

ASSESSMENT REPORT for Modification Proposal P147
Introduction of a Notified Contract Capacity to limit Party liability in the event of erroneous contract notifications

Prepared by: The Settlement Standing Modification Group (SSMG)

Date of issue: 6 February 2004 **Document reference:** P147AR
Reason for issue: For Panel Decision **Issue/Version number:** Final/V1.0

This document has been distributed in accordance with Section F2.1.10¹ of the Balancing and Settlement Code.

RECOMMENDATIONS

The Settlement Standing Modification Group invites the Panel to:

- a) **AGREE that the Proposed Modification P147 should not be made;**
- b) **AGREE a provisional Implementation Date (in the event that the Authority determines that the Proposed Modification P147 should be made) of 22 February 2005 should an Authority determination be received before or on 28 May 2004, or 7 June 2005 should an Authority determination be received after that date but before or on 30 July 2004,;**
- c) **NOTE that no Legal Text has been prepared with respect to Proposed Modification P147;**
- d) **CONSULT with the Authority to determine if they would like the draft Modification Report to contain such text;**
- e) **AGREE that Modification Proposal P147 be submitted to the Report Phase in accordance with Section F2.7 of the Code; and**
- f) **AGREE that the draft Modification Report be issued for consultation and submitted to the Panel Meeting on 11 March 2004.**

¹ The current version of the Balancing and Settlement Code (the 'Code') can be found at www.elexon.co.uk/ta/bsc/el_docs/bsc_code.html

Intellectual Property Rights and Copyright - 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 England and Wales under the BSC. All other commercial use is prohibited. Unless you are a person having an interest in electricity trading in England and Wales 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.

Disclaimer - No representation, warranty or guarantee is made that the information provided is accurate, current or complete. Whilst care is taken in the collection and provision of this information, ELEXON Limited will not be liable for any errors, omissions, misstatements or mistakes in any information or damages resulting from the use of this information or any decision made or action taken in reliance on this information.

CONTENTS TABLE

Summary of impacted parties and documents	3
1 Description of Proposed Modification and assessment against the Applicable BSC Objectives	4
1.1 Modification Proposal.....	4
1.2 Proposed Modification P147: Mechanism	5
1.3 Consideration of the Issues Raised by Proposed Modification P147	6
1.4 Assessment of Proposed Modification P147 against the Applicable BSC Objectives.....	9
1.5 Consideration of Two Potential Alternative Modifications	10
1.6 Governance and regulatory framework assessment	14
2 Costs	14
3 Rationale for Modification Group’s recommendations to the Panel	16
4 Impact on BSC Systems and Parties	16
4.1 BSCCo	17
4.2 BSC Systems.....	17
4.3 Parties and Party Agents	18
5 Impact on Code and documentation	19
5.1 Balancing and Settlement Code	19
5.2 Code Subsidiary Documents	20
5.3 Impact on Core Industry Documents and supporting arrangements	21
6 Summary of consultations	21
6.1 Modification Group’s summary of the consultation responses.....	21
6.2 Comments and views of the Modification Group	24
7 Summary of Transmission Company analysis	24
8 Summary of external advice	24
9 Document control	24
9.1 Authorities	24
9.2 References.....	25
Annex 1 Modification Group details	26
a Modification Group Composition.....	26
b P147 Specific Terms of Reference	26
Annex 2 Consultation responses	28
Annex 3 BSC Agent impact assessments	40
Annex 4 Party impact assessments	48
Annex 5 BSCCo Impact ASsessment	48
Annex 6 Post Event Notification Error Rectification Process memo	55
Annex 7 Requirements Specification	70
Annex 8 Clarification of costs	70

SUMMARY OF IMPACTED PARTIES AND DOCUMENTS

As far as BSCCo has been able to assess the following parties/documents have been identified as being potentially impacted by Proposed Modification P147.

Parties	Sections of the BSC	Code Subsidiary Documents
Suppliers <input checked="" type="checkbox"/>	A <input type="checkbox"/>	BSC Procedures <input checked="" type="checkbox"/>
Generators <input checked="" type="checkbox"/>	B <input type="checkbox"/>	Codes of Practice <input type="checkbox"/>
Licence Exemptable Generators <input checked="" type="checkbox"/>	C <input type="checkbox"/>	BSC Service Descriptions <input checked="" type="checkbox"/>
Transmission Company <input type="checkbox"/>	D <input type="checkbox"/>	Service Lines <input type="checkbox"/>
Interconnector <input type="checkbox"/>	E <input type="checkbox"/>	Data Catalogues <input checked="" type="checkbox"/>
Distribution System Operators <input type="checkbox"/>	F <input type="checkbox"/>	Communication Requirements Documents <input type="checkbox"/>
Party Agents		
Data Aggregators <input type="checkbox"/>	G <input type="checkbox"/>	Reporting Catalogue <input checked="" type="checkbox"/>
Data Collectors <input type="checkbox"/>	H <input type="checkbox"/>	MIDS <input type="checkbox"/>
Meter Operator Agents <input type="checkbox"/>	J <input type="checkbox"/>	Core Industry Documents
ECVNA <input checked="" type="checkbox"/>	K <input type="checkbox"/>	Grid Code <input type="checkbox"/>
MVRNA <input checked="" type="checkbox"/>	L <input type="checkbox"/>	Supplemental Agreements <input type="checkbox"/>
BSC Agents		
SAA <input type="checkbox"/>	M <input checked="" type="checkbox"/>	Ancillary Services Agreements <input type="checkbox"/>
FAA <input type="checkbox"/>	N <input type="checkbox"/>	Master Registration Agreement <input type="checkbox"/>
BMRA <input type="checkbox"/>	O <input type="checkbox"/>	Data Transfer Services Agreement <input type="checkbox"/>
ECVAA <input checked="" type="checkbox"/>	P <input checked="" type="checkbox"/>	British Grid Systems Agreement <input type="checkbox"/>
CDCA <input type="checkbox"/>	Q <input type="checkbox"/>	Use of Interconnector Agreement <input type="checkbox"/>
TAA <input type="checkbox"/>	R <input type="checkbox"/>	Settlement Agreement for Scotland <input type="checkbox"/>
CRA <input checked="" type="checkbox"/>	S <input type="checkbox"/>	Distribution Codes <input type="checkbox"/>
Teleswitch Agent <input type="checkbox"/>	T <input type="checkbox"/>	Distribution Use of System Agreements <input type="checkbox"/>
SVAA <input type="checkbox"/>	U <input type="checkbox"/>	Distribution Connection Agreements <input type="checkbox"/>
BSC Auditor <input type="checkbox"/>	V <input checked="" type="checkbox"/>	BSCCo
Profile Administrator <input type="checkbox"/>	W <input type="checkbox"/>	Internal Working Procedures <input checked="" type="checkbox"/>
Certification Agent <input type="checkbox"/>	X <input checked="" type="checkbox"/>	Other Documents
MIDP <input type="checkbox"/>		Transmission Licence <input type="checkbox"/>
TLFA <input type="checkbox"/>		
Other Agents		
SMRA <input type="checkbox"/>		
Data Transmission Provider <input type="checkbox"/>		

X = Identified in Report for last Procedure
 N = Newly identified in this Report

1 DESCRIPTION OF PROPOSED MODIFICATION AND ASSESSMENT AGAINST THE APPLICABLE BSC OBJECTIVES

1.1 Modification Proposal

Modification Proposal P147 'Introduction of a Notified Contract Capacity to limit Party liability in the event of erroneous contract notifications' (P147) was raised by Npower Ltd ('the Proposer') on 19 November 2003. P147 seeks to introduce a new parameter, the 'Notified Energy Contract Capacity', into the Balancing and Settlement Code ('the Code') such that a Party can specify an upper limit on its contract notification volumes per Energy Account, and thus effectively limit the potential exposure to imbalance, specifically aimed at limiting the imbalance liability resulting from erroneous or malicious contract notifications. Furthermore, P147 proposes to put in place a warning mechanism whereby Parties are alerted when they reach a certain percentage (for example 80% and/or 90%) of the Notified Energy Contract Capacity.

The Proposer asserts that P147 would better facilitate achievement of the Applicable BSC Objectives because "P98² was approved on the grounds that by removing the risk of unlimited Settlement liability as the result of malicious or erroneous notifications it would encourage new entry by traders and thereby promote competition in generation and supply. By replacing Dual Notification with a voluntary limit on Settlement liability, the modification will replicate the benefits in the promotion of competition under BSC Objective (c). However, P98 was approved with a substantial cost attached, and was deemed to be neutral when assessed against BSC Objective (d). This modification will markedly reduce these costs, thus providing greater efficiency within the market and a benefit to customers, thus better fulfilling BSC Objective (d)."

On submission of the Modification Proposal, the Proposer requested that P147 be treated as an Urgent Modification (more detail about the rationale for the request, and the process followed, is provided in the Initial Written Assessment for P147). However, the Authority, on 21 November 2003, determined that P147 should not be granted urgent status, on the grounds that it did not exhibit any of the requisite characteristics (detailed in the Initial Written Assessment) for urgency to be granted. Therefore P147 was required to undergo the normal Modification Procedure.

The Panel considered the Initial Written Assessment for P147 at its meeting of 11 December 2003. The Panel agreed to submit P147 to a two month Assessment Procedure, with the assessment to be undertaken by the Settlement Standing Modification Group (SSMG). Furthermore, the Panel agreed that P147 should not be considered to be replacing Approved Modification P98 ('Dual notification of contract positions'), and instructed the SSMG to assess P147 accordingly.

The SSMG met three times to consider P147, on 18 December 2003, 13 January 2004 and 3 February 2004. The SSMG, at its meeting of 18 December 2003, defined the requirements for the solution to the Proposed Modification and undertook a BSC Agent impact assessment on this solution. The SSMG also identified two potential alternatives to P147, namely a time constraint on the ability to submit notifications (section 1.5.1) and a post event notification error rectification process (section 1.5.2 (and Annex 6)) which were also impact assessed by the BSC Central Service Agent.

The SSMG considered the Proposed Modification and the two potential alternatives at its meeting of 13 January 2004, and agreed that, pending the views of the industry consultation, the Proposed Modification should not be made, and that neither of the potential alternatives should be progressed.

The industry consultation was issued on 16 January 2004 (Reference 1), allowing eleven Business Days for responses. The consultation comprised the detail of the solution for the Proposed Modification and

² Approved Modification P98 'Dual Notification of contract positions'.

the potential alternatives, and the SSMG deliberations thereon. The BSC Central Service Agent impact assessment was also provided for further information. The remaining impact assessments (Parties / Party Agents, Funds Administration Agent and BSCCo) were obtained in parallel with the consultation.

The SSMG considered the results of the consultation and the remaining impact assessments at its meeting of 3 February 2004, and agreed the recommendations to be made to the Panel in respect of the Proposed Modification and agreed the way forward for the potential alternatives.

The SSMG, whilst expressing sympathy with the issue that P147 was raised to address (namely the mitigation of the risk associated with the potential exposure to unlimited liability as a result of erroneous or malicious notifications), unanimously agreed to recommend to the Panel that Proposed Modification P147 should not be made, mainly as a consequence of the 'unworkability' of the mechanism (section 1.3), and to a lesser degree, the magnitude of the development and implementation costs associated with the Proposed Modification (section 2). Furthermore, the SSMG noted that only two responses were made in respect of the Party impact assessment (Annex 4), and proposed that this could be interpreted as indicating the potential for a low take up of the Modification, which would further limit the benefits of P147

Given the unanimous lack of support for the Proposed Modification, the SSMG agreed that legal drafting should not be undertaken at this time in order to avoid incurring further expense, and that the Authority should therefore be requested, when the Assessment Report is presented at the Panel meeting of 12 February 2004, to indicate whether legal drafting would be required for the Proposed Modification. If the Authority determine that legal drafting is required for Proposed Modification P147, then the legal drafting will be commissioned and completed in time for its inclusion in the draft Modification Report submitted to industry consultation.

Furthermore, the SSMG agreed that both of the potential alternatives did not better facilitate achievement of the Applicable BSC Objectives than the Proposed Modification, and that therefore neither should be progressed, resulting in there not being an Alternative Modification presented for P147. The SSMG noted the support from the consultation responses in respect of the post event notification error rectification process, and, in recognition of the general consensus that P147 is not the appropriate vehicle for progression of this process, agreed that it would be more appropriate to raise this issue with the relevant Standing Modification Group, outside of the P147 process.

The SSMG finalised the Assessment Report by correspondence in the week ending 6 February 2004.

1.2 Proposed Modification P147: Mechanism

At its meeting of 18 December 2003, the SSMG identified a number of potential mechanisms for giving effect to Proposed Modification P147 and these are documented in full in the Requirements Specification (provided in Annex 7). The SSMG finalised the mechanism at its meeting of 3 February 2004, and the mechanism can be summarised at a relatively high level as follows:

1. A Party (optionally) registers its Notified Energy Contract Capacity, in MWh, for each of its Energy Accounts with the Central Registration Agent (CRA) or the Energy Contract Volume Aggregation Agent (ECVAA). The Notified Energy Contract Capacity is a Settlement Period value, representing the maximum aggregate contract volume for the specified Energy Account.

The Notified Energy Contract Capacity will be registered via a new automated report, such that the values can be amended by the Party at any time (not just within operational hours). Confirmation of the registered Notified Energy Contract Capacity values will be received either via the CRA – I014 Registration Report (where the registration takes place within the CRA) or via the ECVAA – I022 Forward Contract Report (where the registration takes place within the ECVAA).

2. The ECVAA will, on receipt of each notification, where the notification becomes effective within the next [48] Settlement Periods, calculate the aggregate contract volume for both counterparties and Energy Accounts, and where the aggregate contract volume (including volume(s) from the latest notification) breaches the Notified Energy Contract Capacity for either of the Parties, reject the notification to the submitting notification agent, and copy the rejection to both counterparties to the notification, specifying which Party has breached its Notified Energy Contract Capacity. Where the aggregate contract volume initially breaches 80% of the Notified Energy Contract Capacity, and / or where the aggregate contract volume has breached 90% of the Notified Energy Contract Capacity, a report will be sent to the affected Party detailing the percentage breach and the relevant Energy Account and the Settlement Period to which it applies.
3. At Gate Closure, the ECVAA will calculate the aggregate contract volume for each Party and Energy Account for Settlement Period $j + [48]$. Where the aggregate contract volume initially breaches 80% of the Notified Energy Contract Capacity, and / or where the aggregate contract volume has breached 90% of the Notified Energy Contract Capacity, a report will be sent to the affected Party detailing the percentage breach and the relevant Energy Account and the Settlement Period to which it applies. Notifications will not be rejected, as it will be the responsibility of the Party to take appropriate action on receipt of the warning.

It should be noted that the checks at (2) and (3) where the ECVAA looks forward through a number of Settlement Periods is intended to be parameterised, i.e. although it is currently defined / recommended as a check through the next 48 Settlement Periods (see section 1.3), the number of Settlement Periods is to be a parameter such that if there is, in the future, an industry requirement to either increase or decrease the number of Settlement Periods, this can be undertaken relatively easily. It is proposed that the Code be silent on the number of Settlement Periods included in the check, and the responsibility for the approval of the actual number of Settlement Periods to be lodged with the Panel or other delegated committee, such as the Imbalance Settlement Group.

1.3 Consideration of the Issues Raised by Proposed Modification P147

1.3.1 Terms of Reference for the Assessment of P147

The SSMG considered the P147 specific Terms of Reference (provided in Annex 1(b)) and noted the direction of the Panel that P147 should not be considered to be seeking to replace Approved Modification P98 'Dual Notification of Contract Positions'. The SSMG, whilst surprised at the direction, (on the grounds that such a replacement seemed, from the Proposal, to have been the aim of P147 and as such, in the opinion of some of the SSMG, potentially offered more benefits as a replacement for the voluntary P98 dual notification mechanism, citing the rationale set out in the Proposal³), assessed P147 accordingly, namely as a Modification, which, if approved, would be implemented alongside Approved Modification P98.

1.3.2 Proposed Modification P147 Mechanism and Workability

The SSMG considered the potential mechanisms for Proposed Modification P147 and these are set out in the Requirements Specification (Annex 7) and section 1.2 defines the final mechanism agreed by the group.

During the discussion and the definition of the P147 mechanism, the SSMG uncovered a large number of complex issues specifically in terms of making the mechanism sufficiently flexible and useable such that it

³ The Proposal asserts that the benefits of P147 arise from the removal of uncertainty in the market resulting from the implementation of two parallel notification systems, and the removal of the potential for inflicting disproportionate costs on impacted parties, as those non-physical traders who might use the P98 functionality would not have to pay for the implementation and use of those systems.

was possible to deliver the proposed benefits. The SSMG discussed these issues at some length, with its discussions summarised below, and concluded that the mechanism, (under any definition), offers limited benefit as it is unlikely that the mechanism could be used meaningfully by Parties. Consequentially, the SSMG believe that the mechanism proposed under P147 does not fully address the defect set out in the Modification Proposal, namely the mitigation of the potential exposure to unlimited liability as the result of malicious or erroneous notifications.

The rationale for this is that:

1. A maximum limit / cap on the aggregate contract volume (i.e. the Notified Energy Contract Capacity) would protect against notifications that increase (in absolute terms) the net contract volume above that defined limit, however, an erroneous or malicious notification that decreases (in absolute terms) the aggregate contract volume can be just as damaging for a Party's imbalance position, but is not identified nor prevented under this mechanism;
2. Implementing a 'banded' approach, where notifications are only accepted when they bring the net contract volume to a value between an upper and lower Notified Energy Contract Capacity, in order to attempt to address the circumstance indicated at (1) above (i.e. to prevent the absolute decrease in contract volume) is not feasible under all circumstances. For example, where the actual (previously notified net) contract volume is zero and a band has been defined, only notifications submitted that will bring the net position into that band will be accepted, which may not be appropriate. . Effectively any 'banded' approach may prevent a legitimate position being taken;
3. A cap on the upper contract volume (in absolute terms) means that where a larger trade than normal is submitted legitimately, it could be prevented by the Notified Energy Contract Capacity limit in place. Thus without an extremely dynamic amendment process, the presence of a limit could present a risk of rejection for a legitimate trade. An additional example is where Interconnector Users bid for capacity on a daily basis, with consequent traded quantities reflecting that capacity, such that a non dynamic limit would render the mechanism relatively useless to such users. However, even where there is a process for automated amendments to the Notified Energy Contract Capacity, there is still the issue where a legitimate notification is rejected without time for the Party to amend the Notified Energy Contract Capacity and resubmit the notification, resulting in exposure to imbalance;
4. In order to obtain the maximum benefit from the mechanism, Parties would need to accurately predict their traded volumes across each Energy Account in order to register a meaningful Notified Energy Contract Capacity for each account. It is envisaged that this would be resource intensive, increasing the overheads on Parties in relation to contract notification. Furthermore, even an accurate prediction of the net contract volume for a Settlement Period may not be what is required, as for example, Parties may choose to take a long position on an account, which is drawn back or extended close to Gate Closure in response to the circumstances prevailing in the market at the time, but which may fall foul of the Notified Energy Contract Capacity or require constant amendments to the Notified Energy Contract Capacity in order to keep it up to date and reflective of the net contract position;
5. There is a complex issue as to how far ahead contract volumes need to be checked, and therefore aggregated for when performing the aggregation on receipt of a notification. For example, for 24-7 players allowing a check (and a rejection on breach) within the next four Settlement Periods only, arguably allows the Party sufficient time to react to rejections or warnings, whilst minimising the ECVAAs effort for checking. Furthermore, this time constraint protects from immediate malicious or erroneous notifications. This also ensures that a Party monitors / checks its own aggregate contract volume using the Acceptance Feedback Reports and Forward Contract Reports, so that it can address any erroneous and malicious notifications that are not immediately effective.

However, whilst this approach works for 24-7 operators, there is an issue with protecting non 24-7 Parties, as any rectification required outside of business hours cannot be identified or achieved. Therefore it may be considered to be appropriate to extend the Settlement Period check to, for example, three to ten days, to cover weekends and holidays respectively, thus protecting non 24-7 Parties from the effects of erroneous or malicious notifications made outside of business hours.

The SSMG considered that implementing a check across 48 Settlement Periods (section 1.2) was a pragmatic and reasonable compromise in terms of protection and flexibility as a trade off against the potential service degradation of the ECVAA (from performing a huge check on receipt of every relevant notification), noting that a check forward encompassing 3 days was considered by the SSMG to be more robust, with ten days considered even more robust.

6. Following on from (5), the SSMG also noted that although the protection for a non 24-7 Party is increased with the check running further out from the Settlement Period, any increase in the length of time the check is run over potentially has the effect of decreasing the flexibility and usability of the Notified Energy Contract Capacity. Effectively the notified capacity will be required to accurately reflect the volumes being notified forward over this period and where they do not (see issue (4) above), then rejections may occur more frequently causing issues in terms of dealing with the rejections in time (as set out at (3));
7. The issues described at (5) and (6) apply equally to the check performed at Gate Closure; and
8. The calculation of the aggregated volume becomes problematic and incredibly complex for a Party that is using a combination of single and dual notification, as there is an issue as to the volumes that are used in the aggregation for dual notifiers. The Party may, in addition to any single notifications, have a number of dual notifications in various states of matching. Therefore there is the issue as to whether the ECVAA should look only at the matched volumes, potentially causing an issue where a Settlement Period is pending matching, or only at the volumes notified by the Party (and Energy Account) in question, potentially leading to problems where there is an erroneous volume pending matching, or no volume notified.

The SSMG noted that there is no real 'right' answer to this problem as there are material issues with either approach. The SSMG further noted that if the checks performed on receipt of notifications and at Gate Closure are extended further out from the Settlement Period, then use of dual notified volumes becomes even more problematic, as the volume of data pending matching (and therefore unmatched) is likely to increase further out from the Settlement Period.

Therefore the SSMG believe that these limitations in the proposed mechanism effectively mean that Proposed Modification P147 does not fully achieve the aims of the Modification, namely protecting Parties from the potential exposure to unlimited liability from erroneous and / or malicious notifications, and that furthermore, these issues render the Proposed Modification unfeasible for implementation. This view was supported by a number of the consultation responses.

1.3.3 Proposed Modification P147 Development and Implementation Costs

The SSMG considered the Proposed Modification and the BSC Central Service Agent development and implementation costs associated with P147 (section 2). The SSMG noted that the change specific cost (and therefore the total cost) includes approximately £1.5 million attributable to additional hardware required to mitigate any ECVAA performance degradation as a result of the increased processing. The BSC Central Service Agent Impact Assessment (Annex 3) provides a set of assumptions and calculations in relation to the hardware required.

The SSMG considered the BSC Central Service Agent Impact Assessment, and raised the question as to how necessary the additional hardware was considered to be, i.e. would the postulated impact on the service cause an issue if the level of hardware proposed was not implemented. Therefore the SSMG

requested clarification of the impact assessment in this respect. The BSC Central Service Agent clarified that, in its opinion the additional hardware would be necessary to retain the current service levels on the ECVAA, as if P147 were implemented without the additional hardware, then the Credit Check would take twice as long, furthermore notifications cannot be loaded during the Credit Check, and loading of notifications would take three and a half times as long, which would constitute an unacceptable processing delay.

However, it should be noted that the BSC Central Service Agent estimations of the hardware required to support P147 are based on a 'worst case' scenario, and therefore there may be some scope for assessing the assumptions made in respect of the hardware required, with a view to reducing it should the take up of P147 be less than that assumed.

The SSMG expressed the opinion that the BSC Central Service Agent development and implementation costs are of a magnitude that, even were the £1.5 million hardware costs to be removed, the costs of implementing P147 would outweigh the benefits, especially given the limitations of the mechanism (section 1.3.2).

However, in order to confirm that opinion, the SSMG included a question in the consultation (section 6) aimed at assessing whether Parties would support the implementation of Proposed Modification P147 if the hardware costs turned out to be unnecessary i.e. were able to be removed from the development and implementation costs of P147 (question 2 in the consultation). The consultation responses indicated that the lack of support for P147 would not change if this £1.5 million were removed. Furthermore, one response clarified that its lack of support arose from the 'unworkability' of the solution to P147, and therefore was not cost dependent.

The SSMG, at its meeting of 3 February 2004, agreed that the cost of implementing Proposed Modification P147, whilst a significant issue against approving the Modification, was a second order issue compared to the infeasibility of the mechanism, but contributes to a degree to the decision to recommend that P147 should not be made.

1.4 Assessment of Proposed Modification P147 against the Applicable BSC Objectives

The Modification Proposal asserts that P147 would better facilitate achievement of the Applicable BSC Objectives because "P98 was approved on the grounds that by removing the risk of unlimited settlement liability as the result of malicious or erroneous notifications it would encourage new entry by traders and thereby promote competition in generation and supply. By replacing Dual Notification with a voluntary limit on settlement liability, the modification will replicate the benefits in the promotion of competition under BSC Objective (c).

However, P98 was approved with a substantial cost attached, and was deemed to be neutral when assessed against BSC Objective (d). This modification will markedly reduce these costs, thus providing greater efficiency within the market and a benefit to customers, thus better fulfilling BSC Objective (d)."

The SSMG therefore assessed P147 against Applicable BSC Objectives (c) and (d), as they believe it to be neutral to the other objectives.

The SSMG concluded unanimously (including the Proposer) that P147 does not, overall, better facilitate achievement of the Applicable BSC Objectives. It should be noted that as a consequence of the infeasibility of the solution for Proposed Modification P147 the SSMG place a lower order of materiality on the detrimental impact of the development and implementation costs of P147 on the Applicable BSC Objectives. The majority of the SSMG expressed the opinion that, even were the costs associated with P147 less significant, the difficulties of the mechanism would render the Modification unworkable and thus (also) detrimental to Applicable BSC Objective (c). Furthermore, the SSMG noted that only two responses were made in respect of the Party impact assessment (Annex 4), and proposed that this could

be interpreted as indicating the potential for a low take up of the Modification, which would further limit the benefits of P147.

However, it should be further noted that the SSMG expressed sympathy for the issues raised within the Modification Proposal in relation to the exposure to imbalance risk via an erroneous or malicious notification. A number of the SSMG believe that the voluntary nature of Approved Modification P98 means that there is still the potential risk of such exposure, where Parties choose not to implement dual notification, and / or where single notification is used where a Party has implemented dual notification but its counterparty has not, so single has to be the notification mechanism for the Party pairing.

1.4.1 Applicable BSC Objective (c)

The SSMG noted that the inadequacies of the mechanism proposed (section 1.3.2) means that P147 would be unlikely to have the effect of removing the risk of unlimited Settlement liability resulting from malicious or erroneous notifications. Therefore the SSMG agreed that P147 cannot be said to better facilitate achievement of Applicable BSC Objective (c), as where the risk is not removed the benefits, namely encouragement of new entrants, are not achieved.

Therefore the SSMG concluded that P147 does not better facilitate achievement of Applicable BSC Objective (c).

1.4.2 Applicable BSC Objective (d)

The SSMG noted that the development and implementation costs associated with Proposed Modification P147 are material, and considering the dubious benefits of the proposed mechanism (section 1.3.2), far outweigh the delivered benefit of the Modification.

Therefore the SSMG concluded that P147 does not better facilitate achievement of Applicable BSC Objective (d).

1.5 Consideration of Two Potential Alternative Modifications

The SSMG considered two potential alternatives to Proposed Modification P147, a system based time constraint limit on submissions and a manual post event notification error rectification process (similar in application to Section P6 of the Code). The SSMG, for the reasons set out below, determined that neither option should be progressed to form an Alternative Modification to P147, and therefore no Alternative Modification is proposed.

1.5.1 Potential Alternative 1: Time Constrained Notifications

Mechanism

At its meeting of 18 December 2003, the SSMG identified two potential alternatives to P147, the first of which comprises a time constraint on notifications being made against a Party. The proposed process would be to enable a Party to specify a time period where, should a notification be received which is not notified by that Party (i.e. Party = ECVNA), or by an ECVNA specified by the Party, the notification is rejected. For example, a non 24-7 player would be able to specify that notifications received from its counterparties outside of Business hours should be rejected.

There were two potential ways of achieving this requirement, either to:

1. Allow each Party to specify the time period where notifications are to be rejected; or
2. To have a defined 'non operational' block, applicable to all Parties that choose to apply it.

ECVAA would hold a list of Party – ECVNA equivalences, or to implement a process whereby the Party nominates the ECVNA which is allowed to submit outside of the specified times.

ECVAA would also need to amend the validation process and to amend the rejection reason code for notifications rejected as 'out of hours'.

Impact Assessments

An impact assessment was received from the BSC Central Service Agent in respect of this potential alternative, as follows:

Description	Service Provider Total Cost	Service Provider Change Specific Cost	Service Provider Annual Maintenance Cost
Time constrained notifications	£316,139	£79,689	£11,156

The Service Provider total price comprises the Service Provider change specific costs and its release costs, but excludes the Service Provider's annual maintenance charge. These costs also exclude any ELEXON development and implementation costs and resource.

SSMG Deliberations

The SSMG considered this first potential alternative and agreed that it should not be progressed as an Alternative Modification to P147. The SSMG believe that this potential alternative does not fully address the defect that P147 identified (namely the mitigation of the risks of exposure to unlimited liability from erroneous or malicious notifications), as it will not prevent an erroneous or malicious notification being made during business hours which then cannot be rectified.

Therefore the SSMG agreed that this potential alternative does not better facilitate achievement of the Applicable BSC Objectives than the Proposed Modification, and therefore is not a valid Alternative. The SSMG noted that the majority of the consultation responses support the view of the SSMG that this option should not be progressed as an alternative to Proposed Modification P147.

1.5.2 Potential Alternative 2: Post Event Notification Error Rectification

Mechanism

At its meeting of 18 December 2003, the SSMG also identified a second potential alternative to P147 which comprises a process which would allow, within a tightly defined timescale, erroneous or malicious notifications to be rectified. Such erroneous or malicious notifications would be identified by the Party. The Party would then apply to the Panel for rectification. Where the Panel agrees the rectification, then the rectification will be made via manual input into ECVAA. It is envisaged that the process would be prospective (i.e. would only apply to notification errors occurring post implementation), and would be broadly similar to the Past Notification Error rectification process defined in Section P6 of the Code, encompassing many similar features, such as the Error Correction Payment, and a consideration / determination as to whether the notifier was reasonable and prudent in relation to the error.

An impact assessment was received from the BSC Central Service Agent in respect of this potential alternative, as follows:

Description	Service Provider Total Cost	Service Provider Change Specific Cost	Service Provider Annual Maintenance Cost
Manual Rectification Approx cost for rectification: 48 Settlement Periods @ £365	£0	£0	£0

The Service Provider total cost comprises the Service Provider change specific costs and its release costs, but excludes the Service Provider's annual maintenance charge. These costs also exclude any ELEXON development and implementation costs and resource, as well as excluding any Funds Administration Agent (FAA) development and implementation costs from the implementation of an Error Correction Payment.

SSMG Memorandum: Notification Error Rectification Precedents

The SSMG requested, at its meeting of 18 December 2003, that BSCCo look at precedents in relation to post event notification error rectification, i.e. the Authority determinations in respect of a number of relevant Modifications (namely P9, P19, P35, P37, P44, and P128, and P98 and P110), as well as the determinations made in respect of Approved Modification P37 (i.e. in relation to Past Notification Error claims made under Section P6 of the Code), in order to derive a prospective notification error rectification process that would address the issues raised by the Authority in previous related determinations, and which would allow notification error rectification that would⁴:

1. Maintain the strong incentives on Parties to deliver correct notifications: If the incentives to have robust contract notification systems in place are inadequate, it is likely that Parties would wish to correct or adjust their notifications more frequently due to errors and this could adversely affect the efficient administration of the Code; and
2. Eliminate the potential for ex post trading to take place: Inadequate constraints on notification error rectification may allow Parties to seek to make intentional post Gate Closure adjustments to their traded quantities. Thus raising concerns that ex post trading might increase the opportunities for players with generation assets, even in a generally competitive market, to drive up the prices that participants with short positions will have to pay to reduce their imbalance exposure after real time and before contract notification.

The analysis in respect of the previous Authority determinations was provided with the consultation document, in the form of a memorandum to the SSMG, and is appended in Annex 6. The SSMG considered the memorandum at its meeting of 13 January 2004, and agreed that it should be attached to the consultation, as the SSMG believed that it provided detail in respect of a post event notification error rectification process that would provide useful context for respondents to the consultation.

It should be noted that the memorandum set out the initial thinking on a possible Alternative Modification for P147, in response to a request from the SSMG, and that this was intended to provide a 'straw man' for consideration by the SSMG and thus was not intended to be a definitive set of requirements nor to represent the thinking of the SSMG.

Furthermore, the summaries in the memorandum document are interpretations of Authority determinations and are therefore not intended to be definitive, and certainly do not replace the Authority determinations themselves.

SSMG Memorandum

The SSMG considered the potential alternative and agreed that it should not be progressed as an Alternative Modification to P147. The SSMG considered the post event notification error rectification process, and raised a number of issues in respect of this potential alternative, namely:

1. Although the post event notification error rectification process is considered to be a valid alternative to P147 (a manual process for error rectification could be considered to be addressing the same defect as Proposed Modification P147, since the Modification Proposal asserts that P147 is seeking to

⁴ The two bullet points relate to the main issues raised by the Authority in previous determinations regarding notification error rectification, with the wording in these two bullet points derived from the P37 Authority determination.

"limit liability associated with contract notifications identified in Modification Proposal P98 and enable these risks to be effectively managed by Parties at much lower cost [*than P98*]", the SSMG believe that this solution deviates significantly from the intent of the Proposed Modification, and goes further than the Proposed Modification in addressing the defect.

The SSMG therefore believe that a modification with the significance of a post event notification error rectification process should have a wider consideration than the SSMG, and therefore question the appropriateness of considering such a process without a wider audience. A number of the SSMG believe that there may be merit in a post event notification error rectification process, but believe that it should be raised as a Modification in its own right, such that it gets an appropriate audience, rather than progressed as an alternative to P147;

2. The SSMG raised concerns in relation to the determination on the ongoing (prospective) consideration of notification error claims, noting that any determination would have to be subjective, based on a number of relatively loosely defined criteria (as defining strict criteria is not possible, given the vast range of circumstances that could lead to notification errors / malicious notifications. In the absence of tightly defined criteria, the Panel / Panel delegated committee would be required to apply a certain element of discretion / judgement when determining what constituted a valid claim. As such, the process may not provide the requisite level of transparency and impartiality. Furthermore, the absence of rigid qualifying criteria may open the process to legal reprisals;
3. The SSMG also raised concerns in respect of the amount of effort required to define the notification error rectification process. The SSMG noted that a material amount of effort would be needed in order to progress this potential alternative, and therefore expressed concerns in expending this effort without a degree of certainty that industry, and the Authority, would welcome such an initiative;
4. The SSMG also raised concerns in relation to the process to be followed. The Past Notification Error rectification process defined in Section P6 of the Code provides a reasonable precedent for the ongoing (prospective) consideration of notification error claims, and the SSMG noted the material costs associated with implementing the 'P6' process and in reaching a determination on each claim. A number of SSMG members believe that the costs associated with an ongoing (P147) process are likely to be of the same order of magnitude, and therefore potentially outweigh the benefit of the process; and
5. A number of the SSMG raised concerns that the constraints in respect of raising a claim, coupled with the increased experience of trading, would mean that the post event notification error rectification process may be implemented (incurring significant cost and resource effort), and then never, or rarely, utilised. Therefore the benefit of the process would be outweighed by the administrative burden.

Therefore on balance the SSMG agreed, pending consideration of the consultation responses, that this potential alternative to P147 should not be progressed.

The SSMG agreed to consult on the decision not to progress the potential alternative comprising the post event error rectification process, in order to obtain industry views on whether the industry would welcome a notification error rectification process proposed as an Alternative to P147. The SSMG agreed that if the consultation responses indicated that there was a requirement for such a process and that it was appropriate to progress the process under P147, then the SSMG would have sought to:

1. Request the Panel and the Authority for an extension to the Assessment Procedure such that the full implications of the process can be considered;

2. Provide an interim report on the findings of the SSMG in respect of P147 and the potential alternative, and seek to obtain the provisional thinking of the Authority in respect of progressing this alternative, in order to ensure that the significant effort required is both warranted and focused correctly; and
3. Open the Modification Group to a wider audience, such that representation can be extended to include Past Notification Error process experts.

However, the majority of the consultation responses indicated support for the view of the SSMG that this potential alternative should not be progressed under P147, noting that there was some support for the mechanism per se, and therefore the SSMG confirmed its agreement that this potential alternative should not be progressed.

1.6 Governance and regulatory framework assessment

It is envisaged that, were Proposed Modification P147 to be approved, potential consequential amendment to the Grid Trade Master Agreement (GTMA) would be required to reflect the amended liabilities where a notification is rejected as a result of a breach of the Notified Energy Contract Capacity, and the contract is not notified.

2 COSTS⁵

PROGRESSING MODIFICATION PROPOSAL

Demand Led Cost	£0
ELEXON Resource	40 Man days (equating to approximately £9600)

IMPLEMENTATION COSTS

* These tolerances are not available. Tolerances were not provided by the BSC Central Service Provider as a consequence of the size of the development required and the uncertainty surrounding the strategy for replacing the live hardware.

		Stand Alone Cost	P147 Incremental Cost	Tolerance
Service Provider⁶ Cost	Change Specific Cost	£1,924,631 **	£1,924,631 **	+/-*%
	Release Cost	£334,150		+/-*%
	Incremental Release Cost	£22,886	£22,886	+/-*%
	Total Service	£2,281,667 **	£1,947,517 **	+/-*%

⁵ Clarification of the meanings of the cost terms in this section can be found in Annex 7 of this report

⁶ BSC Agent and non-BSC Agent Service Provider and software Costs

	Provider Cost			
Implementation Cost	External Audit	£182,500	£155,000	+/-20%
	Design Clarifications	£115,000	£97,500	+/-100%
	Additional Resource Costs	£0	£0	
	Additional Testing and Audit Support Costs	£40,000		+/-25% (£10,000)
Total Demand Led Implementation Cost		£2,619,167	£2,200,017	+/- *%

ELEXON Implementation Resource Cost		500 Man days (equating to approximately £200,000 per annum)	260 Man days (equating to approximately £104,000 per annum)	+/- 35%
Total Implementation Cost		£2,819,167	£2,304,017	+/- *%

** These costs include an indicative £1.5 million allocated to the implementation of new hardware required to prevent the degradation of the ECVAAs service as a result of the increased processing (section 1.3.3). The BSC Central Service Agent estimations of the hardware required to support P147 are based on a 'worse case' scenario, and therefore there may be some scope for assessing the assumptions made in respect of the hardware required, with a view to reducing it should the take up of P147 be less than that assumed.

ONGOING SUPPORT AND MAINTENANCE COSTS

	Stand Alone Cost	P147 Incremental Cost	Tolerance
Service Provider Operation Cost	£ Not provided	£ Not provided	
Service Provider Maintenance Cost	£59,448 per annum	£59,448 per annum	+/-*%
ELEXON Operational Cost	100 man days (equating to approximately £40,000 per annum)	100 man days (equating to approximately £40,000 per annum)	+/-*%

3 RATIONALE FOR MODIFICATION GROUP'S RECOMMENDATIONS TO THE PANEL

In summary, the SSMG have recommended that:

1. Proposed Modification P147 should not be made;

The SSMG have unanimously agreed to recommend that Proposed Modification P147 should not be made as it does not better facilitate achievement of the Applicable BSC Objectives (for the rationale set out in section 1.4), namely that the Proposed Modification is not considered to fully mitigate the risk of erroneous or malicious notifications and therefore does not deliver the benefits associated with the risk mitigation. Furthermore, the costs associated with the development and implementation of P147 are material and outweigh the limited benefits delivered by P147.

2. No firm Implementation Dates have been proposed at this time, the dates provided are provisional; and

No firm Implementation Dates are proposed at this time as a consequence of the project duration (and therefore the lead time required for implementation) not being available from the BSC Central Service Agent. Thus, now the solution / mechanism has been finalised by the SSMG at its meeting of 3 February 2004, the intent is to finalise the lead times required, and therefore confirm the Implementation Dates with the BSC Central Service Agent prior to the draft Modification Report being issued for consultation.

Therefore provisional Implementation Dates of 22 February 2005 (should an Authority determination be received before or on 28 May 2004) or 7 June 2005 (where an Authority determination is received after 28 May 2004 but before or on 30 July 2004) are proposed, in the event that the Authority determines that Proposed Modification P147 should be made.

3. No Alternative Modification has been proposed.

Section 1.5 sets out the detailed rationale, however, in summary two potential options for an alternative were explored by the SSMG. The first was a mechanism whereby a Party could constrain the times that a notification could be made against them (section 1.5.1), to attempt to mitigate the risk of erroneous / malicious notifications being submitted against them outside of working hours. The SSMG agreed that this should not be progressed as it does not mitigate the risk of erroneous or malicious notifications being made against the Party within working hours. Therefore the SSMG agreed that this option did not meet the defect / issue identified by the Modification Proposal and therefore could not be considered to be better than the Proposed Modification.

The second mechanism the SSMG considered was a post event notification error rectification process (section 1.5.2). This would be similar in effect to the claims process implemented under Section P6 of the Code, but on a prospective basis. The SSMG, whilst considering there to be some merit in this approach, agreed that P147 was not the appropriate vehicle to progress this aspect, given that the solution deviates significantly from the intent of the Proposed Modification, and goes further than the Proposed Modification in addressing the defect. The SSMG therefore felt that this solution should be raised as a Modification in its own right, such that it gets an appropriate audience, rather than being progressed as an alternative to P147.

4 IMPACT ON BSC SYSTEMS AND PARTIES

An assessment has been undertaken in respect of BSC Systems and Parties and the following areas have been identified as potentially being impacted by the Proposed Modification and any Alternative Modification.

4.1 BSCCo

The BSCCo impact assessments (provided in full in Annex 6) indicate that there are the following impacts:

- Development and implementation of P147. The materiality of the development incurs ELEXON resource of approximately 500 man days for a standalone implementation and development (i.e. worst case scenario), comprising approximately 445 man days of CVA Programme resource, 30 man days of Systems Assurance resource, and 22 days Service Delivery resource for changes to their systems and processes. Development and implementation as part of a BSC Systems release incurs incremental ELEXON resource of approximately 260 man days (comprising 205 man days of CVA Programme resource, 16 man days systems Assurance resource, and 22 man days of Service Delivery resource);
- The introduction of P147 has an impact on BSCCo, from the potential amendment to the CRA – I020 Operations Registration Report, to include the Notified Energy Contract Capacity. Furthermore, amendments to the ECVA – I022 Forward Contract Report to include the Notified Energy Contract Capacity have an impact on the ELEXON operational system TOMAS;
- BSCCo is also impacted by the potential extension of the scope of Trading Queries and Disputes to encompass disputes arising from the incorrect application of the Notified Energy Contract Capacity by the ECVA. It should be noted that it is envisaged that the process currently utilised for rectification following an ECVA System Failure could be used to make any rectifications following resolution of such a Trading Query or Dispute, with little amendment, since it is a manual process; and
- Supporting these Trading Queries / Disputes, and managing the Notified Energy Contract Capacity process, is envisaged to require a material amount of ELEXON resource, expected to have an approximate equivalence with the amount of effort required to support the Energy Indebtedness and Credit Default processing, approximated at 100 man days per annum operational support. Furthermore, supporting the queries / disputes raised under the P147 process will require access to ECVA information (for example Energy Account level aggregated contract volumes) in real time that is not currently available, which will need to be made available / obtained.

4.2 BSC Systems

The BSC Central Service Agent Impact Assessment is provided in full in Annex 3. It should be noted that the BSC Central Service Agent Impact Assessment comprises a number of potential options and the SSMG have chosen option 4 as the final solution for Proposed Modification P147.

System / Process	Potential Impact of Proposed Modification P147
Registration	The registration processes are impacted by the requirement for Parties to (optionally) register the Notified Energy Contract Capacity (via an automated interface) for each Energy Account. The Central Registration Agent (CRA) would be required to implement a new process and amend system functionality to enable this registration, and to notify the Energy Contract Volume Aggregation Agent (ECVA) of the relevant values.
Contract Notification	The ECVA will be required to put a process in place to derive the aggregate volume of contract notifications for each Energy Account when processing received notifications, thus ensuring that notifications that would have the effect of exceeding the Notified Energy Contract Capacity are rejected. ECVA is impacted by the requirement for a new rejection reason code for

System / Process	Potential Impact of Proposed Modification P147
	notifications rejected because they would have the effect of increasing the aggregate contract volume on an Energy Account such that it exceeds the Notified Energy Contract Capacity.
Credit Checking Systems	The ECVAAs will be required to implement a process which, at Gate Closure, checks the net aggregated contract volume for each Energy Account where there is a Notified Energy Contract Capacity registered, looking [n] Settlement Periods forward, and which warns the Party, via an automated e-mail where the aggregate contract volume reaches 80% and 90% of the Notified Energy Contract Capacity for any of the Settlement Periods checked.
Balancing Mechanism Activities	No impact
Collection and Aggregation of Metered Data	No impact
Supplier Volume Allocation	No impact
Settlement	No impact
Clearing, Invoicing and Payment	No impact
Reporting	<p>Additional reporting would be required to support the process of warning Parties where the aggregate volume of contract notifications is approaching the Notified Energy Contract Capacity.</p> <p>The rejection reason codes in the Rejection Feedback Reports for notifications require amendment, although it should be noted that the format of the report will not change.</p> <p>Furthermore, the Registration reports from the CRA (the CRA – I014 to Parties, and the CRA – I020 to BSCCo) / Forward Contract Report (ECVAA – I022) would require amendment to include the Notified Energy Contract Capacity variable, as would registration request reports into CRA (the CRA – I005 or a new automated and dedicated equivalent).</p>
Dispute Resolution	It is envisaged that the scope of disputes would have to be extended / amended to reflect disputes raised where notifications that had the effect of exceeding the Notified Energy Contract Capacity have been erroneously accepted by the ECVAAs.

4.3 Parties and Party Agents

The introduction of P147 potentially has an impact on the systems of Parties and notification agents:

System / Process	Potential Impact of Proposed Modification P147
Party registration processes	Parties are impacted by the requirement to register, if required, the Notified Energy Contract Capacity, and to receive amended registration reports (CRA – I014) / Forward Contract Report (ECVAA – I022)

System / Process	Potential Impact of Proposed Modification P147
	confirming the registered values.
Party notification processes / systems	<p>Parties are impacted by the requirement to recognise that there is a new reason for notifications to be rejected by the ECVAA and therefore to implement processes to deal with such rejection.</p> <p>Furthermore, Parties will be impacted by the new rejection reason code in the Rejection Feedback Reports from the ECVAA.</p>
Party commercial arrangements	Parties may have to amend existing commercial agreements (such as the Grid Trade Master Agreement (GTMA)) to reflect the possibility for notifications to be rejected as a consequence of a breach of Notified Energy Contract Capacity, and to address any liability arising from such rejection where the counterparty to the rejected notification is consequentially exposed to imbalance.
Party Agent (ECVNA and potentially MVRNA) notification processes / systems	<p>Notification Agents may be impacted by the requirement to recognise that there is a new reason for notifications to be rejected by the ECVAA and therefore to implement processes to deal with such rejection.</p> <p>Furthermore, notification agents will be impacted by the new rejection reason code in the Rejection Feedback Reports from the ECVAA.</p>
Grid Trade Master Agreement (Commercial Agreement)	Amend existing commercial agreements (such as the Grid Trade Master Agreement (GTMA)) to reflect the possibility for notifications to be rejected as a consequence of a breach of Notified Energy Contract Capacity, and to address any liability arising from such rejection where the counterparty to the rejected notification is consequentially exposed to imbalance.

5 IMPACT ON CODE AND DOCUMENTATION

5.1 Balancing and Settlement Code

It should be noted that legal drafting has not been undertaken at this time, at the recommendation of the SSMG, in order to avoid incurring further expense. The Authority is to be requested, when the Assessment Report is presented at the Panel meeting of 12 February 2004, to indicate whether legal drafting is required for the Proposed Modification. If the Authority determines that legal drafting is required for Proposed Modification P147, then the legal drafting will be commissioned and completed in time for its inclusion in the draft Modification Report submitted to industry consultation.

Section	Potential Impact of Proposed Modification P147
Section M	M 'Credit Cover and Credit Default' may require amendment as it seems to be the most appropriate section for including the obligations surrounding the registration of the Notified Energy Contract Capacity, and the reporting whereby the aggregate contract volume is approaching the Notified Energy Contract Capacity.
Section P	P 'Energy Contract Volumes and Metered Volume Reallocations' may require amendment to cover the rejection process, where a notification is rejected as it

Section	Potential Impact of Proposed Modification P147
	has breached the Notified Energy Contract Capacity.
Section V	V 'Reporting' may require amendment to reflect the warning reports, where a warning message is issued to indicate that the aggregate contract volume is approaching the Notified Energy Contract Capacity.
Section W	W 'Trading Queries and Trading Disputes' may require amendment to reflect that the scope of disputes would have to be extended to incorporate disputes raised where notifications that had the effect of exceeding the Notified Energy Contract Capacity have been erroneously accepted by the ECVAA.
Section X, Annex X-1/X-2	Annex X-1 'Technical Glossary' and / or Annex X-2 'Technical Glossary' requires amendment to include a definition of Notified Energy Contract Capacity, and other definitions required to support P147.

5.2 Code Subsidiary Documents

Proposed Modification P147 would potentially impact the following Code Subsidiary Documents:

Item	Potential Impact of Proposed Modification P147
CRA Service Description	The CRA Service Description requires amendment to reflect the process for registering the Notified Energy Contract Capacity.
ECVAA Service Description	The ECVAA Service Description requires amendment to reflect the process for determining the aggregate contract volume, checking notifications received against the Notified Energy Contract Capacity, providing warning messages to Parties where the aggregate contract volume is approaching the Notified Energy Contract Capacity and rejecting notifications where the notification would have the effect of breaching the Notified Energy Contract Capacity.
BSCP71 'ECVNA and MVRNA Registration, Authorisation and Termination'	BSCP71 requires amendment to include the registration process for registering the Notified Energy Contract Capacity (as it seems the most appropriate BSCP to include this process in).
NETA Data File Catalogue (NDFC)	The NDFC requires amendment to reflect the new and amended reporting for P147, i.e. inclusion of the Notified Energy Contract Capacity in the registration reports (CRA – I014 and CRA – I020) / Forward Contract Report (ECVAA – I022), and potentially the new warning messages to Parties where the Notified Energy Contract Capacity is being approached.
Reporting Catalogue	The Reporting Catalogue requires amendment to reflect the new and amended reporting for P147, i.e. inclusion of the Notified Energy Contract Capacity in the registration reports (CRA – I014 and CRA – I020) / Forward Contract Report (ECVAA – I022), and potentially the new warning messages to Parties where the Notified Energy Contract Capacity is being approached.

5.3 Impact on Core Industry Documents and supporting arrangements

No impact identified.

6 SUMMARY OF CONSULTATIONS

Ten responses, on behalf of fifty-two Parties and one non Party, were received in respect of the consultation on P147. The following table summarises the responses.

Consultation question	Respondent agrees	Respondent disagrees	Opinion unexpressed
Do you agree with the SSMG's decision not to progress Proposed Modification P147 (section 3 in the consultation document)?	9	0	1
Would your answer to question 1 above be different if the BSC Agent development and implementation costs excluded the £1.5 million cost of additional hardware?	YES 0	NO 8	2
Do you agree with the SSMG's decision not to progress the potential alternative to Modification P147 comprising a time constrained notification submission (section 4 in the consultation document)?	8	0	2
Do you agree with the SSMG's decision not to progress the potential alternative to Modification P147 comprising the post event notification error rectification process (section 5 in the consultation document)?	6 (Response 010 provided a 'No' response, but answer strongly indicates 'Yes')	2 ⁷	2
In your opinion, is there an Alternative Modification that should be considered by the SSMG?	YES 1	NO 8	1
Do you believe Proposed Modification P147 better facilitates the achievement of the Applicable BSC Objectives?	YES 1	NO 8	1
Does P147 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure?	YES 1	NO 8	1
Are there any further comments on P147 that you wish to make?	YES 0	NO 9	1

6.1 Modification Group's summary of the consultation responses

The following summarises the issues raised by the respondents to the consultation on P147.

⁷ Although one of the responses believes a new Modification may be the appropriate way of progressing this option.

Q1 Do you agree with the SSMG's decision not to progress Proposed Modification P147 (section 3 in the consultation document)?

AGREES

- The costs are high and the benefits are limited, and therefore it is more cost-effective to pursue a modification that provides a means for post-event correction of error notifications;
- The enhanced transparency, monitoring and reporting functionality that is expected from P98 will enable Parties to avoid notification errors. In theory, this obviates the need for a P147 type mechanism since both Parties should be in a position to correct potential mistakes before they arise;
- There is some value in the proposed concept, however, there are a significant number of issues in terms of the chosen solution and the cost of the making the BSC changes;
- Incurring the costs of implementing P98 and P147 is not efficient and cannot be seen to better facilitate achievement of Applicable BSC Objective (d);
- The response from the Proposer asserts agreement with the recommendation that Proposed Modification P147 should not be made, assuming that a more cost-effective way of achieving the same aims with a non – system approach is possible. It is agreed that estimated costs of an automated system outweigh the benefits and it is preferable to pursue a non-system approach; and
- As proposed the solution is too blunt an instrument and would not be used to solve the problem identified. Attempts to make the solution more usable introduce unacceptable complexity. The solution is also likely to impose constraints on Parties' activities and has the potential for unexpected consequences that might very quickly lead to the facility not being used by anyone.

Q2 Would your answer to question 1 above be different if the BSC Agent development and implementation costs excluded the £1.5 million cost of additional hardware?

NO

- The cost implications without the hardware are still substantial and the derived benefits do not justify the implementation costs; and
- Cost is not the issue – it is the unsuitability of the proposed solution.

Q3 Do you agree with the SSMG's decision not to progress the potential alternative to Modification P147 comprising a time constrained notification submission (section 4 in the consultation document)?

AGREES

- The limited benefits do not warrant the expenditure;
- The time constraint does not fully address the defect identified by P147 as it will not prevent erroneous or malicious notifications being made within 'normal' business hours; and
- Given that P98 is in the process of development it would be better to see how that is used before trying to come up with additional risk mitigation solutions.

Q4 Do you agree with the SSMG's decision not to progress the potential alternative to Modification P147 comprising the post event notification error rectification process (section 5 in the consultation document)?

AGREES

- The enhanced transparency, monitoring and reporting functionality that is expected from P98 will enable Parties to avoid notification errors. In theory, this obviates the need for a P147 type mechanism since both Parties should be in a position to correct potential mistakes before they arise;
- Agree in principle with a post event notification error rectification process, but it is too far removed from P147 to be considered as an Alternative. Furthermore, in view of previous (relevant) Authority determinations such a process would require detailed and careful consideration, and thus should be progressed in its own right;
- A post event notification error rectification process, whilst cheaper in terms of system costs, could be hugely resource intensive and very subjective;
- Whilst having some support for a tightly defined post-event notification error rectification process any such process should address other defects as well as the one raised by this modification. Therefore this modification is not the correct vehicle for its discussion; and
- At this point in time, it would not be beneficial to assess a post-event notification error rectification process even though it is a valid alternative. If there is appetite for such a process then a separate Modification Proposal should be raised. It is a very complex area, which requires detailed analysis to determine a legally robust solution that will be useful to market participants and better facilitate achievement of the Applicable BSC Objectives.

DISAGREES

- This option provides a more substantive solution to what remains one of the most expensive problems for Trading Parties under NETA. It may be more appropriate to pursue through a new Modification; and
- This option is the most appropriate solution given that such events are likely to occur rarely but could potentially have high materiality. The procedure for claims under Section P6 of the Code is now widely understood within the industry, and whilst it is not a process Parties will choose to embark on lightly, it provides a reasonable route for resolution of complex issues. Given the determination on Rejected Modification P44, the Alternative should concentrate on a process limited to erroneous and malicious notifications only.

NO OPINION EXPRESSED

- One response did not provide a YES / NO response, but states that there may be value in a manifest error type provision for contract notifications, noting the concern that it should not result in a similar [resource intensive and expensive] process being created as for claims made under Section P6 of the Code. Where there is industry support, then a low cost solution should be developed. Therefore there is merit in further discussions taking place to consider the possibility of a manifest error provision for contract notifications.

Q5 In your opinion, is there an Alternative Modification that should be considered by the SSMG?

- A post event notification error rectification process, as defined in question 4.

Q6 Do you believe Proposed Modification P147 better facilitates the achievement of the Applicable BSC Objectives?

YES

- For the reasons set out in the rationale for raising the Modification Proposal, namely P98 was approved on the grounds that by removing the risk of unlimited Settlement liability as the result of malicious or erroneous notifications it would encourage new entry by traders and thereby promote competition in generation and supply. With a voluntary limit on Settlement

liability, the modification will replicate the benefits in the promotion of competition under BSC Objective (c). However, P98 was approved with a substantial cost attached, and was deemed to be neutral when assessed against BSC Objective (d). This modification will markedly reduce these costs, thus providing greater efficiency within the market and a benefit to customers, thus better fulfilling BSC Objective (d).

NO

- High costs and limited benefits do not better facilitate achievement of Applicable BSC Objective (d);
- Introduces additional cost and complexity into a process where mechanisms to mitigate against contract notification exposure are already in the process of being implemented. P147 is therefore an unnecessary change which will not alter the existing mechanism; and
- Its high cost and uncertain effectiveness mean that it does not facilitate the achievement of any BSC Objectives.

Q7 Does P147 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure?

- A post event notification error rectification process, as defined in question 4.

Q8 Are there any further comments on P147 that you wish to make?

No further comments were made.

The SSMG noted that the consultation responses broadly accord with its views, and the majority of the respondents agreed with the provisional recommendations of the SSMG, as set out in the consultation document.

6.2 Comments and views of the Modification Group

The SSMG noted that the responses did not raise any new, substantive issues that required further consideration. The SSMG further noted that the consultation responses broadly accord with the views and recommendations made by the SSMG, and therefore believe all of the points raised to be covered in the SSMG deliberations documented elsewhere within this report, such that no further consideration of the consultation responses is required here.

7 SUMMARY OF TRANSMISSION COMPANY ANALYSIS

As there is no Transmission Company specific impact or interest, the views of the Transmission Company have been included in the Party consultation and impact assessment responses and is therefore not provided separately.

8 SUMMARY OF EXTERNAL ADVICE

None.

9 DOCUMENT CONTROL

9.1 Authorities

Version	Date	Author	Reviewer	Change Reference
0.1	3/02/04	Mandi Francis	SSMG	Initial Draft for Review
0.1	3/02/04	Mandi Francis	Sarah Parsons	Initial Draft for Review

0.2	5/02/04	Mandi Francis	Sarah Parsons	Draft incorporating review comments
0.2	5/02/04	Mandi Francis	SSMG	For information
0.3	6/02/04	Mandi Francis	Richard Clarke	Draft incorporating review comments
1.0	6/02/04	Change Delivery		For Panel Decision

9.2 References

Ref	Document	Owner	Issue date	Version
1	P147 Consultation Document (P147AC10)	ELEXON	16 January 2004	V1.0 FINAL

ANNEX 1 MODIFICATION GROUP DETAILS

a Modification Group Composition

Member	Organisation
Tom Bowcutt	ELEXON (Chairman)
Mandi Francis	ELEXON (Lead Analyst)
Ben Willis	NPower (Proposer)
Tim Johnson	Powergen
Man Kwong Liu	Scottish Power
Joanne Ellis	Cornwall Consulting
Mark Manley	BGT
Steve Drummond	EDF Trading
Lisa Waters	Waters Wye
Louise Wilks	National Grid
Jerome Williams	Ofgem
Attendee	Organisation
Helen Bray	EDF Energy
Sanjukta Round	Cornwall Consulting

b P147 Specific Terms of Reference

Definition Issues

The issues relate to the detailed solution for registering, determining and applying the Notified Energy Contract Capacity, for example:

1. The timing of the calculation of the aggregate contract volume, i.e. is it to be calculated on receipt of a notification, and if so, how far forward is the calculation performed for, (specifically in the case of a long term or evergreen notification); and / or is the calculation undertaken periodically at defined times, for example, where there is a time constrained window for checking forward, and, once accepted, evergreen or long term notifications need to be periodically included in the ongoing calculation;

P147 proposes that the Notified Energy Contract Capacity is potentially registered seasonally, however, there is the potential for the Notified Energy Contract Capacity to be a daily, weekly, monthly, or other variable;

2. The process for updating the value of Notified Energy Contract Capacity, for example, if the Party receives a warning message on a non Business Day, a manual registration of the variable would mean that the capacity could not be updated until the following Business Day, potentially meaning that contracts could be rejected in the interim for breaching the Notified Energy Contract Capacity. Therefore, it may be appropriate to consider some mechanism for allowing a Party to suspend the

Notified Energy Contract Capacity, for example using a flag into the ECVAA that specifies that they do not wish notifications in excess of the Notified Energy Contract Capacity to be rejected, similar in effect to the 'permit notification rejection' flag on Credit Default Refusal and Rejection;

3. What form the Notified Energy Contract Capacity takes, for example is it a simple MWh value that reflects the maximum MWh imbalance exposure a Party is willing to take, noting that this approach disregards the Energy Imbalance Price, and could result in a relatively low MWh exposure at a relatively high Energy Imbalance Price, such that the actual imbalance liability is far larger than the Party anticipated. Or is a £ / MWh value more appropriate, whereby the MWh contract volume is translated into a £ / MWh figure, using (for example) a process similar to the Energy Indebtedness calculation, where the Party's settlement liability is approximated to more accurately reflect (and limit) the imbalance liability of the Party, noting that this has additional complexity and difficulty in accurately representing the settlement liability;
4. What form the warning message should take, and at what point should it be generated. P147 suggests possible warning at 80% and/or 90%, however, there is scope for different thresholds for generating the warning; and
5. Whether the registration of a Notified Energy Contract Capacity should be mandated for all Parties, or optionally registered by those Parties that wish to take advantage of the functionality.

Assessment Issues

There are a number of issues that require assessment during consideration of P147, additional to the assessment as to whether P147 better facilitates achievement of the Applicable BSC Objectives over the current baseline (noting that dual notification functionality forms part of the current baseline). It should be noted that the Panel agreed, at its meeting of 11 December 2003, that P147 does not replace the dual notification functionality currently being implemented by Approved Modification P98, and therefore must be considered as additional to this functionality. The issues for further consideration are:

1. Assessment of the impact on efficiency from implementation of P147, specifically in respect of development and implementation costs;
2. Assessment, via industry consultation, of the benefit of the P147 mechanism to industry;
3. Assessment of P147 in respect of the incentives to maintain robust notification systems and to notify correctly;
4. The Authority have indicated in a number of Modification determination letters (including P98) that a key objective of any amendment to the notification processes / obligations is to continue to ensure that there are strong incentives on Parties to maintain robust notification systems in order to deliver correct notifications. Therefore, assessment of P147 should include an assessment as to whether the implementation of an upper notification volume limit will maintain the incentive on Parties to notify correctly.
5. Assessment of the robustness of the mechanism for P147;

Depending on the definition of the Notified Energy Contract Capacity, there is still the potential for imbalance liability to be incurred as a result of an erroneous or malicious notification. Whilst this liability may be less than the capped level set by the Notified Energy Contract Capacity, it still has the potential to be large where there is a material Energy Imbalance Price in the period of exposure to imbalance, which could still be disproportionate for the Party so exposed. Therefore assessment of P147 should consider whether it is possible, and / or desirable, to mitigate the possibility of this situation occurring.

6. Consideration as to whether there is an Alternative Modification that addresses the same defect as P147;

Given the requirements set out in the Modification Proposal, a systems solution may be necessary. The calculations required to determine the aggregate contract volume over all notifications for an Energy Account, and the determination of the effect of a new notification at any point in time are complex, and require information that only the ECVAAs holds. Depending on the exact nature of the solution, a systems solution could incur significant development and implementation costs.

The Modification Group should consider this issue and may establish requirements for the Proposed Modification, or develop an Alternative Modification for P147 that is less system oriented.

ANNEX 2 CONSULTATION RESPONSES

The consultation was issued 16 January 2004. Representations were received from the following Parties:

No	Company	File Number	No. BSC Parties Represented	No. Non-Parties Represented
1.	InterGen (UK) Ltd	P147_ASS_001	4	1
2.	Midlands Electricity	P147_ASS_002	1	0
3.	Total Gas and Power Ltd	P147_ASS_003	1	0
4.	British Gas Trading	P147_ASS_004	1	0
5.	Scottish Power UK Plc	P147_ASS_005	6	0
6.	National Grid Company plc	P147_ASS_006	1	0
7.	RWE Trading	P147_ASS_007	10	0
8.	Scottish and Southern Energy	P147_ASS_008	5	0
9.	Powergen UK plc	P147_ASS_009	14	0
10.	EDF Energy Networks (EPN) plc	P147_ASS_010	9	0

P147_ASS_001 – InterGen (UK) Ltd

Respondent:	<i>Chris Ridgway</i>
No. of BSC Parties Represented	<i>4</i>
BSC Parties Represented	<i>CECL, IETS, RPCL, SPAL</i>
No. of Non BSC Parties Represented	<i>1</i>
Non BSC Parties represented	<i>InterGen (UK) Ltd</i>
Role of Respondent	<i>Generator</i>

Q	Question	Response	Rationale
1.	Do you agree with the SSMG's decision not to progress Proposed Modification P147 (section 3 in the consultation document)?	YES	Cost is high compared to the limited benefits of a NCC. It would be far more cost effective and encompassing to pursue a modification that provides a means for post-event correction of notification errors.

Q	Question	Response	Rationale
2.	Would your answer to question 1 above be different if the BSC Agent development and implementation costs excluded the £1.5 million cost of additional hardware?	NO	Costs remain high and benefits limited.
3.	Do you agree with the SSMG's decision not to progress the potential alternative to Modification P147 comprising a time constrained notification submission (section 4 in the consultation document)?	YES	Again the limited benefits do not warrant the expenditure.
4.	Do you agree with the SSMG's decision not to progress the potential alternative to Modification P147 comprising the post event notification error rectification process (section 5 in the consultation document)?	NO	It seems that this would provide a more substantive solution to what remains one of the most expensive problems for trading parties under NETA. It may be more appropriate to pursue this through a new modification though.
5.	In your opinion, is there an Alternative Modification that should be considered by the SSMG?	NO	
6.	Do you believe Proposed Modification P147 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state which objective(s)	NO	The high cost of the proposal and the limited benefits do not better facilitate Applicable BSC objective (d).
7.	Does P147 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	NO	
8.	Are there any further comments on P147 that you wish to make?	NO	

P147_ASS_002 – Midlands Electricity

Midlands Electricity (Formally Aquila Networks PLC) would like to return a response of 'No Comment' to P147 Assessment Consultation.

Distribution Support Office & Deregulation Control Group

Midlands Electricity

P147_ASS_003 – Total Gas & Power Ltd

Respondent:	<i>Sharif Islam</i>
No. of BSC Parties Represented	<i>1</i>
BSC Parties Represented	<i>Total Gas & Power Ltd</i>
No. of Non BSC Parties Represented	
Non BSC Parties represented	
Role of Respondent	<i>(Supplier / Trader)</i>

Q	Question	Response	Rationale
1.	Do you agree with the SSMG's decision not to progress Proposed Modification P147 (section 3 in the consultation document)?	YES	TG&P agree with and support the views of the SSMG in points 1 and 2, Section 3.2 of the consultation document. Additionally, the enhanced transparency, monitoring and reporting functionality that we expect from implementation of P98 will enable Parties to avoid notification errors. This, in theory, avoids the need for P147 type mechanisms since both Parties should be in a position to correct potential mistakes <u>before</u> they arise.
2.	Would your answer to question 1 above be different if the BSC Agent development and implementation costs excluded the £1.5 million cost of additional hardware?	NO	See rationale for answer to question 1.
3.	Do you agree with the SSMG's decision not to progress the potential alternative to Modification P147 comprising a time constrained notification submission (section 4 in the consultation document)?	YES	See rationale for answer to question 1.
4.	Do you agree with the SSMG's decision not to progress the potential alternative to Modification P147 comprising the post event notification error rectification process (section 5 in the consultation document)?	YES / NO	See rationale for answer to question 1.
5.	In your opinion, is there an Alternative Modification that should be considered by the SSMG?	NO	Detail of Alternative:
6.	Do you believe Proposed Modification P147 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state which objective(s)	NO	Not in the slightest. See rationale for answer to question 1.

Q	Question	Response	Rationale
7.	Does P147 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	NO	
8.	Are there any further comments on P147 that you wish to make?	NO	

P147_ASS_004 – British Gas Trading (BGT)

Respondent:	Mark Manley
No. of BSC Parties Represented	
BSC Parties Represented	British Gas Trading (BGT)
No. of Non BSC Parties Represented	
Non BSC Parties represented	
Role of Respondent	

Q	Question	Response	Rationale
1.	Do you agree with the SSMG's decision not to progress Proposed Modification P147 (section 3 in the consultation document)?	YES	<p>BGT do believe there is some value in the concept being proposed. However BGT recognise there are significant number of issues in terms of the chosen solution and the cost of making the necessary BSC changes.</p> <p>BGT therefore concur with the view of the modification group that P147 should not be progressed. The implementation costs of P98 has meant that BSC Parties have already incurred significant expenditure in terms of BSC Central Systems. Incurring this level of additional costs in addition to those of P98 can not be seen to better facilitate the Applicable BSC Objectives.</p>
2.	Would your answer to question 1 above be different if the BSC Agent development and implementation costs excluded the £1.5 million cost of additional hardware?	NO	The cost implications without the hardware costs are still substantial and the benefits derived from the proposal do not justify the implementation costs.
3.	Do you agree with the SSMG's decision not to progress the potential alternative to Modification P147 comprising a time constrained notification submission (section 4 in the consultation document)?	YES	BGT does not believe implementing a time constrained notification period greatly decreases the risks faced by BSC Parties in relation to contract notifications. Therefore BGT concur with the views of the modification group not to progress this alternative.

Q	Question	Response	Rationale
4.	Do you agree with the SSMG's decision not to progress the potential alternative to Modification P147 comprising the post event notification error rectification process (section 5 in the consultation document)?		<p>BGT believes there may be some value in considering a manifest error type provision for contract notifications. However BGT is concerned that introducing such a mechanism does not result in a similar process being created that was utilised to consider P6 claims. The processing of the P6 claims incurred a significant cost for all BSC signatories. If there was industry support for such a provision it should be implemented as a low cost solution.</p> <p>Therefore BGT believe that a Manifest Error provision could be introduced into the BSC. The process could be similar to that used when considering a Bid-Offer Acceptances Manifest Error claim. BGT recognise that this raises a number of questions that will need resolving. Notwithstanding these issues BGT believe there could be merit in further discussions taking place to consider the possibility of implementing a Manifest Error provision for contract notifications.</p>
5.	In your opinion, is there an Alternative Modification that should be considered by the SSMG?	NO	Detail of Alternative:
6.	Do you believe Proposed Modification P147 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state which objective(s)	NO	BGT believe that the costs associated with the proposed modification outweigh any benefits delivered by the proposal. Therefore BGT believe the downsides of Applicable BSC Objective (d) are significantly greater than any upsides provided under Objective (c).
7.	Does P147 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	Yes	The potential for a Manifest Error claims process for contract notifications.
8.	Are there any further comments on P147 that you wish to make?	NO	

P147_ASS_005 – Scottish Power UK plc

Respondent:	Man Kwong Liu
No. of BSC Parties Represented	6
BSC Parties Represented	Scottish Power UK plc; ScottishPower Energy Management Ltd.; ScottishPower Generation Ltd; ScottishPower Energy Retail Ltd.; SP Transmission Ltd; SP Manweb plc.
No. of Non BSC Parties	0

Represented	
Non BSC Parties represented	
Role of Respondent	Supplier / Generator / Trader / Consolidator / Exemptable Generator / Party Agent

Q	Question	Response	Rationale
1.	Do you agree with the SSMG's decision not to progress Proposed Modification P147 (section 3 in the consultation document)?	YES	We agree that the Proposed Mod should not be progressed or made on the basis that the excessive estimated costs for such an arrangement rendered the Proposed P147 inefficiency. Since the arrangement is also optional, as in the case of P98, we do not believe we would utilise this, as we are satisfied with the current process. The industry has already subsidised a system (P98), which majority did not want, we agree that further expenditure should not be incurred.
2.	Would your answer to question 1 above be different if the BSC Agent development and implementation costs excluded the £1.5 million cost of additional hardware?	NO	See our comment on Qu 1 above.
3.	Do you agree with the SSMG's decision not to progress the potential alternative to Modification P147 comprising a time constrained notification submission (section 4 in the consultation document)?	YES	Apart from the potential cost involved, we also agree that neither of the potential time constraint alternatives fully address the defect that P147 identified, as it will not prevent an erroneous or malicious notification being made during "normal" Business hours.
4.	Do you agree with the SSMG's decision not to progress the potential alternative to Modification P147 comprising the post event notification error rectification process (section 5 in the consultation document)?	YES	While we agree with the principle that there may be some process for notification error rectification, we believe that the potential alternative is too far removed from the intent of the P147 that it should not be progressed as an alternative. Also, in view of the Authority's previous decisions on similar Modifications, such a process would require detailed and careful consideration, which should be progressed in its own right and only if necessary.
5.	In your opinion, is there an Alternative Modification that should be considered by the SSMG?	NO	Detail of Alternative:

Q	Question	Response	Rationale
6.	Do you believe Proposed Modification P147 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state which objective(s)	NO	As mentioned above, the estimated cost of such arrangement means that it would not better facilitate the "efficiency" objective (d).
7.	Does P147 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	NO	
8.	Are there any further comments on P147 that you wish to make?	NO	

P147_ASS_006 – National Grid Company plc

Respondent:	National Grid Company plc
No. of BSC Parties Represented	<i>1</i>
BSC Parties Represented	<i>As above</i>
No. of Non BSC Parties Represented	<i>N/A</i>
Non BSC Parties represented	<i>N/A</i>
Role of Respondent	BSC Party

Q	Question	Response	Rationale
1.	Do you agree with the SSMG's decision not to progress Proposed Modification P147 (section 3 in the consultation document)?	YES	We believe that no perceivable additional benefit has been identified over and above P98, work for which is already underway and will not be removed as a result of this modification. Implementation will result in unnecessary and substantial costs.
2.	Would your answer to question 1 above be different if the BSC Agent development and implementation costs excluded the £1.5 million cost of additional hardware?	NO	Without hardware costs, changes to central systems will still result in circa £500k of costs. Irrespective of costs, this modification does not better facilitate the Applicable BSC Objectives.
3.	Do you agree with the SSMG's decision not to progress the potential alternative to Modification P147 comprising a time constrained notification submission (section 4 in the consultation document)?	YES	We do not see how this better facilitates the BSC objectives or indeed mitigates contract notification risk.

Q	Question	Response	Rationale
4.	Do you agree with the SSMG's decision not to progress the potential alternative to Modification P147 comprising the post event notification error rectification process (section 5 in the consultation document)?	YES	We believe that this is too far removed from the original intent of the modification and therefore does not form a valid Alternative. In addition, post event rectification, whilst cheaper in terms of systems costs, could be hugely resource intensive and very subjective.
5.	In your opinion, is there an Alternative Modification that should be considered by the SSMG?	NO	N/A
6.	Do you believe Proposed Modification P147 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state which objective(s)	NO	P147 introduces additional cost and complexity into a process where mechanisms to mitigate against contract notification exposure are already in the process of being implemented. Therefore this is an unnecessary change which will not alter the existing mechanism.
7.	Does P147 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	NO	
8.	Are there any further comments on P147 that you wish to make?	NO	

P147_ASS_007 – RWE Trading

Respondent:	<i>Terry Ballard</i>
No. of BSC Parties Represented	<i>10</i>
BSC Parties Represented	<i>RWE Trading, RWEInnogy, Innogy Cogen Ltd, Innogy Cogen Trading Ltd, Npower Ltd, Npower Direct Ltd, Npower Northern Ltd, Npower Northern Supply Ltd, Npower Yorkshire Ltd, Npower Yorkshire Supply Ltd</i>
No. of Non BSC Parties Represented	<i>None</i>
Non BSC Parties represented	<i>None</i>
Role of Respondent	<i>(Supplier/Generator/ Trader / Consolidator / Exemptable Generator / BSC Agent / Party Agent / other – please state</i>

Q	Question	Response	Rationale
1.	Do you agree with the SSMG's decision not to progress Proposed Modification P147 (section 3 in the consultation document)?	YES	On the assumption that there is a more cost-effective way of achieving the same aims with a non-system approach, we agree that the estimated costs of an automated system outweigh the benefits.

Q	Question	Response	Rationale
2.	Would your answer to question 1 above be different if the BSC Agent development and implementation costs excluded the £1.5 million cost of additional hardware?	YES / NO	It is not clear that the additional hardware to maintain ECVAAs system performance should be included but it leads to us to the assumption that it is preferable to pursue a non-system approach.
3.	Do you agree with the SSMG's decision not to progress the potential alternative to Modification P147 comprising a time constrained notification submission (section 4 in the consultation document)?	YES / NO	This would seem preferable to a system approach but may be overly complex since the issue being addressed is one that is likely to occur extremely rarely. Although a time-constrained notification mechanism would not necessarily prevent an erroneous or malicious notification per se, the existing reporting mechanisms would at least allow market participants to perform a checking process and rectify any discrepancies identified.
4.	Do you agree with the SSMG's decision not to progress the potential alternative to Modification P147 comprising the post event notification error rectification process (section 5 in the consultation document)?	NO	This would seem to be the most appropriate solution given that such events are likely to occur extremely rarely but could potentially involve high materiality. The 'P6' type procedure is now widely understood within the industry. Whilst it is not a process parties will chose to embark on lightly, it provides a reasonable route for the resolution of complex issues. The Authority has already considered and rejected a wider ranging prospective modification (P44); therefore the alternative in this case should concentrate on a process limited to erroneous or malicious notifications only.
5.	In your opinion, is there an Alternative Modification that should be considered by the SSMG?	YES	Please see answer to Q. 4 above.
6.	Do you believe Proposed Modification P147 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state which objective(s)	YES	Please see the rationale submitted on our original modification proposal.
7.	Does P147 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	NO	
8.	Are there any further comments on P147 that you wish to make?	NO	

P147_ASS_008 - Scottish and Southern Energy

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

In relation to the eight questions contained within your note of 16th January 2004, and the associated Assessment Consultation for P147, we have the following comments to make:-

Q1 Do you agree with the SSMG's decision not to progress Proposed Modification P147 (section 3 in the consultation document)?

Whilst we support the overall aims of P147 (given our comments on Modification P98) we agree with the SSMG decision that, given the cost of implementation, P147 should not be progressed further.

Q2 Would your answer to question 1 above be different if the BSC Agent development and implementation costs excluded the £1.5 million cost of additional hardware?

These £1.5M costs would still need to be recovered, so our answer for Q1 would remain the same.

Q3 Do you agree with the SSMG's decision not to progress the potential alternative to Modification P147 comprising a time constrained notification submission (section 4 in the consultation document)?

Yes.

Q4 Do you agree with the SSMG's decision not to progress the potential alternative to Modification P147 comprising the post event notification error rectification process (section 5 in the consultation document)?

Yes.

Q5 In your opinion, is there an Alternative Modification that should be considered by the SSMG?

One is not obvious to us at this time.

Q6 Do you believe Proposed Modification P147 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state which objective(s)

No. The benefits do not outweigh the costs.

Q7 Does P147 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale

None at this time.

Q8 Are there any further comments on P147 that you wish to make?

Nothing further at this time.

Scottish and Southern Energy plc

P147_ASS_009 – Powergen UK plc

Respondent:	Powergen UK plc
No. of BSC Parties Represented	14
BSC Parties Represented	Powergen UK plc, Powergen Retail 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
No. of Non BSC Parties Represented	0
Non BSC Parties represented	
Role of Respondent	Supplier, Generator, Trader, Consolidator, Exemptable Generator and Party Agent

Q	Question	Response	Rationale
1.	Do you agree with the SSMG's decision not to progress Proposed Modification P147 (section 3 in the consultation document)?	YES	<p>As proposed the solution is too blunt an instrument and would not be used to solve the problem identified. Attempts to make the solution more usable introduce unacceptable complexity. The solution is also likely to impose constraints on parties' activities and has the potential for unexpected consequences that might very quickly lead to the facility not being used by anyone.</p> <p>In addition, Dual Notification (P98) provides mitigation for this risk if a party can find other parties willing to notify accordingly, and that both parties are prepared to accept the increased risk of mis-notification that would follow failure of one party's notification system.</p>
2.	Would your answer to question 1 above be different if the BSC Agent development and implementation costs excluded the £1.5 million cost of additional hardware?	NO	Cost is not the issue – it is the unsuitability of the proposed solution.
3.	Do you agree with the SSMG's decision not to progress the potential alternative to Modification P147 comprising a time constrained notification submission (section 4 in the consultation document)?	YES	Again, given that P98 is in the process of development it would be better to see how that is used before trying to come up with additional risk mitigation solutions.
4.	Do you agree with the SSMG's decision not to progress the potential alternative to Modification P147 comprising the post event notification error rectification process (section 5 in the consultation document)?	YES	Whilst having some support for a tightly defined post-event notification error rectification process any such process should address other defects as well as the one raised by this modification. Therefore this modification is not the correct vehicle for its discussion.

Q	Question	Response	Rationale
5.	In your opinion, is there an Alternative Modification that should be considered by the SSMG?	NO	
6.	Do you believe Proposed Modification P147 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state which objective(s)	NO	Its high cost and uncertain effectiveness mean that it does not facilitate the achievement of any BSC Objectives?
7.	Does P147 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	NO	
8.	Are there any further comments on P147 that you wish to make?	NO	

P147_ASS_010 – EDF Energy Networks (EPN) plc

Respondent:	Tony Dicicco
No. of BSC Parties Represented	9
BSC Parties Represented	EDF Energy Networks (EPN) plc; EDF Energy Networks (LPN) plc EDF Energy Networks (SPN) plc; EDF Energy (Sutton Bridge Power) EDF Energy (Cottam Power) Ltd; EDF Energy (West Burton Power) Ltd; EDF Energy plc; London Energy plc; Seeboard Energy Limited
No. of Non BSC Parties Represented	0
Non BSC Parties represented	N/A
Role of Respondent	Supplier/Generator/ Trader

Q	Question	Response	Rationale
1.	Do you agree with the SSMG's decision not to progress Proposed Modification P147 (section 3 in the consultation document)?	YES	EDF Energy believes that the Proposed Modification would not implement a useful mechanism for market participants to limit their exposure from erroneous or malicious contract notifications.
2.	Would your answer to question 1 above be different if the BSC Agent development and implementation costs excluded the £1.5 million cost of additional hardware?	NO	No, the proposed solution does not help Parties to identify erroneous or malicious contract notifications any more than the current status quo and would not be worth implementing even if the solution has a lower cost.
3.	Do you agree with the SSMG's decision not to progress the potential alternative to Modification P147 comprising a time constrained notification submission (section 4 in the	YES	Rejecting contract notifications within a certain time of Gate Closure again would not help market participants to limit their risk from erroneous or malicious contract notifications.

Q	Question	Response	Rationale
	consultation document)?		
4.	Do you agree with the SSMG's decision not to progress the potential alternative to Modification P147 comprising the post event notification error rectification process (section 5 in the consultation document)?	NO	At this point in time, EDF Energy does not believe that it would be beneficial to assess a post-event notification error rectification process even though it is a valid alternative. If there is appetite for such a process then a separate Modification Proposal should be raised. It is a very complex area, which requires detailed analysis to determine a legally robust solution that will be useful to market participants and better facilitate Achievement of the Applicable BSC Objectives.
5.	In your opinion, is there an Alternative Modification that should be considered by the SSMG?	NO	Detail of Alternative: N/A
6.	Do you believe Proposed Modification P147 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state which objective(s)	NO	The Proposed Modification does not better facilitate any of the Applicable BSC Objectives as the proposed solution will not facilitate competition (Applicable BSC Objective (c)). Furthermore, the high implementation costs will not better facilitate achievement of Applicable BSC Objective (c).
7.	Does P147 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	NO	
8.	Are there any further comments on P147 that you wish to make?	NO	

ANNEX 3 BSC AGENT IMPACT ASSESSMENTS

Summary of the BSC Agent Impact Assessment

Option	Description	Total Price	Change Specific	Annual Price
Option 1	Automatic registration Automatic confirmation (CRA-I014/I020)	£2,311,069	£1,952,262	£63,317
Option 2	Manual registration (multiple values) Automatic confirmation (CRA-I014/I020)	£2,281,667	£1,924,631	£59,448
Option 3	Manual registration (single value) Automatic confirmation (CRA-I014/I020)	£2,281,667	£1,924,631	£59,448
Option 4 (Preferred Option)	Automatic registration Automatic confirmation (ECVAA-I022)	£2,281,667	£1,924,631	£59,448

Option	Description	Total Price	Change Specific	Annual Price
Option 5	Manual registration (multiple values) Automatic confirmation (ECVAA-I022)	£2,240,653	£1,888,927	£54,450
Option 6	Manual registration (single value) Automatic confirmation (ECVAA-I022)	£2,240,653	£1,888,927	£54,450
Option 7	Automatic registration Manual confirmation (BSCP form)	£2,240,653	£1,888,927	£54,450
Option 8	Manual registration (multiple values) Manual confirmation (BSCP form)	£2,194,960	£1,849,683	£48,956
Option 9	Manual registration (single value) Manual confirmation (BSCP form)	£2,194,960	£1,849,683	£48,956
Option 10	Automatic registration Manual confirmation (csv file)	£2,251,634	£1,898,138	£55,749
Option 11	Manual registration (multiple values) Manual confirmation (csv file)	£2,222,738	£1,871,013	£51,942
Option 12	Manual registration (single value) Manual confirmation (csv file)	£2,222,738	£1,871,013	£51,942
Alternative 1	Manual Rectification, incl. ECP Approx cost per rectification: 48 SPs = £365	£0	£0	£0
Alternative 2	Time constrained notifications	£316,139	£79,689	£11,156

The total price comprises the change specific costs and the release costs, but excludes the annual maintenance charge.

NETA Change Form		ELEXON Reference
		P147
Title	Version No.	
Introduction of a Notified Contract Capacity to limit Party liability in event of erroneous contract notifications	0.1	
	LogicaCMG Reference	
	ICR567	
Type of Assessment	Date CP Received	Date IA Issued
Indicative Impact Assessment	22/12/03	12/1/04
Brief Summary of Change		
A new parameter will be created Notified Energy Contract Capacity (NECC), such that a Party can specify an upper limit on its contract notification volumes per Energy Account and thus limit its imbalance liability resulting from erroneous or malicious notifications.		
This assessment is against the P147 Requirements Specification v0.2 dated 22 December 2003 [P147AS].		

LogicaCMG's Proposed Solution

Main Solution

There are 4 aspects to this solution: input flows of NECC values in the system, confirmation flows of NECC values out of the system, check breach of NECC values on receipt of notification, and check breach of NECC values at gate closure.

Registration of NECC values

There are 3 options:

Automatic flow

Tasks involved are:

1. New CRA loader to validate and load NECC values
2. New database table to store NECC values
3. New CRA screen to maintain NECC values

Manual flow – multiple values

Tasks involved are:

1. New database table to store NECC values
2. New CRA screen to maintain NECC values

Manual flow – single value

Tasks involved are:

1. New database table to store NECC values
2. New CRA screen to maintain NECC values

Confirmation of NECC values

There are 3 options:

Automatic flow 1

Tasks involved are:

1. NECC confirmation report (either new flow or new CRA-I014 subflow)
2. Amend CRA-I020 to include NECC values

Automatic flow 2

Tasks involved are:

1. Amend ECVAAs-I022 to include NECC values

Manual flow 1

Tasks involved are:

1. New manual process to return BSCP form

Manual flow 2

Tasks involved are:

1. New script to extract NECC values in CSV format
2. New manual process to email data to ELEXON

Application of NECC on receipt of notification

The software changes are as follows:

1. New internal flow from CRA to ECVAAs to transfer NECC values
2. New ECVAAs loader to load NECC values from CRA
3. New system parameter for number of periods after gate closure to perform NECC check
4. Amend ECVN loader to aggregate contract volumes on receipt
5. New feedback report to warn Party if aggregated volume above 80% / 90% of NECC
6. Modify Notification Rejection Feedback report (new rejection reason 'NECC breached')

This software change will introduce a much higher level of processing to ECVAA. To determine the additional processor requirements that would be required to aggregate contract volumes on receipt of notifications (ECVNs) some timings have been taken from the Live system. Note that the aggregation would be required for both counter-parties' energy accounts. MVRNs have been ignored since the live system typically receives just 1 MVRN per day.

Assume that the aggregation process required for P147 is similar to that implemented currently by the half-hourly ECVAA Credit Check process. Switching on debug for the Credit Check process allows the time taken by the aggregation part of the Credit Check process to be measured (although adjustment is required to counter the delays introduced by the debug commands). From a sample debug log file (using live data for Settlement Day 06-Jan-2004, Period 27), the following measurements were taken:

Credit Check elapsed time (with debug) = 198 seconds
 Aggregation elapsed time (with debug) = 81 seconds

Average Credit Check elapsed time (without debug) = 150 seconds (from sample live data)

The above aggregation process was for ECVNs only, and covered 92 Energy Accounts. From this data we can estimate the time taken to aggregate ECVN data for one Energy Account and one Settlement Period:

Aggregation time/Energy Account/Period = $(150 / 198) * 81 / 92 = 0.67$ seconds

Assume that all received notifications become effective within the next 4 periods, and that volumes need to be aggregated for each of these periods. Then, the additional elapsed time required to process an ECVN would be:

Aggregation time/ECVN = $0.67 \text{ seconds} * 2 \text{ Energy Accounts} * 4 \text{ periods} = 5.3$ seconds

Assuming that the current elapsed time to process an ECVN is 2 seconds (from sample live data), then the increase in elapsed time is:

Factor increase ECVN processing time = $(2 + 5.3) / 2 = 365\%$

i.e. to maintain processing capacity at current 'live' levels, processing speed needs to be increased by a factor of 3.65.

In reality, it may not be necessary to aggregate volumes for every received ECVN, and time savings may be achievable using multi-threading. However, these calculations support the judgement that the current processing capacity would need to be doubled, as a minimum, in order to implement P147 and retain existing performance levels.

This would require that the Live cluster and DR hardware be replaced with new hardware with twice the processing power. An indicative cost for this hardware is £1.5M.

Other tasks involved include:

- P147 software development and testing
- Upgrade PTS and internal development and test systems to new Unix version to match that of new live hardware
- Regression testing due to change of operating system/hardware architecture
- Migration of live service from old hardware to new hardware

Application of NECC at Gate Closure

The software changes are as follows:

1. Modify ECVAA credit checker to compare aggregated volumes to NECC values
2. New report (email using Credit Default address list) to warn Party of 80% / 90% NECC breach

This software change has the potential to introduce much higher levels of processing to ECVAA. For each extra Settlement Period that the half-hourly Credit Check has to process

there will be a proportionate amount of extra processing. Notification loading is suspended whilst the Credit Check process is running so processing of multiple Settlement Periods will have a significant performance impact.

The combinations of pricing options is summarised in the table below:

Confirmation flows	Registration flows		
	Automatic	Manual 1	Manual 2
Automatic 1	1	2	3
Automatic 2	4	5	6
Manual 1	7	8	9
Manual 2	10	11	12

Alternative Solution 1

This solution is to adopt a manual post event rectification process similar to the existing ECVAA System Failure recovery process. The steps in the process would be as follows:

1. Erroneous notification is submitted by Party and is loaded by ECVAA
2. At the earliest opportunity, the Party rectifies the error for settlement periods for which gate closure has not passed
3. Party notifies ELEXON of any periods for which gate closure correction is required
4. ELEXON decide through their own process whether the claim submitted by the Party is valid
5. ELEXON notify ECVAA of the changes required to the Party's notification data prior to the scheduled II, SF or subsequent reconciliation run
6. ECVAA make corrections to notification data via normal Disputes mechanism in time for the next settlement run. Corrections will only be performed during normal business hours
7. SAA runs the next scheduled settlement run using the amended notification data
8. SAA releases settlement results to ELEXON
9. ELEXON calculates any necessary error corrections payments and feeds this information to FAA

This manual process requires no development effort to implement.

Alternative Solution 2

This solution is to restrict the times during which notifications can be accepted (either to allow a Party to specify a rejection period during which only notifications from a nominated ECVNA can be accepted; or to allow a block 'non-operational' period to be specified during which no notifications can be accepted that involve the specified participants). Similar tasks are involved for both variations of this solution:

1. New ECVAA screen to maintain time constrained notification submission
2. Modify ECVN loader to reject notifications in accordance with (1).
3. Modify Notification Rejection Feedback report (new rejection reason 'Out of hours').

Deviation from ELEXON's Solution / Requirements

Pricing is indicative only

Operational Solution and Impact							
<u>Alternative Solution 1</u> The operation of manual post event rectification process will be charged T&M and it is estimated that correction of up to 48 settlement periods of data would take 0.5 days of effort at Programmer grade.							
Testing Strategy							
Unit	X	Change Specific	X	End to End			
Module	X	Operational Acceptance	X	Participant Testing			
System	X	Performance		Parallel Running			
Regression		Volume		Deployment/ Backout	X		
Other:							
Validated Assumptions							
None.							
Outstanding Issues							
None.							
Changes to Service							
Services Impacted							
	BMRA	CDCA	CRA	ECVAA	SAA	TAA	Other
Software			X	X			
IDD Part 1 (Docs)			X	X			
IDD Part 1 (S'heet)			X	X			
IDD Part 2 (Docs)			X	X			
IDD Part 2 (S'heet)			X	X			
URS			X	X			
SS			X	X			
DS			X	X			
MSS			X	X			
OSM			X	X			
LWIs			X	X			
RTP	None						
Comms	None						
Other	None						
Nature of Documentation Changes							
Nature / Size of System Changes							
Large							
Type of Release Costed:				Standalone Patch			
Deployment Issues, eg Outage Requirements:				Outage required.			

Impact on Service Levels:	None.
Impact on System Performance:	None.
Responsibilities of ELEXON	
Within reasonable levels, ELEXON will make available appropriate staff to assist LogicaCMG during the development of this change.	
Acceptance Criteria	
This is assumed to be covered by the acceptance criteria in the "CVA Program – Release Acceptance Criteria" document produced for the Feb03 release.	
Any Other Information	
None.	
Attachments	
P147 Price Presentation v0.1 P147 Issues Matrix	

PRICING		
Price Breakdown		
Item description	Remarks	Price (ex VAT)
Change Specific Costs	Option 1	£1,952,262
	Options 2 or 3 or 4	£1,924,631
	Options 5 or 6 or 7	£1,888,927
	Options 8 or 9	£1,849,683
	Option 10	£1,898,138
	Options 11 or 12	£1,871,013
	Alternative Solution 1	£0
	Alternative Solution 2	£79,689
Variable Release Costs	Option 1	£22,886
	Options 2 or 3 or 4	£22,886
	Options 5 or 6 or 7	£19,346
	Options 8 or 9	£14,667
	Option 10	£19,346
	Options 11 or 12	£19,346
	Alternative Solution 1	£0
	Alternative Solution 2	£6,449
Fixed Release Costs	Option 1	£335,920
	Options 2 or 3 or 4	£334,150
	Options 5 or 6 or 7	£332,380
	Options 8 or 9	£330,610
	Option 10	£334,150
	Options 11 or 12	£332,380
	Alternative Solution 1	£0
	Alternative Solution 2	£230,001
Total Price	Option 1	
	Options 2 or 3 or 4	£2,311,069
	Options 5 or 6 or 7	
	Options 8 or 9	£2,281,667

Option 10 Options 11 or 12 Alternative Solution 1 Alternative Solution 2	£2,240,653 £2,194,960 £2,251,634 £2,222,738 £0 £316,139
Price Tolerance	All these prices are indicative and no tolerance can be given
Project Duration	Cannot give a figure for duration as strategy for replacement of live hardware would need to be agreed before any planning could be done.
Operational Price	The Alternative Solution to be charged as T&M and the remaining Options £0 (to be confirmed)
Rationale	
None.	
Annual Maintenance Price	Option 1 £63,317 Options 2 or 3 or 4 £59,448 Options 5 or 6 or 7 £54,450 Options 8 or 9 £48,956 Option 10 £55,749 Options 11 or 12 £51,942 Alternative Solution 1 £0 Alternative Solution 2 £11,156
Rationale	
The Annual Maintenance Price is derived as 14% of the Change Specific Price of the software changes.	
Validity Constraints	
<ul style="list-style-type: none"> • These prices are indicative and cannot be used to place a purchase order • Price excludes provision for indexation of daily rates from 1st April 2004 • Price and duration assume that this change is developed in isolation and the effects of other changes are excluded • No allowance is included for the final solution being different from the BRS • Price is for creating DCRs, not a formal documentation issue • No allowance is included for supporting PwC activities. Any effort will be charged at contracted T&M rates • No allowance is included for supporting ELEXON assurance activities. Any effort will be charged at contracted T&M rates • No allowance is included for End to End/Participant Testing activities. Any effort will be charged at contracted T&M rates • No allowance is included for Walkthrough activities. Any effort will be charged at contracted T&M rates 	

This offer is based on the following payment schedule:	
<ul style="list-style-type: none"> LogicaCMG will invoice 30% on receipt of Purchase Order or authorised start of work, 30% on completion of first build phase, 30% on live implementation and 10% on successful completion of the Success Criteria or one month after live implementation, whichever is sooner Maintain charges will be invoiced monthly in arrears with part months charged pro rata Operate charge invoicing will be deferred until the de minimis limit has been reached 	
Authorised Signature	Date Signed

ANNEX 4 PARTY IMPACT ASSESSMENTS

Responses for MC00079: HLIA of P147

Organisation	Comments
Rachel Lockley British Energy Generation; British Energy Power and Energy Trading Lts, Eggborough Power Ltd	Would any of the Proposed Modification implementation options, as outlined in the attached Requirements Specification, impact your organisation? Yes If yes, please indicate which of the options would impact your organisation and provide a brief description of the impact, any costs incurred, and the implementation timescale required: The options described in the modification would need 3 months to implement.
Deborah Hayward Midlands Electricity	Midlands Electricity (Formally Aquila Networks PLC) would like to return a response of 'No Comment to MC00079: HLIA of P147.
Clare Talbot National Grid Company plc	Would any of the Proposed Modification implementation options, as outlined in the attached Requirements Specification, impact your organisation? We do not believe there to be any significant impact on National Grid Company plc systems or processes as a result of the modification proposal 147.

ANNEX 5 BSCCO IMPACT ASSESSMENTS

MP/CP No.	P147	Title:	Introduction of a Notified Contract Capacity to limit Party liability in event of erroneous contract notifications				
Assessor Name	John Lucas	Assessor Team	Design Authority	Date	20/11/03		
Stage of Assessment	Initial Assessment		Document Assessed	MP Form			
Likely Impacted Departments:							
CVA	Pro	gram	SVA	Prog	ram	IT	
	me	✓		me		Legal	

Governance		Comms		Finance		Strategic Com m. Servs		
Commercial and SVA A Operations.		CVA Operations ✓		Market Monitoring		Customer Services Management ✓		
Assurance		P6		Other (please specify)				
Likely ELEXON Activities:								
Procurement Activity Required		MRA CP Required		Special Project / Working Group Required		Legal Guidance Required		
BSC System Related Changes:								
	BMRA	CDCA	CRA	ECVAA	FAA	SAA	TAA	TLFA
Software			✓	✓				
Code Subsidiary Documents			✓	✓				
Other Configurable Items			✓	✓				
	SVAA	PARMS	EAC/AA	MIDP	NHHDA	BSC Website	NGC	TOMAS
Software								
Code Subsidiary Documents								
Other Configurable Items								
Non-BSC System Related Changes:								
BPM	✓	NDFC	✓	Reporting Catalogue		SVA Data Catalogue		Communications Reqs Document
IDD Part 1	✓	IDD Part 2	✓	EPFAL IDD Part 1		EPFAL IDD Part 2		Market Indicator Definition Statement
Service Descriptions	BSC Auditor		Certification Agent		Profile Administrator		Teleswitch Agent	
BSC Code Sections	Section P							

Core Industry Documents							
BSCPs	BSCP65 (assuming the process for notifying NECC values is described here)						
PSL							
SSL							
COPs							
Impacted Participants:							
BSC Parties	✓	Non BSC Parties		BSC Party Agents	✓	BSC Agents	✓
Core Industry Document Owners				BSC Panel			
Related Mods, CPs or other Projects:-							
<p>One of the stated justifications for this Modification Proposal is that it will save costs by replacing Approved Modification P98. The Modification Group will need to clarify whether the 'backing out' of P98 is an integral part of P147, or whether it's something outside the scope of P147 that P147 may facilitate.</p>							
Design Authority Comments, Issues or Risks:-							
<p>It should be noted that the protection offered to BSC Parties by P147 is significantly less than that offered by P98. A large Supplier may notify contract volumes of 4000 MWh or more per Settlement Period, and would therefore need to set their NECC at least this high. With contract notifications free to vary within a band of ± 4000 MWh, the scope for error is 8000 MWh per Settlement Period. Given a typical System Buy Price (SBP) of £25/MWh, this equates to £200,000 (or £10m per Settlement Day). At times of system stress SBP could be much higher, so in a worst-case scenario liabilities arising from erroneous notifications could run to tens or even hundreds of millions of pounds per Settlement Day.</p> <p>It should also be noted that P147 as written refers only to Energy Contract Volumes. Unless this is extended to include Metered Volume Fixed Reallocations, Parties' liabilities will still be essentially unlimited.</p> <p>The operational impact of P147 on ELEXON will obviously depend upon the nature of the mechanism required to notify Parties when their contract volume approaches their NECC. For instance, is it manual or automated? Is it required on a 24/7 basis? The Modification Group will need to clarify these issues. (They may also wish to consider whether this service would be better provided by ECVAAs, rather than BSCCo).</p>							
Assessor Name	Mike Sherrad	Assessor Team		CVA Programme		Date	05/02/04
1. Does this Impact your Department?				Yes			
2. System Impacts?		Yes					

Description:			
<p>ECVAA software will require amendment to validate that an ECVN does not take a Party above its NECC threshold(s). If it does, the ECVN will have to be rejected and ECVN rejection reports will need to accommodate the new reason for rejection.</p> <p>CRA will need to be able to load the new NECC parameter and interface it to ECVAA.</p> <p>The Business Process Model will be impacted.</p>			
Total Resources (man days) (Development)		See 7	Lead time
3. Process Impacts?	Yes		
Description:			
<p>New processes for registering, changing and reporting NECC values.</p> <p>New ECVAA or BSCCo processes required where Parties are to be advised via they've breached NECC.</p>			
Total Resources (man days) (Development)		See 7	Lead time
4. Documentation Impacts?	Yes		
Description:			
<p>ECVAA URS, System Specification and Operating Procedures</p> <p>CRA URS, System Specification and Operating Procedures</p> <p>IDD Part1, IDD Part 2</p> <p>NDFC</p> <p>Reporting Catalogue</p> <p>BSCP65 or BSCP71 will need to be amended to accommodate the initial registration (and possibly urgent revision) of the new NECC parameter (assume walkthrough will be required).</p> <p>BSC Agent CRA and ECVAA Operating Procedures may need to be revised to handle the registration of NECC and manage ECVN rejections.</p>			
Total Resources (man days) (Development)		See 7	Lead time
5. Operational Impacts?	No		
Description:			
Ongoing Resources (man days per annum) (Post-implementation)			
6. Impact on Interfaces with BSC Agents, BSC Parties, BSC Party Agents and other ELEXON Departments?			
Description:			
Dependency on BSC Agent to deliver NETA software and process changes			
7. Any other Comments or Assumptions made:			
<p>1. It is assumed that a Party will be notified in confidence (either by ECVAA or BSCCo) if it has breached its NECC, not via the BMRS or BSC Website. It would be cheaper and simpler for ECVAA to report direct to Parties who breach NECC; if a Party is to be advised it has breached its NECC via</p>			

BSCCo, this will require:

- an internal process within BSCCo Service Delivery for receiving notification from ECVAA and advising the relevant BSC Party;
 - manual interfaces from ECVAA to BSCCo and from BSCCo to the Party to support the above process.
2. Assume that the proposed NECC will relate to MVRNs as well.
 3. This urgent Modification is related to Modification P98, currently included in the June-04 and Nov-04 Releases. This Proposal does not have to be implemented in parallel with P98 or as an alternative to P98. However, there will be additional costs to back out P98 if a decision to substitute P147 for P98 is made.
 4. CVA Programme resource estimate:
 - Standalone Release = 445 days
 - Incremental Change (as part of Scheduled Release) = 205 days
 - Tolerance +/- 35%
 5. Reasons for change from initial resource estimate:
 - Standalone Release estimate now includes large overheads for project management, testing and deployment.
 - A high level of tolerance has been included as the changes are high risk in terms of their potential impact on BSC Parties and settlement calculations.
 - Both estimates now have additional provision for verification testing (because of the significance of the impact of capping on notified positions and settlement), a walkthrough of BSCP changes and increased provision for producing and reviewing changes to code subsidiary and other documents (our initial assessment classified these as simple, but subsequent assessment indicates they are likely to be more complex)
 6. Need to be sure of the cost/benefits of proceeding with P147, given the NETA CSA estimate of £2 million+.
 7. Note the NETA CSA assessment makes no provision for regression, E2E, volume, performance or participant testing phases.

Alternative options

8. Alternative option 1 (Post Event Rectification) would require no NETA system changes, and could be implemented through a new LWI for post event rectification, tested via walkthrough. Alternative option1 CVA Programme resource estimate:
 - Standalone Change = 125 days
 - Incremental Change = 45 days
 - Tolerance +/- 20% (to allow for clarification of the proposed process, if progressed)
9. Alternative option 2 would require no NETA system changes, and could be implemented through a new LWI for post event rectification, tested via walkthrough. Alternative option1 CVA Programme resource estimate:
 - Standalone Change = 245 days
 - Incremental Change = 55 days
 - Tolerance +/- 30% (to allow for clarification of the proposed process, if progressed)
10. Alternative option 1 appears to be the cheapest to implement and is based around existing P6 (PNE) processes.
11. Alternative option 2 is a NETA software change imposing time restrictions on Notification acceptance where the Party is not also the ECVNA. It would be useful to clarify how this solution can deliver the stated business objective of the Modification Proposal in all circumstances.
12. It is understood that alternatives 1 and 2 will not be progressed.

Overall Lead Time for Project: Neta CSA duration + 16 weeks	
--	--

Assessor Name	Richard Smith	Assessor Team	Corporate Assurance	Date	05/02/04
1. Does this Impact your Department?		Yes			
2. System Impacts?	No				
Description:					
Total Resources (man days) (Development)				Lead time	
3. Process Impacts?	Yes				
Description:					
As a consequence of the CVA Programme's DLIA, the man day estimates for the provision of assurance for the implementation of this modification are:					
16 man days as part of a scheduled release, or 30 man days for standalone.					
For alternative option 1: 5 man days as part of a scheduled release, or 8 man days for standalone.					
For alternative option 2: 6 man days as part of a scheduled release, or 16 man days for standalone.					
Total Resources (man days) (Development)				Lead time	
4. Documentation Impacts?					
Description:					
Total Resources (man days) (Development)				Lead time	
5. Operational Impacts?					
Description:					
Ongoing Resources (man days per annum) (Post-implementation)					
6. Impact on Interfaces with BSC Agents, BSC Parties, BSC Party Agents and other ELEXON Departments?					
Description:					
7. Any other Comments or Assumptions made:					
Overall Lead Time for Project					

Assessor Name	Gareth Evans	Assessor Team	CVA Operations	Date	24/11/03
1. Does this Impact your Department?		Yes			

2. System Impacts?	No		
Description:			
Total Resources (man days) (Development)		Lead time	
3. Process Impacts?	Yes		
Description:			
<p>Need to set up a processes to;</p> <p>enable monitoring and contact of Parties to ensure that they are aware of reaching threshold or hitting threshold; and</p> <p>maintain contact details to ensure rapid contact of Parties out of hours (see below).</p> <p>These systems would be need to be a 24/7 operation, with NECCs needing to be re-declared at any time.</p> <p>Collation of data and creation of SQL Scripts we would expect to be done by another Team in Service Delivery.</p>			
Total Resources (man days) (Development)	10	Lead time	Couple of weeks.
4. Documentation Impacts?	Yes		
<p>Out of hours LWI will need to be modified.</p>			
Total Resources (man days) (Development)	5	Lead time	
5. Operational Impacts?	Yes		
<p>For current process, CVA Operations will not be affected, beyond the occasional helpdesk call.</p> <p>If the process is modified to include out of hours support (similar to credit), as detailed below, then the resources of two-three man days a week will be required.</p>			
Ongoing Resources (man days per annum) (Post-implementation)			100
6. Impact on Interfaces with BSC Agents, BSC Parties, BSC Party Agents and other ELEXON Departments?			Yes
<p>If support systems are included in the modification (such as calls to affected Parties by the Logica NETA Helpdesk for example), then there will be a significant increase in the level of out of hours support provided. This will necessarily increase the level of interface between CVA Operations and Service Delivery</p>			
7. Any other Comments or Assumptions made:			
<p>We believe that this modification is likely to require a far higher level of resources than is currently envisaged in the current specification.</p> <p>The 3 solutions proposed are feasible in implementation, but do not add much value as the process</p>			

would be too inflexible to be of much use.

1. A completely automated process.

I presume this would use the same idea as ECVNs to overwrite any contract thresholds. The proposed current checking period for NECCs is 3 Periods before Gate Closure and would occur on a rolling basis. This process makes no mention of contacting Parties except by automated messages. Many Parties do not have a 24/7 system and so for an out of hours event, such as Credit Breach, they rely on a phone-call from the Logica helpdesk. Contracts would be sent in by an ECVNA, not necessarily the Party with a breached NECC.

This could create a situation where a Party could have a contract notified which will breach the NECC and they are not aware of the situation, as the ECVNA is making the notification and the Party is offline when the error message is generated.

2. Similar to 1, except that a manual process where Parties submit values for Period by Period, via a BSCP form would be used. Parties are sent a report. This process makes no provision for out of hours corrections as it is to be done monthly.

3. A simple monthly limit (similar in effect to Party wide GC or DC) manually. The process would then be the same as above.

This system is workable, but I do not feel it would give any added value. Few Parties would use it in the current format, or put in values so high so it would limit its usefulness. The lack of notification by BSCCo or ECVAA beyond that of automated messages means that many Parties could not use it, as they can't have a 24/7 system of monitoring. There may be situations where Parties may wish to override their limits, or change their limits at the last minute and this could only be done with some form of support.

Considering these issues, I feel that a system of notification out of hours will be suggested by either a Party or a member of the mods group as an essential part of the modification.

If this modification is to be implemented with a support process similar to that given by Service Delivery for Credit Issues, then the level of resources used by Service Delivery will be very high.

Overall Lead Time for Project

Couple of months.

MMR P147 Impact:

Option 1, Option 2 & 3: Automated Confirmation

Amended I020 will require TOMAS changes. If TOMAS is required to load the additional data for any reason, the TOMAS Data Catalogue and TOMAS System Design will also be impacted.

If the ECVAA I022 changes the MMR ECVAA I022 loader will require amendment to load the new version (although not the new data). Estimate 7 person-days.

Option 2 & 3: Manual Confirmation

No impact.

ANNEX 6 POST EVENT NOTIFICATION ERROR RECTIFICATION PROCESS MEMO

The following sets out some initial thinking on a possible alternative modification for P147, in response to a request from the SSMG. It should be noted that this is intended to provide a

'straw man' for consideration by the SSMG, and is not intended to be a definitive set of requirements or to represent the thinking of the SSMG.

Furthermore, the summaries in this document are an interpretation of the relevant determinations and therefore not intended to be definitive, and do not replace the Authority determinations.

DISCUSSION OF AN ALTERNATIVE OPTION FOR P147 – EX POST ERROR RECTIFICATION

A6 1. EX POST RECTIFICATION PROCESS: A VIABLE ALTERNATIVE TO P147

During discussions at the P147 Modification Group meeting on 18 December 2003, the SSMG identified a possible alternative to Proposed Modification P147 where a manual ex post error correction process could be utilised.

The proposed process would be to allow, within a tightly defined timescale, errors or malicious notifications to be identified by the BSC Party. The BSC Party can then apply to the BSC Panel for rectification. Where the Panel agrees the rectification, then the rectification will be made via manual input into ECVAA (using a process similar to the ECVAA System Failure recovery).

The initial consideration was whether, if adopted, this approach would constitute a valid Alternative to P147. The ELEXON Legal Department were requested to provide a view in respect of this matter. The ELEXON Legal Department indicated that a manual process for error rectification could be considered to be addressing the same defect as the Proposed Modification, since the Modification Proposal asserts that P147 is seeking to "limit liability associated with contract notifications identified in Modification Proposal P98 and enable these risks to be effectively managed by BSC Parties at much lower cost [*than P98*]", and therefore is considered to be a valid Alternative Modification.

A6 2. PRECEDENTS TO CONSIDER WHEN DEVELOPING THE PROCESS

A number of past Modifications have sought to introduce an ex post error correction process for contract notifications. All but one of these Modifications has been rejected by the Authority. Therefore it is appropriate to review the Authority determinations in respect of these Modifications to understand the rationale for the determinations made, and to develop a process that addresses any issues raised by the Authority in previous determinations.

The Modification Proposals to be considered are:

1. P9 'Correction of Technical Error in Respect of the ECVNs under Section P2.3 and Adjustment of Settlement Data under Section U 2.5' - **REJECTED**;
2. P19 'To Provide for the Remedy of Errors in ECVNs and in MVRNs' – **REJECTED**;
3. P35 'Qualified ECVNAs' – **REJECTED**;
4. P37 'To Provide for the Remedy of Past Errors in Energy Contract Volume Notifications and in Metered Volume Reallocation Notifications' – **APPROVED**;
5. P44 'Correction of Notification Errors where Parties are able to satisfy a Reasonable and Prudent Operator test – **REJECTED**; and
6. P128 'Correction of Erroneous ECVN Errors in Specifically Defined Circumstances' – **REJECTED**.

There are two other Modifications that, whilst not directly addressing contract notification error correction, should also be considered as relevant, and these are:

1. P98 'Dual Notification of Contract Positions' – **APPROVED**; and
2. P110 'Nullification of Volume Allocations' – **APPROVED**.

Section 5 of this Annex summarises each of these Modification Proposals and the Authority determination in respect of the Modification.

A6 3 IMPLICATIONS FOR P147 SOLUTION / MECHANISM

The following summarises the key points of the relevant Authority determinations that should be taken into consideration when defining the solution for P147.

1. The Modification should be prospective, not retrospective;
2. Incentives to maintain robust notification systems and checking processes should be maintained;
3. Strictly defined circumstances for error and rectification, such that the mechanism is not used for frequent adjustments to correct errors, or as a mechanism that can be used to intentionally adjust, post Gate Closure, traded quantities;
4. Recognition in any solution to the effect that Parties can choose to notify in such a way which leaves them sufficient time to identify and correct errors in their notifications prior to Gate Closure, and which recognises the availability of trading system test environments and trading expertise to new and existing Parties;
5. A short timescale for notifying errors for rectification, in recognition of Parties abilities to check, via Rejection and Acceptance Feedback Reports and the Forward Contract Report notifications within short timescales;
6. In recognition that some losses may be disproportionate to the incentives necessary to achieve the incentive to notify correctly, the Authority indicate that a Modification for error rectification could / should contain the following attributes:
 - a. An appropriate material charge for the correction, but not set to such a level that it is prohibitive for small Parties. Potentially the Authority could approve any change to the fee to ensure this aspect;
 - b. A fixed percentage limit on the claim in addition to the claim fee; and
 - c. Responsibility for establishing the nature of the error should be placed on the claimant, and the claimant should be required to show that it had acted prudently in checking its notifications and that it had promptly put in place steps to avoid a repetition of the error.
7. Approved Modification P37 had the following attributes, which may be appropriate for consideration as part of the solution for a prospective error correction mechanism:
 - a. Determination on the notification errors may have regard for the extent to which the notification error was attributable to a failure of the BSC Systems, an inaccuracy or non availability of the Forward Contract Report, a combination of circumstances which could not have reasonably been foreseen, or the extent to which the loss caused by the error was of a magnitude which is wholly disproportionate, with due weight given to incentivising correct notifications;
 - b. A £5000 claim fee;
 - c. A 20% error correction payment, such that only 80% of the loss of the error would be recovered; and
 - d. An impartial claims process (recognised as being impartial).

A6 4 STRAWMAN FOR THE MECHANISM / SOLUTION

A6 4.1 RATIONALE FOR HAVING AN ERROR CORRECTION MECHANISM

The Authority noted in its determination on P98 that dual notification is a way of mitigating notification risk, and the potential for exposure to unlimited liability as a consequence of an erroneous or malicious notification. However, the Authority acknowledged that the decision as to whether to implement dual notification was a commercial one, and one which would fall on individual Parties, to be made on the basis of the trade off of the development and implementation costs of dual notification versus the risk management tools under the current single notification mechanism.

The implication from this is that choosing not to implement dual notification should not be considered to be an indication of risk taking, nor should it be considered to be an indication of a lack of prudence in the approach to managing the risks associated with notifying.

Furthermore, leaving the commercial decision for implementing dual notification down to individual Parties means that those that develop and implement the dual notification system amendments as a means of mitigating notification risk have to find willing partners to trade and thus dual notify with. Where this is not the case, then single notification will be the necessary medium for notifying, carrying with the risk of exposure to imbalance from a malicious or erroneous notification, since "it may be impossible to eliminate completely the element of human error or software error".

Furthermore, there are circumstances where use of dual notification may actually increase notification risk, for example intra – Party trading, where energy is transferred from one of the Party's Energy Accounts to the other. If dual notification is used under this circumstance, then two identical notifications have to be generated by the same BSC Party, increasing the notification risk. Therefore it could be argued that single notification would be the most robust notification mechanism under these, and similar, circumstances.

Therefore in order to deliver the risk mitigation benefits associated with dual notification to all, it seems appropriate to develop an error rectification process to allow non dual notifiers to mitigate their risk of the exposure to potentially unlimited settlement liability. However, this is not to say that dual notifiers cannot use this process, it is just difficult to see why they would need to⁸.

It should be noted that this notification error rectification process is aimed at the rectification of notification errors where an error has occurred despite all efforts having been made to avoid and mitigate the risk of notification errors, by implementation of robust, reasonable and prudent systems and processes, i.e. an error resulting from it being "impossible to eliminate completely the element of human error or software error".

Furthermore, some have argued that the presence of a notification error rectification process may decrease the vigilance of Parties in respect of avoiding and / or mitigating notification risk, and the process defined has, as far as possible, tried to ensure that Parties are still incentivised strongly to notify correctly, by seeking to allow notification error rectification only where all reasonable efforts have been made to avoid and mitigate the risk of notification errors, by implementation of robust, reasonable and prudent systems and processes.

A6 4.2 ERROR CORRECTION MECHANISM

Taking all factors set out in this document into account, and thus attempting to draw them all together into a mechanism / solution that addresses the issues raised and builds on the precedents set, whilst attempting to avoid the resource intensive and costly process associated with the P37 claims process. The proposed error correction mechanism could be as follows:

⁸ An error correction process would allow mistakes in giving effect to a shared and settlement commitment to be rectified (under certain circumstances); under dual notification, both Parties notify the shared and settled intent, and therefore where one makes a mistake, then it is expected that a prudent dual notifier would alert its counterparty to the error in order to get it corrected in time for inclusion in settlement.

Note: The reference to 'committee' throughout this section should be interpreted to mean the Panel or other committee with delegated authority from the Panel.

1. only notification errors occurring on or after the Implementation Date of this Modification would be eligible for rectification under this process, i.e. this is a prospective Modification only;
2. A notification error could be defined as a mistake in giving effect to a settled and shared commitment due to a combination of circumstances that could not have reasonably have been foreseen and / or was attributable to an inaccuracy or non-availability of the Forward Contract Report, Rejection Feedback Report and / or Acceptance Feedback Report;
3. The essence of the notification error (i.e. the numbers involved, not what caused the mistake) should be agreed by both counterparties and the notification agent (for each impacted notification);
4. A notification error should be an error in one notification regardless of the circumstances causing the error, unless the circumstances set out at (2) above gave rise to a number of notifications all exhibiting or resulting from the same mistake, in which case the notification error can encompass all such notifications;
5. A notification error should have led to a loss for at least one of the counterparties which was disproportionate, due weight being given to the desirability of incentivising Parties⁹ to avoid mistakes in the submission of notifications. Therefore the materiality threshold of the claim should represent a loss of in excess of £33,000¹⁰, or could be determined on a case by case basis, taking into consideration the size of the Party, and therefore the materiality of the loss to them.

Given the stringent timescales for the submission of a claim, the loss may not be known definitively at the time of making the claim, however, it is expected that a relative materiality will be able to be derived using the Indicative Energy Imbalance Prices published close to real time on the Balancing Mechanism Reporting Agent (BMRA) applied to the difference between the intended notification and the actual notification submitted. Parties will be expected to provide the details of this calculation on submitting the claim to allow BSCCo / the relevant committee to verify that the claim is likely to exceed the materiality threshold.

Where the evidence submitted verifies that the materiality threshold is exceeded, and BSCCo / the relevant committee agrees with that evidence, then the claim will be processed, even where changes to the Energy Imbalance Price post event mean the loss incurred is lower than that expected and the materiality falls below the threshold.

It should be noted that the materiality of Past Notification Error claims made under Section P6 of the Code used a comparison of the Energy Imbalance charges with and without the Past Notification Error in order to derive the materiality of the claim, i.e. taking into account the overall imbalance position of the Party. However, where an immediate judgement of materiality is required, as would be the case where there is a short deadline for claim submission, the materiality would not be known, and nor could it be reliably quantified, as it relies on the availability of metered data in order to derive the overall imbalance position of a Party.

6. A notification error must be raised by the end of the Business Day following submission of the notification or notifications giving rise to the claim¹¹. However, where the Party can prove that there

⁹ The reference to Parties in this section should be interpreted as including notification agents.

¹⁰ The determinations made in respect of P37 indicate that a loss of £31,788 is proportionate and could be seen as an incentive to notify correctly, whereas a loss of £33,815 was considered (albeit at the bottom end of the scale) to be disproportionate. Therefore £33,000 represents a threshold between these two figures, noting that the determination of proportionality did take into account other factors, such as the size of the Party.

¹¹ Given the generation of Acceptance Feedback Reports on notification submission and the relative frequency of the Forward Contract Reports, it is considered that there is little excuse for a prudent operator not to identify an error within one Business Day of the error occurring, except in the absence of the relevant reports.

- was inaccuracy or non-availability of the Forward Contract Report, Rejection Feedback Report and / or Acceptance Feedback Reports, then the claim should be raised within one Business Day of the receipt of the relevant reports;
7. A notification error will incur a non refundable £5000 claim fee (where the claim is accepted for processing, (see 4 above)), with any amendment to the claim fee set by the Panel (or delegated committee) and approved by the Authority;
 8. The claimant would be expected to provide evidential proof (section 6 covers some of the evidence that could be provided) as to the following:
 - a. That there was a shared and settled commitment;
 - b. That a mistake was made when giving effect to that shared and settled commitment;
 - c. That the systems and processes in place at the time of the mistake were reasonable and prudent; and
 - d. That prompt rectification occurred; and
 - e. That (relatively) immediate steps were taken to prevent a re-occurrence of the mistake.
 9. The committee would determine on the claim as soon as possible after the claim was raised, in order that where the claim is upheld, the rectification can occur in the next possible Settlement Run, in order to minimise the uncertainty of Parties in relation to their trading charges. The process should be designed such that the rectification is aimed at the Initial Settlement Run in as many cases as possible for this purpose, noting that this may not be possible;
 10. Rectification of the notification error would be subject to a cap. This cap could take the form of a percentage cap on the actual volumes, or to a percentage cap on the recovery of the loss associated with the claim, for example, an 80% recovery cap, allowing Parties to recoup a maximum of 80% of the losses from the claim;
 11. The committee should have a set of guidelines to assist in making the determination on the claim, building on the precedents set by the claims made under section P6 of the Code, and added to where other circumstances arise when considering new claims, in order that the process for making the determinations is as transparent, and thus seen to be as impartial, as possible;
 12. Where the Party does not agree with the determination made by the committee, the Party should have a limited scope for appeal, where the appeal is made to the Panel / Authority for final determination.

Some relevant criteria for consideration by the relevant committee when considering the claim and making a determination:

1. A notification error should be for as limited a number of Settlement Periods as possible. It is expected that where a Party is a 24-7 operation that the number of Settlement Periods requiring rectification would be minimal, to reflect that the error should be noticed almost immediately through the Acceptance Feedback Report, and prompt action should be taken to rectify it. However, it is acknowledged that a non 24-7 player may require rectification over significantly longer periods where the notification was made by a counterparty¹² outside of working hours;
2. Consideration should be given to the risk management strategy of the Party in relation to trading close to Gate Closure. Where a Party notified close to Gate Closure and a notification error occurred,

¹² It would be expected that a prudent non 24-7 player would check all known notifications, especially notifications submitted by themselves, prior to close of business,

then an assessment as to whether the Party did sufficient to mitigate that risk should be made¹³ when making the determination;

3. Evidence is expected to be provided in support of claims made to prove that systems and processes were prudent at the time of the error, specifically in relation to the error. The sort of evidence that could be provided (and considered as reasonable proof) is documentation detailing the approach taken to manage the risks associated with notifying, and how these are identified and mitigated. Some examples provided as to how the risks of notifying are dealt with are:
 - Implementation and use of a robust, and potentially integrated, trade capture and notification system;
 - Use of back up systems and third party notification agents in the event of system failures;
 - Management and reconciliation (against trading systems) of ACK's, NACK's, Rejections, Acceptances, Forward Contract Reports and daily notification reports; and
 - Building access controls, secure system access, automated system back up and full audit trail and archiving (mostly in respect of malicious notifications, where the Party would be expected to demonstrate that controls were in place to prevent, as far as possible, unauthorised access to notification systems).

For example, prudence in a non 24-7 operation could be considered to be in evidence by the Party checking all notifications made on the last Business Day before leaving the office and ensuring that all the expected notifications made have been submitted and the submissions checked as correct (and any corrections made) before going home for the weekend. Furthermore, a check would be made first thing on the first Business Day following the weekend to ensure no unexpected notifications were made over the weekend, and to address any issues immediately;

4. When making the assessment as to whether systems and processes are considered to be reasonable and prudent, it should be recognised that Parties should, at all times, have systems and processes (in relation to notifying) that have a sufficient degree of robustness to be able to carry out the basic functions to transfer trade data to the notification system, submit the data as a notification and check that the notification has been submitted correctly.

In terms of the circumstances prevailing, it would be expected that systems and processes would be working in the manner intended and would be robust. If changes were made to the systems and processes, these should generally be planned and tested in advance so that they would be fully robust when first activated. Human errors or software defects would be an exception.

Examples of non prudent systems and processes can be derived from the (relevant) determinations in respect of the claims considered by the Past Notification Error Committee, available on the BSC Website:

http://www.elexon.co.uk/ta/panel/pne_individual_claims_docs.html

A6 4.3 CORRECTION MECHANISM FOR MALICIOUS NOTIFICATIONS

Effectively there is no reason why the claims process set out above could not cover malicious notifications, as the process would more than adequately cope with claims raised as a result of a malicious notification. However, consideration should be given as to whether (and why) it is appropriate to:

1. Drop the materiality threshold for claims made in respect of a malicious notification;

¹³ This arises from a number of decision letters, specifically P44, where the Authority noted that Parties know when Gate Closure is, and should take care to manage the risk of trading close to Gate Closure to avoid errors that cannot be corrected, as Gate Closure has passed. However, even where due care has been taken when trading close to Gate Closure, errors may occur, and therefore these Parties should be allowed to seek rectification via this process.

2. Reduce the claims fee; and / or
3. Remove the error rectification cap.

On the basis that even the most robust notifier cannot prevent a malicious notification being made against them.

A6 5. PREVIOUS MODIFICATIONS

A6 5.1 REJECTED MODIFICATION P9

P9 sought to permit Parties to correct the submission of ECVNs (retrospectively or otherwise) which are manifestly incorrect due to no fault technical error.

The Authority determined that P9 should not be made on 8 June 2001.

The Authority determination to reject P9 was broadly based on the premise that the pre NETA agreement, via consultation, was that there should not be a manifest error provision for notifications. Furthermore, the Authority noted that Parties can choose to notify in a way which leaves them sufficient time to identify and correct errors in their notifications prior to Gate Closure.

The Authority set out the principle that "losses resulting from errors will lie where they fall", but noted that there may be very limited circumstances where the rules of the market permit corrective action. The Authority expressed the opinion that corrective action must be initiated within a very short period of the error occurring, for example notification of manifest errors is limited to 4 hours.

The Authority asserted that this principle should be adhered to in order to retain appropriate incentives on Parties to carry out proper checks, but acknowledged that "it would not necessarily be incompatible with the BSC Objectives or its [the Authority's] statutory duties for a Modification to be made which would add to the categories of error addressed by the BSC or their consequences in a clearly defined manner and which properly delineates the nature of errors to which, and the circumstances in which, it would apply." The Authority determination also indicated that the period within which remedial action must be initiated would need to be appropriately defined in a manner reflecting the BSC Objectives and taking account of the effect on the market of any such provision.

A6 5.2 REJECTED MODIFICATION P19

P19 sought to enable errors in ECVNs and MVRNs to be remedied on an ex post basis, allowing at the most 72 hours for identification of the error, and noting that there would be a 72 hour window following approval of P19 for Parties to raise errors made since NETA Go – live and the implementation of P19. Furthermore, to ensure the veracity of claims, a claim fee of £5,000 would be levied for each claim, and the Panel would be required to consider and adjudicate on each claim.

The Authority determined that P19 should not be made on 2 August 2001.

The Authority determination to reject P19 was broadly based on the principle that "in a commercial setting, one of the strongest incentives to efficient trading is the knowledge that insufficiently robust risk management systems and procedures can result in trading errors and that losses are a likely consequence of such errors." Thus, the Authority asserts that:

- "It is essential that there should be strong incentives on BSC Parties to deliver correct notifications. If the incentives to have robust risk management systems in place are inadequate, it is likely that notifications would need to be frequently adjusted for errors that could adversely affect the efficient administration of the BSC."
- Furthermore "a correction mechanism for erroneous notifications may also create a possibility of intentional post Gate Closure adjustments to traded quantities. There could be the risk of

undermining the strong commercial incentives on participants to balance their own positions ahead of real time.”

The Authority asserted that:

1. “While understanding that it may be impossible to eliminate completely the element of human error or software error, Ofgem observes that BSC Parties have a clear knowledge of the timing of Gate Closure and can, in conjunction with the reporting systems available, take a view on how close to that time they wish to notify and to what extent they wish to check and correct such notifications in the light of the known risk they would be facing. We also note that those Parties who wish to reduce the risk of notification errors can provide additional opportunity for checks by contracting these services elsewhere, for example with independent dual notification agents.”
2. “Ofgem considers that a key feature [of NETA] underpinning the incentives on Parties to balance their positions is that Parties take active responsibility for the accurate notification of the energy transfer quantities. In the foreknowledge of the risks, many Parties will take care in their notifying arrangements and systems to avoid such errors and the consequences of such errors. Others will choose to use independent agents to notify on their behalf or use the power exchanges to trade close to Gate Closure.” ... “On this basis, it could be argued that any losses incurred (and associated windfalls gained) as a result of notification errors are the results of the commercial operation of NETA”.

The Authority indicated that it recognised that some losses may be disproportionate to the incentives necessary to achieve accurate notifications, and expresses the opinion that it would not necessarily be incompatible with the BSC Objectives or its [the Authority’s] statutory duties for a notification error correction Modification to be made which would, in the interest of preserving incentives include:

1. An appropriate and material charge for any party seeking to correct a notification error. A fee of a fixed amount, ..., should not be set at such a level as would be prohibitive to small players (this may argue for any change to the fee to be subject to Authority approval);
2. A fixed percentage limit on the recovery of the claim, in addition to the fee, may better achieve the relevant objectives by providing an incentive to accurate notification. The effectiveness of such provisions in providing appropriate incentives would need to be kept under review;
3. A short claim period. Ofgem considers that a claim period of less than two Business Days would be appropriate; and
4. The responsibility for establishing the nature of the error should be placed on the claimant. In addition the claimant would be expected to show that it had acted prudently in checking its notifications and that it had promptly put in place steps to avoid a repetition of the error.

Furthermore, specifically in terms of the retrospective element of P19, the Authority asserts that there is a “general principle of law that rules ought not change the character of past transactions completed on the basis of the existing rules.”

A6 5.3 REJECTED MODIFICATION P35

P35 sought to enable errors in ECVNs and MVRNs, made by ECVNAs and MVRNAs to be remedied on an ex post basis, only where the notification agent has been ‘qualified’ (a sort of accreditation) by the Performance Assurance Board. ‘Qualified’ ECVNAs and MVRNAs would then be limited to a defined number of claims in any year. Furthermore, to ensure the materiality of claims, a claim fee of £5,000 would be levied for each claim.

The Authority determined that P35 should not be made on 14 May 2002.

The Authority determination to reject P35 asserted that notification agent failure was considered prior to NETA Go-live, where it was concluded that:

- It would not be appropriate to include provisions for ECVNA accreditation in the Code;
- It would dilute the incentives on ECVNAs to develop robust systems; and
- Any exposure to the costs of such failures is likely to be very small if notification agents regularly update their submissions to the ECVAA and develop systems with the appropriate degree of redundancy and diversification.

The Authority asserted that P35 effectively implements accreditation for notification agents, and as the above points still stood [*at the point of the determination*], it would not be appropriate to introduce notification agent accreditation, on the basis that “to the extent that participants require third Party ECVNAs to provide enhanced levels of service, this should be a commercial decision between the ECVNA and its customers”.

Therefore the Authority determined to reject P35 on the basis that it would be likely to increase the uncertainty in the market, which would not promote competition, and it would increase the need to re-run settlement calculations and therefore increase the burden on the central systems and processes which would not promote efficiency in the implementation of balancing and settlement arrangements.

A6 5.4 APPROVED MODIFICATION P37

P37 sought to enable errors made in ECVNs and MVRNs in a defined period following NETA Go-live (Past Notification Errors) to be remedied on an ex post basis, incurring a non refundable £5,000 claim fee. Parties would be expected to provide evidence in respect of the Past Notification Error to the effect that they had in place prudent systems and processes, and that they had promptly taken all appropriate steps to rectify, reverse, or otherwise mitigate the effect of the error, and avoid a repetition of the error following its discovery. A body, such as the Panel, would determine on the Past Notification Error having regard to the extent to which the Past Notification Error:

- Was directly attributable to a failure of the BSC Systems;
- Was attributable to an inaccuracy in, or the non availability of the Forward Contract Report;
- Caused a loss suffered by the relevant Trading Parties, which was attributable to a combination of circumstances which cannot have been reasonably foreseen; and / or
- Caused a loss suffered by one or both of the Trading Parties, the magnitude of which was wholly disproportionate, due weight being given to the desirability of incentivising Parties to avoid mistakes in the submission of notifications.

Where the Panel / body agreed that all or part of the Past Notification Error should be rectified, then the rectification would be subject to a 20% Error Correction Payment, such that only 80% of the loss would be recovered.

The Authority determined that P37 should be made on 20 May 2002.

The Authority noted in its determination that it continues to believe that:

3. It is essential that there should be strong incentives on Parties to deliver correct notifications. If the incentives to have robust contract notification systems in place are inadequate, it is likely that Parties would wish to correct or adjust their notifications more frequently due to errors and this could adversely affect the efficient administration of the Code; and
4. A correction mechanism for notification errors might effectively allow ex post trading to take place since Parties may seek to make intentional post Gate Closure adjustments to their traded quantities, raising concerns that ex post trading might increase the opportunities for players with generation

assets, even in a generally competitive market, to drive up the prices that participants with short positions will have to pay to reduce their imbalance exposure after real time and before contract notification.

The Authority noted that it would expect that the test for a reasonable and prudent Party would effectively become progressively more stringent in relation to notification errors occurring later in time. Furthermore, the Authority noted that there will always be the risk of high imbalance prices and in these circumstances it would be reasonable to expect all Parties to ensure that they have in place appropriate systems to deliver accurate notifications. Therefore the risk of high imbalance charges alone is not a sufficient reason for allowing the correction of notification errors. The Authority further noted that it continues to believe that it is not generally appropriate to expect that a Party should recover its losses in full nor should it expect to do so. The Authority also indicated that it is important that the process for considering claims is, and is recognised as being, impartial.

The key point to note in respect of the approval of P37 is the time constraint on rectification of notification errors. Notification errors were only to be corrected where they occurred within a strictly defined period following NETA Go-live, i.e. "in the early stages of NETA when participants were still getting to grips with the new arrangements, it is possible that even prudent operators may have made material errors as a consequence of their inexperience in dealing with the new systems. Although it was only to be expected that imbalance prices would be particularly volatile initially, this volatility coincided with the period during which participants were becoming accustomed to the operation of NETA". However, it should be noted that the Code (Section P6) did not differentiate between the treatment of claims made at different points of time during the 'claims window'.

A6 5.5 REJECTED MODIFICATION P44

P44 sought to allow Parties to apply to the Panel request ex post creation of new ECVNs / MVRNs or amendment of previously submitted notifications under limited circumstances. P44 sought to address the increased risks that were faced by Parties where they had no alternative but to notify close to Gate Closure. Application for such error corrections would incur a non refundable £5,000 administration fee.

Errors would be rectified only where they had occurred under the following circumstances:

1. the ECVN / MVRN could not reasonably have been submitted in time to have been included in the last Volume Notification report which includes the relevant Settlement Period; and / or
2. The last Volume Notification report which includes the relevant Settlement Period was not sent to the claimant.

The claimant would also be required to demonstrate, to the Panel's reasonable satisfaction, that it took all reasonable and prudent steps to:

- Prevent the occurrence of errors;
- Minimise the risk that errors were not noticed in a reasonable time;
- Minimise the impact of such errors;
- Avoid repetition of such subsequent errors; and
- Mitigate the effect of the error(s) once discovered.

Where the Panel agrees that the error should be rectified, the rectification would be subject to a 10% Error Correction Payment level (i.e. a cap of 90% on the recovery).

The Authority determined that P44 should not be made on 10 May 2002.

The Authority noted in its determination that it continues to believe that:

1. It is essential that there should be strong incentives on Parties to deliver correct notifications. If the incentives to have robust contract notification systems in place are inadequate, it is likely that Parties would wish to correct or adjust their notifications more frequently due to errors and this could adversely affect the efficient administration of the Code; and
2. A correction mechanism for notification errors might effectively allow ex post trading to take place since Parties may seek to make intentional post Gate Closure adjustments to their traded quantities, raising concerns that ex post trading might increase the opportunities for players with generation assets, even in a generally competitive market, to drive up the prices that participants with short positions will have to pay to reduce their imbalance exposure after real time and before contract notification.

The Authority asserts that although the correction potential is limited under P44, it decreases the incentives to have robust notification / risk management systems and "Parties who choose to continue trading close to real time (for whatever reason) i.e. in circumstances under which P44 would apply, need to trade off the benefits that they feel will accrue from such trading against the risks attached to such trading. Parties can choose to offset these risks by using the services of a third Party ECVNA (normally in return for payment of a fee). The Authority further noted that the frequency and coverage of the Forward Contract Report was to change [*at the time of the determination*] and that this, in its opinion, reduced further the rationale for the Modification.

A6 5.6 REJECTED MODIFICATION P128

P128 sought to allow new entrant Parties to have a period of grace following new entry, where a new entrant is defined as a Party that trades between its own Energy Accounts for the first time, where mistakes in such trades could be rectified.

The Authority determined that P128 should not be made on 1 September 2003.

The Authority noted in its determination that P128 would introduce uncertainty that would not engender confidence in the electricity retail market. The Authority stated that "bearing in mind the level of care Parties should take with regards to their notification systems and the accessibility of both trading system test facilities and trading expertise to new and existing Parties alike" P128 would not better facilitate the Applicable BSC Objectives.

Furthermore, the Authority noted that "in considering the limited circumstances under which the Modification Proposal would operate, Ofgem notes that only 'new internal transactors' can make a claim under P128 ... Ofgem considers that whilst it could be argued that experience and facilities for testing were limited at the start of NETA, this is not the case after two years of operation." Therefore the Authority considered that P128 did not better facilitate the Applicable BSC Objectives.

A6 5.7 APPROVED MODIFICATION P98

P98 implements dual notification with web based reporting and notification submission.

The Authority determined that P98 should be made, with an Implementation Date of 8 November 2004.

The Authority noted in its determination that "in order to promote effective competition in generation and supply of electricity it is important that all artificial barriers to entry within the wholesale trading arrangements are removed".

In considering the Proposed Modification the Authority noted the conclusion of the Modification Group that although the number of erroneous or malicious notifications that have resulted in significant settlement liabilities have been relatively few, the potential exists for unlimited settlement liability. The Authority additionally noted that the Modification Group concluded that erroneous or malicious notifications could be potentially catastrophic for the Party that has been notified against, with detrimental implications for other Parties.

The Authority further noted that the Modification Group concluded that there are means of mitigating the risk of erroneous or malicious notifications through robust single notification processes combined with monitoring of ECVAAs reports, with additional legal recourse through the Grid Trade Master Agreement (GTMA). However, the Authority expressed the opinion that "although these measures can mitigate the risk of erroneous or malicious notifications, the potential for unlimited liability still exists ... and that legal recourse through the GTMA does not address the circumstances where the ECVAAs cannot meet their obligations under the commercial contract, for example where either they are insolvent or where they are in administration".

The Authority noted that "after two years operational experience of the wholesale electricity trading arrangements and no commercial means identified to reduce the unlimited settlement liability, Ofgem considers that the potential for this unlimited liability represents a barrier to entry within the wholesale trading arrangements. It is Ofgem's view that the introduction of a voluntary dual notification facility will give Parties the scope to remove the risk of unlimited settlement liability due to erroneous or malicious notifications and that the removal of this barrier will promote effective competition. ... The option for these Parties to dual notify contracts will remove this barrier to entry whilst giving Parties the option of continuing to trade using single contract notification".

In respect of the web based functionality being implemented by P98, the Authority expressed the belief that "the reduced risk and increased efficiency in contract notification associated with the web based facility should further facilitate competition and potentially encourage liquidity closer to Gate Closure".

A6 5.8 APPROVED MODIFICATION P110

P110 implements dual functionality that enables nullification of contract positions remaining after all Authorisations between the two Parties have been terminated and no agreement can be reached between the Parties to Authorise and overwrite existing contract notifications.

The Authority determined that P110 should be made, with an Implementation Date of 5 November 2003.

The Authority indicated in its determination that P110 would increase market participants confidence in the robustness of the contract notification process which could potentially encourage new entrants which could further promote competition.

A6 6 PAST NOTIFICATION ERROR DETERMINATIONS

The claims made under Section P6 of the Code, (implemented by Approved Modification P37) have been determined on, and the determinations offer useful pointers for criteria to be considered when developing the solution for P147, specifically the rationale for not rectifying claims made, as it sets a precedent where determinations are to be made on claims made under P147. The following summarises the determinations:

1. Claims were allowed for Past Notification Errors made in the period from NETA Go-live to 20 May 2002. Where two or more claims result from a single cause, then these would be treated as a single claim (for the purposes of calculating the claims fee). Furthermore, both Parties and the relevant notification agent (if different) needed to confirm that a Past Notification Error had occurred;
2. An error in the submission of a Volume Notification was considered to have occurred only where the Relevant Contract Trading Parties had, at the time of such submission, a demonstrably settled and shared commitment to notify particular ascertained volume data for the Settlement Period in question and it is clear that a mistake occurred giving effect to that commitment;
3. Parties were required to provide evidence, information and comments for BSCCo to investigate and provide a report on its findings;
4. Past Notification Errors were not to be rectified where the Volume Notification would have been invalid, rejected or refused at the point of the original submission, or where the Past Notification

- Error was a failure to submit, immediately prior to Gate Closure for the Settlement Period. Furthermore, rectification should have been declined where it was considered that the Party or notification agent failed to demonstrate that, at the time the Past Notification Error occurred, prudent systems and processes for notifying were in place (judged in light of the prevailing circumstances), and / or failed to take all appropriate steps to rectify, reverse or otherwise mitigate the effect of the error in respect of Settlement Periods for which Gate Closure had not yet occurred after becoming aware of the error and to avoid repetition of the error;
5. The committee were recommended to consider, when determining on the Past Notification Error, the extent to which:
 - a. The Past Notification Error was directly attributable to a failure of BSC Systems;
 - b. The Past Notification Error was directly attributable to an inaccuracy or non availability of the Forward Notification Summary (Forward Contract Report);
 - c. The Past Notification Error and / or the magnitude of the loss suffered by the Parties in respect of Trading Charges as a result of the error was attributable to a combination of circumstances which could not have been reasonably foreseen; and
 - d. The magnitude of the loss suffered by one or both of the Parties in respect of the Past Notification Error was wholly disproportionate, due weight being given to the desirability of incentivising Parties to avoid mistakes in the submission of notifications.
 6. The considerations in respect of the claim were detailed;
 - a. The considerations of the committee were based on the evidence and submissions provided during investigations;
 - b. The standard of proof should be the civil standard of the balance of probabilities;
 - c. Whilst the definition of a Past Notification Error is defined by reference to a Settlement Period, and therefore can apply to a single Settlement Period, most of the claims were based on a number of Settlement Periods (and Settlement Days). Therefore it was generally unnecessary to consider each factor individually for each Settlement Period;
 - d. The committee had regard to the industry survey summary and synopsis which set out the approach of respondent Parties to the systems and processes in connection with notifying, and took this into account when making determinations;
 - e. The special advisors main report set out three scenarios – vertically integrated, single site generator and trade; in seeking to describe the general approach to NETA, in respect of business requirements, implementation and systems and processes;
 - f. Three other reports (E1, E2 and E3) set out additional matters raised during the assessment of the claims; dealing with the timing of notifications and implications for controls and checking reports (E1), a discussion of the 'circumstances then prevailing' (E2), and difference in risks of intra-company notifications compared to inter-company notifications and the impact on the method of notifying (E3);
 7. ELEXON was involved in the investigation of claims and in facilitating the process, however, it was not involved in making the determinations in respect of the claims;
 8. The assessment as to whether systems and processes were considered to be reasonable and prudent was made in light of the circumstances prevailing at the time of the error. It was considered that Parties should, at all times, have systems and processes (in relation to notifying) that have a sufficient degree of robustness to be able to carry out the basic functions to transfer trade data to

the notification system, submit the data as a notification and check that the notification has been submitted correctly.

In terms of the circumstances prevailing, (with reference to the more relevant latter end of the P37 claims window), it would be expected that systems and processes would be working in the manner intended and would be robust. If changes were made to the systems and processes, these should generally be planned and tested in advance so that they would be fully robust when first activated. Human errors or software defects would be an exception;

9. Evidence was expected to be provided in support of claims made under P37 to prove that systems and processes were prudent at the time of the error. The sort of evidence provided (and considered as reasonable proof) was documentation detailing the approach taken to manage the risks associated with notifying, and how these are identified and mitigated. Some examples provided as to how the risks of notifying are dealt with are:

- Implementation and use of a robust, and potentially integrated, trade capture and notification system;
- Use of back up systems and third party notification agents in the event of system failures;
- Management and reconciliation (against trading systems) of ACK's, NACK's, Rejections, Acceptances, Forward Contract Reports and daily notification reports¹⁴; and
- Building access controls, secure system access, automated system back up and full audit trail and archiving.

10. In terms of proving that a Past Notification Error was made, claimants were expected to provide evidence of the error. In respect of inter - Party notifications, the evidence would be required to prove that there was a 'shared and settled commitment' between the two counterparties, and thus to prove the mistake. Types of evidence provided were:

- Copies of the deal confirmations;
- Sound files of the telephone conversations, or other evidence of the agreement to the transaction; and
- Activity level audit reports for the deals.

In terms of the evidence for mistakes in notifying intra – Party trades (i.e. trades between the Production and Consumption Energy Accounts of the same BSC Party), the evidence would be required to prove, as far as possible, that there was a legitimate requirement to intra-trade, and thus to prove the mistake. Types of evidence provided were:

- Evidence of the requirement for a periodic reconciliation resulting in an intra-Party notification, for example operational procedural documents;
- Demonstration of an ongoing requirement to intra-trade (for example, previous intra-Party trades made); and
- Trade entry screen shots showing trades for the relevant period (and longer).

11. A number of claims / part claims made under the P37 process were not rectified. Rationale for non rectification in each case is provided in detail in the relevant determinations, available on the BSC Website:

¹⁴ It should be noted that non 24-7 notification operations were deemed to have prudent processes in place where reconciliation of notification reports (specifically the Forward Contract Report) occurred on the Friday for the approaching weekend (including bank holidays). Therefore the precedent set by the Past Notification Error determinations is that Parties are not expected to be 24-7 to be deemed to be prudent.

http://www.elexon.co.uk/ta/panel/pne_individual_claims_docs.html

ANNEX 7 REQUIREMENTS SPECIFICATION

See attached document 'ANNEX 7 P147AS03.pdf'.

ANNEX 8 CLARIFICATION OF COSTS

There are several different types of costs relating to the implementation of Modification Proposals. ELEXON implements the majority of Approved Modifications under its CVA or SVA Release Programmes. These Programmes incur a base overhead which is broadly stable whatever the content of the Release. On top of this each Approved Modification incurs an incremental implementation cost. In order to give Stakeholders a feel for the estimated cost of implementing an Approved Modification the templates shown in Attachment 1 have three columns:

- **Stand Alone Cost** – the cost of delivering the Modification as a stand alone project outside of a CVA or SVA Release, or the cost of a CVA or SVA Release with no other changes included in the Release scope. This is the estimated maximum cost that could be attributed to any one Modification implementation.
- **Incremental Cost** - the cost of adding that Modification Proposal to the scope of an existing release. This cost would also represent the potential saving if the Modification Proposal was to be removed from the scope of a release before development had started.
- **Tolerance** – the predicted limits of how certain the cost estimates included in the template are. The tolerance will be dependent on the complexity and certainty of the solution and the time allowed for the provision of an impact assessment by the Service Provider(s).

The cost breakdowns are shown below:

PROGRESSING MODIFICATION PROPOSAL	
Demand Led Cost	This is the third party cost of progressing a Modification Proposal through the Modification Procedures in accordance with Section F of the Code. Service Provider Impact Assessments are covered by a contractual charge and so the Demand Led cost will typically be zero unless external legal assistance or external consultancy is required.
ELEXON Resource	This is the ELEXON Resource requirement to progress the Modification Proposal through the Modification Procedures. This is estimated using a standard formula based on the length of the Modification Procedures.

SERVICE PROVIDER ¹⁵ COSTS	
Change Specific Cost	Cost of the Service Provider(s) Systems development and other activities relating specifically to the Modification Proposal.

¹⁵ A Service Provider can be a BSC Agent or a non-BSC Agent, which provides a service or software as part of the BSC and BSC Agent Systems. The Service Provider cost will be the sum of the costs for all Service Providers who are impacted by the release.

Release Cost	Fixed cost associated with the development of the Service Provider(s) Systems as part of a release. This cost encompasses all the activities that would be undertaken regardless of the number or complexity of changes in the scope of a release. These activities include Project Management, the production of testing and deployment specifications and reports and various other standard release activities.
Incremental Release Cost	Additional costs on top of base Release Costs for delivering the specific Modification Proposal. For instance, the production of a Test Strategy and Test Report requires a certain amount of effort regardless of the number of changes to be tested, but the addition of a specific Modification Proposal may increase the scope of the Test Strategy and Test Report and hence incur additional costs.

IMPLEMENTATION COSTS

External Audit	Allowance for the cost of external audit of the delivery of the release. For CVA BSC Systems Releases this is typically estimated as 8% of the total Service Provider Costs, with a tolerance of +/- 20%. At present the SVA Programme does not use an external auditor, so there is no External Audit cost associated with an SVA BSC Systems Release.
Design Clarifications	Allowance to cover the potential cost of making any amendments to the proposed solution to clarify any ambiguities identified during implementation. This is typically estimated as 5% of the total Service Provider Costs, with a tolerance of +/- 100%.
Additional Resource Costs	<p>Any short-term resource requirements in addition to the ELEXON resource available. For CVA BSC Systems Releases, this is typically only necessary if the proposed solution for a Modification Proposal would require more extensive testing than normal, procurements or 'in-house' development.</p> <p>For SVA BSC Systems Releases, this will include the management and operation of the Acceptance Testing and the associated testing environment.</p> <p>This cost relates solely to the short-term employment of contract staff to assist in the implementation of the release.</p>
Additional Testing and Audit Support Costs	Allowance for external assistance from the Service Provider(s) with testing, test environment and audit activities. Includes such activities as the creation of test environments and the operation of the Participant Test Service (PTS). For CVA BSC Systems Releases, this is typically estimated as £40k per release with at tolerance of +/-25%. For SVA BSC Systems Releases this is estimated on a Modification Proposal basis.

TOTAL DEMAND LED IMPLEMENTATION COSTS

This is calculated as the sum of the total Service Provider(s) Cost and the total Implementation Cost. The tolerance associated with the Total Demand Led Implementation Cost is calculated as the weighted

average of the individual Service Provider(s) Costs and Implementation Costs tolerances. This tolerance will be rounded to the nearest 5%.

ELEXON IMPLEMENTATION RESOURCE COSTS

Cost quoted in man days multiplied by project average daily rate, which represents the resources utilised by ELEXON in supporting the implementation of the release. This cost is typically funded from the "ELEXON Operational" budget using existing staff, but there may be instances where the total resources required to deliver a release exceeds the level of available ELEXON resources, in which case additional Demand Led Resources will be required.

The ELEXON Implementation Resource Cost will typically have a tolerance of +/- 5% associated with it.

ONGOING SUPPORT AND MAINTENANCE COSTS

ELEXON Operational Cost	Cost, in man days per annum multiplied by project average daily rate, of operating the revised systems and processes post implementation.
Service Provider Operation Cost	Cost in £ per annum payable to the Service Provider(s) to cover staffing requirements, software or hardware licensing fees, communications charges or any hardware storage fees associated with the ongoing operation of the revised systems and processes.
Service Provider Maintenance Cost	Cost quoted in £ per annum payable to the Service Provider(s) to cover the maintenance of the amended BSC Systems.