

P235 Assessment Consultation Responses

Consultation issued on 17 April 2009

Responses were received from the following Parties:

No.	Company	No. BSC Parties Represented	No. Non-Parties Represented
1.	SAIC Ltd. (for and on behalf of ScottishPower)	7	0
2.	Centrica	10	0
3.	RWEnpower	10	0
4.	E.ON UK	6	0
5.	EDF Energy	13	0

Question 1: Do you believe that **Proposed Modification P235 (which would have a prospective Implementation Date of 2 Working Days after an Authority decision) would better facilitate the achievement of the Applicable BSC Objectives when compared with the existing Code drafting?**

Please state the reason(s) for your view, and which Applicable BSC Objective(s) you believe to be relevant and why

Summary

Yes	No	Neutral/Other
5	0	0

Responses

Respondent	Response	Rationale
SAIC Ltd. (for and on behalf of Scottish Power)	Yes	ScottishPower believe that the Proposed Modification will better facilitate the BSC Objectives, compared with the current baseline: Objective d) - Ensuring that the central systems are aligned with the BSC (and vice-versa) will ensure that the BSC is administered in an efficient way.
Centrica	Yes	While we do not believe that established convention should be the basis of all regulation, it is clear in this case that the industry has become used to certain practices. The proposed solution more accurately reflects the time value of money in the calculation of interest. This ensures Parties are not unduly advantaged or disadvantaged due to the nature of reconciliation thus better facilitating competition – objective (c).

Respondent	Response	Rationale
		It will also improve clarity, remove any potential for misinterpretation, and nullify the need for costly changes to the FAA systems, thus improving the administration of the BSC arrangements – objective (d)
RWEnpower	Yes	<p>The current method used by the FAA to calculate interest on trading charges is standard commercial practice and reflects the true value of money at the period when the charge (or payment) occurred. It fulfils applicable objective d.) of the BSC by being efficient and fair; however npower's preference is for the alternative modification.</p> <p>If the Proposed or Alternative Modification is not approved and interest calculations were performed under the existing code drafting there is an opportunity for BSC Parties to "game" the system by submitting inaccurate volumes.</p> <p>Under the existing provisions Parties could face costs of £100k to change central systems and costs to change their own internal systems and processes.</p>
E.ON UK	Yes	Removing the existing potential for confusion and challenge by bringing the BSC wording in line with the actual FAA calculation method through P235 Proposed would better facilitate BSC Objective d): promotion of efficiency in implementation and administration of balancing and settlement. By providing greater clarity and transparency that the FAA methodology is that used under the BSC it can also be argued to support Objective c), helping to promote effective competition by endorsing the fairer calculation method.
EDF Energy	Yes	<p>EDF Energy agrees that the proposed modification better facilitates the BSC objectives (c) and (d).</p> <p>(c) We agree that the current FAA methodology of calculating Reconciliation interest is the correct methodology to use to accurately and fairly reflect the time value of money and is preferable to the current BSC methodology. Therefore, it is appropriate that the BSC should be corrected to be aligned with the FAA methodology. Increased certainty via this change will improve the competitive environment.</p> <p>(d) It will remove confusion around the methodology for calculating Reconciliation interest and improve efficiency in the operation of the BSC.</p>

Question 2: Do you believe that the prospective Implementation Date for the Proposed Modification should apply on:

- **A Settlement Day basis; or**
- **A Calendar Day basis?**

Please state the reason(s) for your view

Summary

Settlement Day	Calendar Day	Neutral/Other
1	4	0

Responses

Respondent	Response	Rationale
SAIC Ltd. (for and on behalf of Scottish Power)	Settlement Day	ScottishPower believe that a Settlement date based implementation would provide a simpler and cleaner implementation than a calendar based one. Although we acknowledge that a settlement date basis still allows for trading disputes to be raised up to approx 14 months after the implementation date, we feel that it is more in keeping with the way most change is implemented.
Centrica	Calendar Day	<p>We believe that the calendar day implementation is more appropriate so that a known error in the calculation of interest is not perpetuated after implementation. Such perpetuation would occur under a Settlement Day approach which, in a strict sense would necessitate the FAA systems to be changed to the current BSC baseline for those Settlement dates that are reconciled under the current BSC rules going forward. It is our understanding that the systems would not be changed to be in line with the current BSC for those Settlement Periods prior to implementation and therefore the systems would continue to knowingly calculate interest in a manner inconsistent with the BSC. This opens the door for multiple disputes and would not be acceptable.</p> <p>Centrica also believes that given the benefits identified by the modification group, it would be sensible for the modification to be implemented from the earliest possible point to obtain the benefits. As the FAA systems do not need to change to accommodate the modification, then a calendar day approach provides the benefits identified under Objectives (c) and (d) earlier.</p> <p>As the Modification has been clearly flagged to industry from the point it was raised, Parties would have had opportunity to raise Trading Disputes up until the Calendar day of implementation. We would therefore argue that this supports the case for Calendar day implementation.</p>
RWEnpower	Calendar Day	Npower acknowledges that the Settlement day will increase the number of claims that a Party makes, however we believe it also increases the central system costs and complexity for Parties. This will result in disproportional costs compared to benefit derived.
E.ON UK	Calendar Day	Applying the prospective Implementation Date for P235 Proposed on a Calendar day basis would be a more efficient, clearer approach than maintaining the inconsistencies by implementing on a Settlement Day basis.
EDF Energy	Calendar Day	A prospective calendar day implementation would minimise the number of runs against which Parties could raise trading disputes and overall would minimise the length of time where the FAA calculations are inconsistent with the code. The calculation should also be more straightforward for

Respondent	Response	Rationale
		the FAA to implement and for parties to follow. Overall we believe this would be a clearer and more efficient process for parties than the settlement day approach.

Question 3: Do you believe that **Alternative Modification P235 (which would have a **retrospective Implementation Date of 27 March 2001**) would better facilitate the achievement of the Applicable BSC Objectives when compared with the existing Code drafting?**

Please state the reason(s) for your view, and which Applicable BSC Objective(s) you believe to be relevant and why

Summary

Yes	No	Neutral/Other
5	0	0

Responses

Respondent	Response	Rationale
SAIC Ltd. (for and on behalf of Scottish Power)	Yes	<p>ScottishPower believe that the Alternative Modification will better facilitate the BSC Objectives, compared with the current baseline:</p> <p>Objective c) Making the change to the BSC retrospective effectively removes the ability for Parties to raise Trading Disputes for differences they may (or may not) have incurred had the interest calculation been run using the BSC methodology. Disputes in this area are likely to be far reaching in their scope, and time consuming and expensive in their execution. The initial ELEXON analysis has shown that there is very little in the way of financial movement as a result of calculating interest payments using the BSC methodology over the FAA methodology, and in our opinion there is little likelihood of a Party receiving more back as a result of a successful dispute than the industry will spend in re-calculating. Additionally there is the possibility of Parties who have left the arrangements being owed / owing monies. Providing the certainty that a retrospective change brings will surely aid Parties in achieving Objective c.</p> <p>Objective d) Ensuring that the central systems are aligned with the BSC (and vice-versa) will ensure that the BSC is administered in an efficient way.</p>
Centrica	Yes	For the same reasons outlined in question 1.
RWEpower	Yes	<p>There is a need to align the BSC with the existing correct practice. Introducing the retrospective implementation of the Modification has a number of benefits:</p> <ul style="list-style-type: none"> • If Parties submit claims for the TDC to apply the BSC method of

Respondent	Response	Rationale
		<p>calculation, Parties would be exposed to uncertainty as they would not know their cash position until all claims have been settled.</p> <ul style="list-style-type: none"> Removes the ability for Parties to submit claims only for periods that may benefit them. Removes the associated central costs from processing such claims for extra settlement calculation and invoice production to Elexon and the FAA who would have to recalculate and invoice all Parties for a 20 month period. (see above) As part of the claims process all Parties will incur disproportionate large costs from revalidating and reprocessing invoices for a potentially small (if any) benefit. Due to this we believe applying the Modification retrospectively is justified. The Alternative Modification would also remove the problem of determining costs owed by Parties that may be in administration or have exited the code. The Modification Group determined that the FAA methodology was correct, fair and reflects the true value of money, therefore allowing Parties to recalculate interest charges under the BSC methodology and raising trading disputes would appear to be inappropriate.
E.ON UK	Yes	P235 Alternative would also better facilitate BSC Objectives c) to promote effective competition and d) promotion of efficiency in implementation and administration of the balancing and settlement arrangements.
EDF Energy	Yes	In addition to the reasons provided in question one, the alternative modification (retrospective) removes the potential for trading disputes to be raised and the potential reopening of historical calculations or payments. This would minimise administrative effort by Elexon, the FAA and all parties, avoid need for system and process changes, and remove uncertainty for all parties. Although we would not ordinarily support retrospective changes, we do support retrospective application in the exceptional circumstances identified in this case (see note below).

Question 4: Do you believe that the (retrospective) **Alternative Modification P235 would better facilitate the achievement of the Applicable BSC Objectives when compared with the (prospective) Proposed Modification?**

Please state the reason(s) for your view, and which Applicable BSC Objective(s) you believe to be relevant and why

Summary

Yes	No	Neutral/Other
5	0	0

Responses

Respondent	Response	Rationale
SAIC Ltd. (for and on behalf of Scottish Power)	Yes	<p>ScottishPower believe that the Alternative Modification will better facilitate the BSC Objectives, compared with the Proposed:</p> <p>Objective c) Making the change to the BSC retrospective effectively removes the ability for Parties to raise Trading Disputes for differences they may (or may not) have incurred had the interest calculation been run using the BSC methodology. Disputes in this area are likely to be far reaching in their scope, and time consuming and expensive in their execution. The initial ELEXON analysis has shown that there is very little in the way of financial movement as a result of calculating interest payments using the BSC methodology over the FAA methodology, and in our opinion there is little likelihood of a Party receiving more back as a result of a successful dispute than the industry will spend in re-calculating. Additionally there is the possibility of Parties who have left the arrangements being owed / owing monies. Providing the certainty that a retrospective change brings will surely aid Parties in achieving Objective (c). Conversely, allowing disputes (Proposed) will have a detrimental effect on Objective (c).</p>
Centrica	Yes	<p>Centrica believes that, in general, modifications with retrospective effects should be avoided due to the uncertainty and risk they create for Parties, and the detrimental impact on market confidence. However, there can, on very limited occasions, be particular circumstances that may warrant such modifications.</p> <p>In this case it can be argued that a retrospective change to the BSC is required to ensure that there are no retrospective changes to Party cashflows (where such retrospective changes would revert to an obviously flawed interest calculation and unfair cashflows).</p> <p>Centrica believes that, in this instance, the value of certainty in cashflows and market confidence outweighs Parties having the right to raise a Trading Dispute. Such a Trading Dispute is only possible due to apparent poor BSC drafting at Neta Go-Live and would result in the potential for a Party to gain from a flawed interest calculation. The interest calculations that have occurred, been settled on, and never disputed are the more appropriate ones given that they better represent the time value of money. Therefore the Alternative Modification would better facilitate competition (Objective (c)) by providing the confidence that the appropriate cashflows are not going to potentially be changed.</p>
RWEnpower	Yes	<p>Alternative Modification P235 will provide clarity and transparency on the way interest is calculated for trading charged fulfilling objective: 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 retrospective approach would reduce the costs for central systems and to Parties and would fulfil objective: d.) Promoting efficiency in the implementation and administration of the balancing and settlement</p>

Respondent	Response	Rationale
		arrangements.
E.ON UK	Yes	In this case retrospective implementation to NETA Go-Live 27/03/01 would be desirable to help reduce uncertainty by removing the potential for Trading Disputes with associated work and costs to be raised over this matter. Thus also supporting BSC objectives c) and d).
EDF Energy	Yes	<p>We prefer the alternative for the reasons described above and support retrospective change in this case only because of the exceptional circumstances identified in the assessment report.</p> <p>However, we wish to note that we would not normally support retrospective modifications, unless there is the most compelling and exceptional circumstances and for well-established and previously stated reasons concerning undermining of investment decisions.</p> <p>Retrospectivity increases regulatory risk and cost of capital and is in general profoundly undesirable; however, this particular instance clearly involves a manifest error in the drafting of the BSC, settlement practice has already been following the FAA arrangements which does not have this error, and the redrafting of the BSC to reflect the discovery of the error, will cause no change to the financial position of any BSC Party when compared to the situation in which the BSC had not been stud</p>

Question 5: Would P235 avoid costs to your organisation which you would otherwise incur if your systems and processes had to be amended to align with the Code drafting?

If yes, please indicate the order of magnitude of these costs

Summary

Yes	No	Neutral/Other
3	2	0

Responses

Respondent	Response	Rationale
SAIC Ltd. (for and on behalf of ScottishPower)	Yes	ScottishPower (like other Parties) use the Sonet(Nevada) application for validation of financial transaction. If there was a change to the way in which the FAA systems calculate interest (e.g. if both P235 Proposed or Alternative were to be rejected) then there would need to be consequential changes made to Sonet. If this were the case, then a full impact assessment would need to be undertaken by St Clements Services to ascertain the cost of such a change. At this time no such IA has been carried out and we are therefore unable to provide these costs to you.
Centrica	No	We would continue to process the invoices received in the same

Respondent	Response	Rationale
		manner.
RWEpower	Yes	Alternative Modification P235 would avoid costs to both processes and systems that have been designed using the existing calculation.
E.ON UK	No	No major system changes would be required.
EDF Energy	Yes	<p>We have carried out an Industry High Level Impact Analysis on our internal systems. Results confirm that should the modification be approved there is no impact (our internal systems are currently compliant with how the FAA calculates interest).</p> <p>However, rejection of P235 would result in internal systems requiring amendment.</p> <p>It is estimated that the cost of implementing the necessary changes would be around £15k.</p> <p>A lead time of at least four months is required to enable the changes to be incorporated in a scheduled internal release.</p>

Question 6: Do you believe there are any other **implementation approaches which would better facilitate the Applicable BSC Objectives when compared with those developed by the Group? (e.g. a retrospective Implementation Date of 9 April 2009, the day that the Panel raised P235)**

Please state the reason(s) for your view

Summary

Yes	No	Neutral/Other
0	5	0

Responses

Respondent	Response	Rationale
SAIC Ltd. (for and on behalf of ScottishPower)	No	-
Centrica	No	-
RWEpower	No	The BSC should be aligned with current practice at the earliest opportunity which in this case we believe should be the start of NETA.
E.ON UK	No	Retrospective implementation to NETA Go-Live as the Group has suggested in P235 Alternative would appear most appropriate and in line with the

Respondent	Response	Rationale
		Objectives of the BSC to best achieve transparency, certainty and efficiency.
EDF Energy	No	-

Question 7: Do you have any further comments on P235 which you would like the Modification Group to consider?

Summary

Yes	No	Neutral/Other
0	5	0

Responses

Respondent	Response	Rationale
SAIC Ltd. (for and on behalf of ScottishPower)	No	ScottishPower are aware that the Panel and Authority may be reluctant to approve the Alternative Modification due to its retrospective nature, however we would urge them to consider it in this case. A retrospective implementation will have the net effect of removing the ability of Parties to raise trading disputes around this calculation, and we agree that, in general, Parties should be afforded every opportunity to reclaim overcharged monies. However, in this case, we believe that the uncertainty generated throughout the industry by allowing the spectre of what will likely become a long, drawn out and complicated disputes process with (based on the initial ELEXON analysis) little financial benefit to Parties outweighs the rights of individual Parties. Indeed, in this instance it is reasonable to assume that any trading dispute will have a net effect of almost zero on the industry as a whole (winners and losers).
Centrica	No	-
RWEpower	No	-
E.ON UK	No	-
EDF Energy	No	-