. The TDC would then consider all valid Disputes to re-affirm their validity and as appropriate:

- close the Dispute; or
- determine the changes to data that are required within Settlement and the rectification mechanism.

This change will not amend the validation process that each Query/Dispute must go through, nor will it impact a Party's right to refer a TDC decision to the BSC Panel.

Closing Invalid Disputes

As detailed in the section above, if a claim is found invalid by ELEXON, but the Raising Party disagrees then the Dispute must be presented to the TDC for decision. This is a sensible and robust practice. However, where a claim has been found invalid by ELEXON, and the Raising Party agrees, it is inefficient to present the claim to the TDC for decision.

It is therefore proposed that where a Dispute is found invalid by ELEXON, and the Raising Party agrees, ELEXON may close the Dispute. This saves time and effort both for Parties and ELEXON and enables Parties to get a swifter resolution to Disputes. It is envisaged that ELEXON would present a report to the TDC on the Disputes closed in this manner on a monthly basis. These closed Disputes would then be included in the Register of Determination which is published on the ELEXON website within 5 Working Days providing visibility of the decision.

Diagram 2 below shows a high level overview of how the proposed Trading Dispute Process would look, following the removal of Trading Queries and adding the ability for ELEXON to close invalid Trading Queries

What is an 'affected Party'?

An 'affected Party' is a Party or Parties that have been particularly affected by a Query or Dispute.

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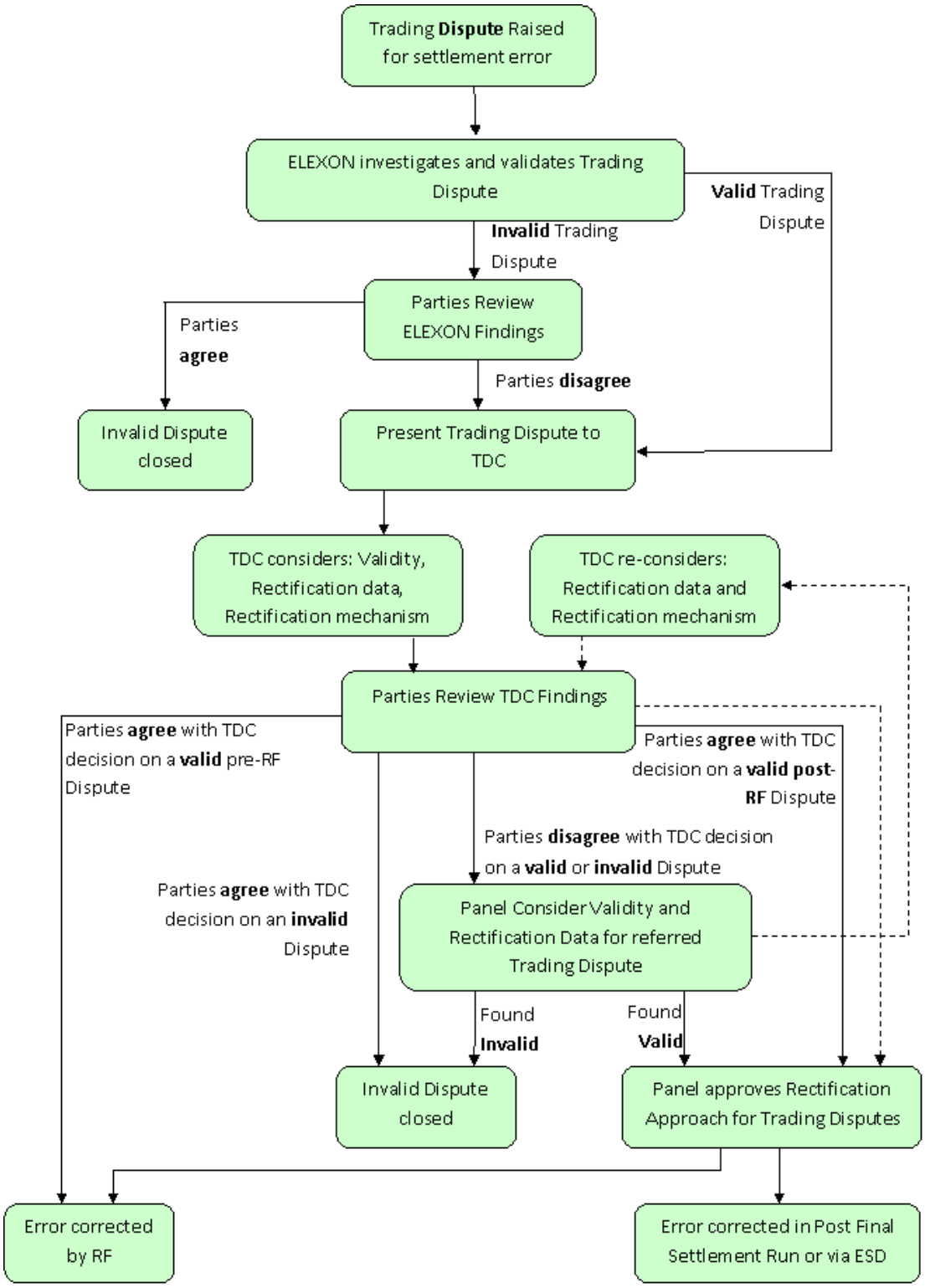
Diagram 2 – Overview of Proposed Trading Dispute Process



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4 Impacts & Costs

Costs

ELEXON Cost	ELEXON Service Provider Cost
10 Man Days equating to £2,400 to cover the costs of updating the Code and affected Code Subsidiary Documents.	None – P257 will not affect the activities of Service Providers

Impacts

Impact on BSC Parties and Party Agents
BSC Parties and Party Agents should experience a Trading Disputes process that is more efficient and easier to understand and use.

Impact on Transmission Company
None

Impact on ELEXON	
Area of ELEXON's business	Potential impact
Trading Disputes Processes	TDC Terms of Reference; Disputes Process Guidance Notes

Impact on Code	
Code section	Potential impact
Section E	All affected sections: Removal of references to Trading Query
Section P	
Section R	(Section W only): Changes to remove Trading Queries from the Code and to give ELEXON the power to close invalid Trading Disputes.
Section S	
Section T	
Section U	(Annex X-1 only): Removal of definition of Trading Query Addition of 'Settlement Error' to Annex X-1, to avoid problematic implementation interactions with Modification P256
Section W	
Annex X-1	

Impact on Code Subsidiary Documents	
CSD	Potential impact
BSCP11	Changes to reflect the proposed BSC Section W changes, including: • Removing of references to Trading Query; • Updating processes to remove Trading Queries; • Updates to BSCP11 forms to reflect changes and aid ease of use. • capitalise the Code term 'Settlement Error'
BSCP18, BSCP504, BSCP520, CDCA SD and SAA SD	Minor impact to remove references to Trading Query

ELEXON has drafted the necessary changes to the impacted Code Subsidiary Documents (CSDs), and will consult the industry on the changes during the Report Phase consultation.

Consultation Question 1
Do you agree that the Panel's recommended legal text and CSD changes deliver the solution agreed by the Modification Group?
The Panel invites you to give your views using the response form in Attachment C.

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5 Implementation

How will P257 be implemented?

The Panel initially recommends that, if the Authority approves P257, it should be implemented on:

- **04 November 2010** if a decision is made by 24 September 2010; or
- the **Next Available Release** if a decision is made after 24 September 2010.

This will enable the changes to be implemented promptly, while giving Parties a clear date for when the new processes will apply.

Details of why the Panel has initially suggested these timescales are provided in Section 7.

The Group's discussion on implementation timescales

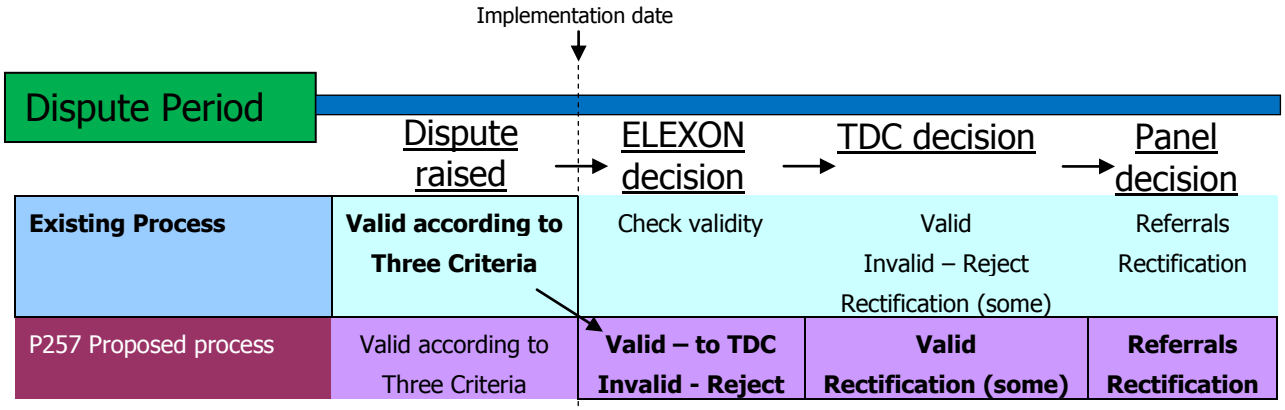
The Group discussed the need for a clear implementation date following an Authority decision so that Parties were aware of when the new process would take effect.

The majority of the Group agreed that an implementation approach with a clear operational day cut over from the existing processes to those introduced by the Modification. What this means in practical terms is the criteria used to assess the validity will depend upon the date the Dispute was raised in relation to the implementation date.

The process that may be employed will vary across the implementation date so a Dispute may start out on one track but end up being progressed using the new processes.

The diagrams below provide examples of what process would apply based on when the Dispute was raised in relation to the implementation date:

Diagram 3: Invalid Dispute raised just prior to implementation



In this example a Dispute raised just before implementation which was then processed by ELEXON after implementation, would follow the old process of submission, but would switch tracks to the new P257 process and would be rejected and closed by ELEXON, rather than be taken to and closed by the TDC.

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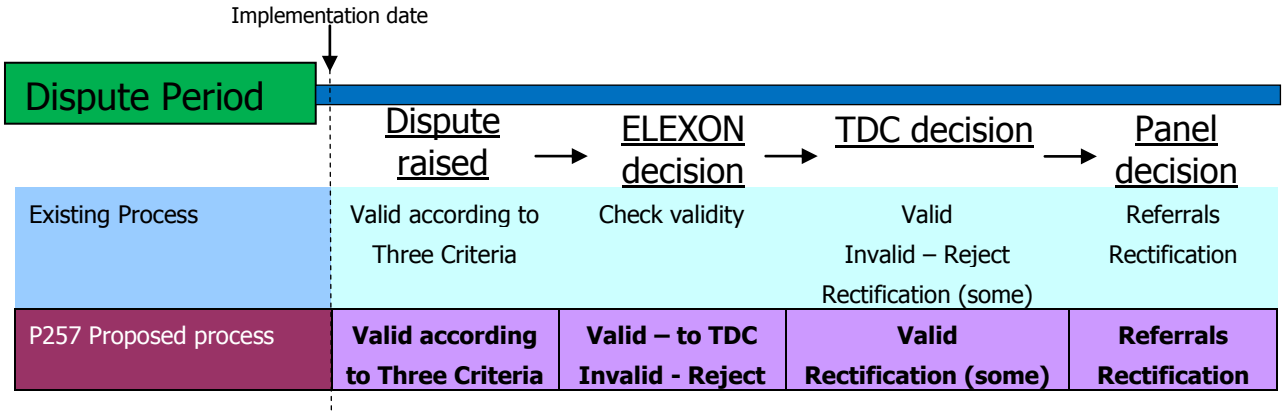
Diagram 4: Dispute raised after implementation



In this example the Dispute is raised after the P257 has been implemented. Therefore its progression follows the P257 Proposed process.

Why not have the changes take effect on a Settlement Day?

A member of the Group questioned why the implementation of P257 should not take effect on a particular Settlement Day (i.e. the process and governance to be followed would be based upon either the date that the Dispute was raised or the Settlement Days that were the subject of the Trading Dispute).

The Group considered this, and had the view that having the changes take effect on a particular Settlement Day, would be more problematic on the grounds that:

- You would need a run-off period with the existing and proposed processes running in parallel. This would need to occur as any Query or Dispute raised in relation to Settlement Days leading up to the day the change was implemented would have to be progressed under the old process. Any Disputes raised on or after the implementation date would then be progressed under the new process.

  Both processes, including the forms and mechanisms to support them, would need to be available and documented. This would cause confusion among Parties regarding which process a Dispute they wanted to raise would follow.

- The other extreme possibility of having P257 implemented in this way is that no Disputes are raised in relation to the new process for a 14 month period between SF and RF as Parties would be able to resolve any errors in this time without having to raise a Dispute.

Conclusion

The Group concluded having a clear implementation date where the old process stops and the process introduced by P257 would start, would overall be more efficient and effective. A Group member raised a further point to support this, in so far that this was consistent with previous Modifications of this type.

The majority of the Group also believed that there was no need to excessively delay implementation following an Authority decision as there are no system related changes, only procedural changes.

Consultation Question 2

The Panel has initially recommended an implementation approach of:

- **04 November 2010** if a decision is made by 24 September 2010; or
- the **Next Available Release** if a decision is made after 24 September 2010.

Do you agree with the Panel's recommended implementation date?

The Panel invites you to give your views using the response form in Attachment C.

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Applicable Objectives

The Group unanimously agreed that P257 is better than the current baseline and will better facilitate the achievement of Applicable BSC Objective (d).

The Group's views against the **Applicable BSC Objectives (d)** are as follows:

Applicable Objective (d)	
Benefits	Disadvantages
Removing Trading Queries and allowing ELEXON to close invalid Trading Disputes that do not meet the three Dispute criteria will: • increase efficiency of the overall process; • remove duplication in the Trading Query and Trading Disputes processes and avoid the administrative effort involved in commuting Queries to Disputes; • avoid the need for the TDC to 'rubber stamp' decisions around obvious invalid Queries; and • remove potential confusion between Trading Queries and Trading Disputes so as to help Parties make best use of the process.	None

Transmission Company Analysis and Assessment Consultation responses

P257 has no impact on the Transmission Company, or its ability to discharge its obligation under the Transmission Licence.

The Transmission Company agreed with the findings on the Modification Group, that P257 would improve the clarity and administration of the Disputes process, thus better achieving Applicable BSC Objective (d).

Assessment Consultation respondents unanimously supported the initial views of the Group that P257 does better facilitate the Applicable BSC Objective (d) for the same reasons identified by the Group.

You can download the full industry responses and the Transmission Company Analysis here.

Is there value in keeping the Trading Query Process?

The Modification Group considered whether there is benefit in keeping a Trading Query process.

The Group discussed the purpose of a Trading Query process. It may have been intended to provide for a light touch review of the potential error in settlement in order to aid subsequent investigation or to quickly ascertain that no error existed. This is not being achieved in practice. The Group all agreed that there is no value in keeping the existing Query process since the analysis and investigation involved in progressing a Query is effectively a facsimile of that required for a Trading Dispute.

The Group considered the value of having an alternative Query process that might give forewarning of a potential Dispute. Group members struggled to see the value in providing a formal facility under the BSC. Concern was expressed that this could become a list of possible Disputes which may bear little relation on what is eventually investigated. The Group noted that P257 would not prevent Parties from enquiring about the criteria for a

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valid Trading Dispute or from receiving the support and education that ELEXON already provides.

The Group consulted the industry on this area as part of the Assessment Phase consultation. A majority of respondents believed there was no benefit in keeping or having a Query process, for the same rationale as to why P257 should be approved.

One respondent felt that there would be a benefit of having a Query process only if Modification P256 were implemented without the changes to the SVA HH deadline. If this occurred they indicated that there would be benefit in retaining or having a process similar to 'precautionary queries' to allow the raising of potential RF Disputes. However they believed there would be no benefit in keeping the Query process if P256 was approved.

Another respondent believed there would be a benefit in a Query process if the number of potential Disputes were to increase significantly at which point there may be a benefit in having a process to monitor and manage the issues arising. This could be put in place via a subsequent Modification Proposal if it were required. The respondent did agree though that the existing Query process is manually intensive and adds little value.

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7 Panel Discussions

Does the Panel agree with the Group's view

Yes, the Panel unanimously agree with the findings of the Group that the Proposed Modification **should be made** and that:

P257 better facilitates the achievement of **Applicable BSC Objective (d)** for the following reasons:

- More efficient and streamlined process; and
- Easier to use and understand.

What is the Panel's view?

The Panel unanimously agrees with the Group that P257 will better facilitate the achievement of Applicable BSC Objective (d).

Consultation Question 3

Do you agree with the Panel's initial recommendation that:

- P257 will better facilitate the achievement of Applicable BSC Objective (d) when compared with the existing BSC Arrangement; and
- P257 should therefore be approved?

The Panel invites you to give your views using the response form in Attachment C.

Does the Panel have any additional comments?

Is the term Trading Dispute too confrontational?

A Panel member raised a concern over the use of the term Trading Dispute, being to adversarial or confrontation and as such may put Parties off from raising a Dispute. The Panel agreed that the Modification Group should be asked to consider an Alternative Solution that additionally changes the term Trading Dispute to a less confrontational Trading Claim or Trading Concern.

Modification Group's view

We contacted the Group members and provided them with the details of the Panel's alternative solution of changing the name Trading Dispute to Trading Claim or Concern.

We also provided the Group with the ELEXON legal view that such a solution has no legal reason stopping the change of name, however the current definition in the Code makes it clear that Trading Disputes include 'queries, differences and disputes'. However if we were to change the term, the language may look slightly strange in the Code when relating to 'concerns' being 'determined' or 'decided' – so legally the term dispute works better.

Additionally if the term dispute were to change it is likely to require updates to:

- All documentation that makes any reference to Disputes (including Web pages etc)
- ELEXON internal documentation
- The TDC title and associated documents

The Group were requested to consider whether the term Trading Dispute was adversarial or confrontational and if it would stop a corporate entity such as a Trading Party from raising a claim to correct a potential settlement error.

The response from the Modification Group was that the term Dispute is clear enough. Organisations already recognise the term and it would not stop a Party from raising such an issue. Any change to the term would add no value to the existing process and would not better facilitate the applicable BSC Objectives, compared to the baseline and may create more confusion, thus not better facilitating Applicable BSC Objective (d).

Conclusion

In light of this the Modification Group's view is that they do not believe it is a viable Alternative Solution and should not be taken forward.

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8 Recommendations

Insert subheading here

The Panel unanimously initially recommends:

- That P257 should be made:
- An implementation Date of:
  - **04 November 2010** if a decision is made by 24 September 2010; or
  - the **Next Available Release** if a decision is made after 24 September 2010.
- The draft BSC legal text contained in Attachment A; and
- The draft redlined CSD changes contained in Attachment B.

Recommendation

The Panel's initial unanimous recommendation is that P257 should be approved

9 Further Information

More information is available in:

Attachment **A**: Draft BSC Legal Text

Attachment **B**: Draft redlined CSD change

Attachment **C**: Consultation Questions

Please use this form to submit your consultation response. The Panel invites you to give your views on each of the questions in this form.

You can download further P257 documents here, including the Transmission Company's impact assessment and copies of the full industry responses to the Group' previous Assessment Consultation

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