

December 2002

**INITIAL ASSESSMENT OF MODIFICATION
PROPOSAL P114- Entitlement of Licence
Exemptable Generators (“LEGs”) and other Non-
trading Parties to BSC Membership Without
Evidence of Trading**

Prepared by ELEXON Limited

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I DOCUMENT CONTROL

a Authorities

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1.0	06/12/02	Change Delivery		Formal Review

Version	Date	Reviewer	Signature	Responsibility
0.1		Change Delivery		Peer Review Comments
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b Distribution

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

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1 SUMMARY

Modification Proposal P114 'Entitlement of Licence Exemptable Generators ("LEGs") and other Non-trading Parties to BSC Membership Without Evidence of Trading' (P114), included in Annex 1, was submitted on 02 December 2002 by Slough Energy Supplies Ltd. P114 seeks to allow Licence Exemptable Generators (LEGs) and other non-trading Parties to become signatories to the Balancing and Settlement Code ('the Code') on a non-trading basis, therefore obtaining access to non-confidential information only available to registered Parties.

P114 proposes that LEGs and other non-trading Parties be excused the requirement to demonstrate evidence of Trading activity within six months of registration as a Party, as defined in paragraph 2.6 of Section A of the Code. Thereby all non-trading Parties will be able to remain 'Code' signatories and receive information that is only available to Parties, whilst not actually undertaking any trading activity.

An initial assessment of P114 has identified the following potential areas of impact and issues to be considered:

- **Similar defect to that addressed by P102;**

The defect raised by P114 is similar to that addressed by P102. P102 is in the second month of a three-month Assessment Procedure and several of the issues relevant to P114 have been considered under P102. Therefore the Modification Group and work completed to date for P102 can be utilised for P114.

- **Impact on the Code;**

- **Impact on Registration Systems and Processes;**

Registration systems and processes may require updating to recognise "non-trading" Party status.

- **Impact on Entry Process and Qualification tests;**

Entry Process and Qualification testing may require adapting for "non-trading" Parties.

- **Cost Recovery;**

It will be necessary to establish a suitable charging mechanism for "non-trading" Parties.

- **Original reasons for Obligation to Trade.**

Before removing the requirement to trade it will be necessary to consider the reasons for including this obligation in the original drafting of the Code.

On the basis of this Initial Written Assessment, it is recommended that the Panel be invited to:

- **DETERMINE that Modification Proposal P114 should be submitted to the Assessment Procedure, in accordance with Section F 2.6 of the BSC;**
- **AGREE the Assessment procedure timetable such that an Assessment Report should be completed and submitted to the Panel for consideration at their meeting of 13 February 2003;**
- **DETERMINE that the Assessment Procedure should be undertaken by the Settlement Standing Modification Group;**
- **AGREE any refinement to the Modification Group Terms of Reference.**

2 INTRODUCTION

This Report has been prepared by ELEXON Ltd. on behalf of the Balancing and Settlement Code Panel ('the Panel'), in accordance with the terms of the Code. The Code is the legal document containing the rules of the balancing mechanism and imbalance settlement process and related governance provisions. ELEXON is the company that performs the role and functions of the BSCCo, as defined in the Code.

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

3 DESCRIPTION OF THE MODIFICATION PROPOSAL

P114 aims to allow LEGs and other Non-trading Parties to continue registration as Parties, without the requirement to commence Trading within six months of accession to the Code. This requirement is set out in paragraph 2.6 of Section A of the Code, relating to the "Withdrawal of a Party which does not commence Trading". Under P114 any non-trading Party would be able to become a signatory to the Code with a "Non-Trading" status. Currently all Parties are required to provide evidence of commencing trading activities within six months of signing up to the Code. Suitable evidence of commencement of trading is defined in Paragraph 2.6.3 of Section A of the Code as follows:

- An application to register a Metering System;
- The application to register a BM unit;
- The submission of an Energy Contract Notification or Metered Volume Reallocation Notification;
- The appointment of such a Party as Interconnector Administrator or Interconnector Error Administrator in relation to one or more Interconnectors.

In the situation where none of the actions specified in Paragraph 2.6.3 of Section A of the Code are completed within the six month period, the process set out in paragraph 2.6.1 of Section A will be completed and the Party will be classified as a "Discontinuing Party" as follows:

- BSCCo shall give notice to that effect to such Party; and
- such Party shall automatically cease to be a Party (and cease to be a party to the Framework Agreement) with effect one month after the date on which BSCCo gives such notice (and such Party shall be treated as being a Discontinuing Party and as having withdrawn from the Code for the purposes of paragraph 5.3.1(a)).

It is suggested that LEGs, or any other non-trading Party, should be entitled to remain Parties without taking part in the previously defined trading activities. The Proposer suggests that any non-trading Party, wishing to become a signatory to the Code on such a non-trading basis, should be charged a fee to cover the administration costs associated with such status.

The motivation for non-trading Parties, to obtain this status is access to information, which although not deemed commercially confidential, is currently restricted to registered Parties. Three potential methods of allowing Non-trading Parties to access this information are outlined by the Proposer as follows:

- removing paragraph 2.6 of Section A of the BSC “Withdrawal of a Party which does not commence trading” completely so that Non-Trading Parties would be entitled to remain BSC Parties, notwithstanding that none of the steps specified in paragraph 2.6.3 of Section A has been taken;
- by creating a new category of BSC Party, registered with a “Non-Trading” status and thereby excused the necessity to commence trading; or
- some form of licensing agreement whereby non-parties could sign this agreement and receive market data currently restricted to BSC Parties.

A copy of P114, as submitted by the Proposer, can be found at Annex 1 to this report.

4 IMPACT ON BSC SYSTEMS AND PROCESSES

4.1 Central Registration Agent

The Central Registration Agent System may require updating to identify electronically non-trading Parties as a new class of registration. The supporting manual processes may also require amending to deal with the registration of this new class of Parties.

4.2 Reporting

It may be necessary to modify current reports to flag the status of registered non-trading Parties. Another potential impact on reporting is an increase in volumes as additional reports are issued to non-trading parties.

5 IMPACT ON OTHER SYSTEMS AND PROCESSES USED BY PARTIES

5.1 BSC Parties

There are no impacts on Parties, apart from for current non-Parties wishing to register with a non-trading status, which will be required to put in place suitable systems and/or processes.

6 IMPACT ON DOCUMENTATION

6.1 Impact on Balancing and Settlement Code

SECTION A: Parties and Participation

This section will require updating to reflect the fact that Parties registered with a non-trading status will not be discontinued for failing to provide evidence of Trading within six months.

SECTION D: BSC Cost Recovery and Participation Charges

May require changing to reflect recovery of administration costs associated with Parties becoming signatories to the Code on a non-trading basis. Section 3 may require modifying to specify the charges to be recovered against Parties with non-trading status.

SECTION V: Reporting

This section may require amending to specify which reports are available to “Non-Trading” Parties.

6.2 Impact on Code Subsidiary Documents

BSCP65: Registration of Parties and Exit Procedures

This Balancing and Settlement Code Procedure (BSCP) will require updating to recognise the registration of Parties with a “Non-Trading” status.

Communication Requirements Documents:

It is unlikely that Communication Requirements, for a non-trading Party, will be the same, as those required by a Party intending to take part in trading activities. Therefore a new set of Communication Requirements may be required for Parties registering with non-trading status.

Qualification Testing:

A new set of, less stringent, Market Entry tests may be required for entrants wishing to register as non-trading Parties.

6.3 Impact on Core Industry Documents

Currently no impact on Core Industry Documents has been identified.

7 IMPACT ON OTHER CONFIGURABLE ITEMS

Central Registration Agent Documentation:

If it is necessary to keep a record of non-trading BSC Parties on the CRA System the following CRA documentation may require updating:

User Requirement Specification;

System Specification;

Operations Manual;

Manual System Specification.

Interface Definition and Design:

If reporting is updated to identify non-trading Parties a change to the Interface Definition and Design documentation will be required.

8 IMPACT ON ELEXON

ELEXON Procedures:

The procedures for removing discontinuing Parties may require modifying to specify that Parties with non-trading status are not required to provide evidence of trading within six months of registration. Also a payment process may be required to cover the administration costs associated with Parties registered with non-trading status.

9 IMPACT ON FINANCIAL ARRANGEMENTS AND BUDGET

None identified at this stage.

10 IMPACT ON BSC AGENT CONTRACTUAL ARRANGEMENTS

None identified at this stage.

11 PROCESS AND TIMETABLE FOR PROGRESSING THE PROPOSAL

This Initial Assessment indicates that further work is required to assess amendments required to the Code and related systems, processes and documentation. Assessment of a similar defect has been conducted for Modification Proposal P102 "Entitlement of Licence Exemptable Generators ("LEGs") to BSC Membership Without Evidence of Trading" (P102).

P102 seeks to address identical issues to those raised by P114, however the scope of P102 is limited to LEGs. P102 is currently in the second month of a three-month Assessment Procedure. During assessment of P114 it will be necessary to complete a further industry consultation on the expansion beyond LEGs. Therefore ELEXON recommends that P114 should be submitted to the Assessment procedure for 2 months. It should be noted that this period spans the 2002 Christmas and New Year holiday period and should allow sufficient time for adequate consultation on the proposal. Furthermore P114 should be considered by the Settlement Standing Modification Group (SSMG) used for P102. The Assessment Report should be presented to the Panel at their meeting on 13 February 2003.

It is estimated that the progression of this P114 through the Modification Process will incur third party costs of £6,500, funded from the demand led budget, in addition to core team staff time. This estimate is based on current information that P114 will be progressed through a two month Assessment procedure. The suggested schedule and the estimated costs are for planning purposes only and may be subject to change, should the underlying assumptions change.

12 ISSUES

The following issues will need to be considered and addressed in progressing P114:

- Before removing the requirement to trade it will be necessary to consider the reasons for including this obligation in the original drafting of the Code.
- Previous Modification Proposals have dealt with the provision of data to both Parties and Non-BSC Parties. For example Modification Proposal P30 'Provision of BSC Data to BSC and Non-BSC Parties' (P30). It is likely that many of the issues relevant to the assessment of P114 were considered during the progression of these previous Modification Proposals. Therefore the findings of P30, and any other relevant Modifications Proposals identified, should be taken into account during the assessment of P114.

Annex 1: Modification Proposal P114

Modification Proposal

MP No: 114
(mandatory by BSCCo)

Title of Modification Proposal (mandatory by proposer):

Entitlement of Licence Exemptable Generators ("LEGs") and other Non-trading Parties to BSC Membership Without Evidence of Trading

Submission Date (mandatory by proposer): 2 December 2002

Description of Proposed Modification (mandatory by proposer):

To modify the BSC such that LEGs and other market participants not wishing to carry out trading activities ("Non-Trading Parties") are allowed full access to market data. Paragraph 2.6 of Section A of the BSC currently requires that BSC Parties commence trading activities within six months of joining the BSC. Evidence of the commencement of trading is by completion of one of the following steps (2.6.3 of Section A):

- an application to register a Metering System;
- an application to register a BM Unit;
- a submission of any Energy Contract Volume Notification or Metered Volume Reallocation Notification;
- the appointment of such Party as Interconnector Administrator or Interconnector Error Administrator in relation to one or more interconnectors.

In the event that none of these steps are taken within the six month period, the following action will be taken (2.6.1 of Section A) in order to classify the Party as a "Discontinuing Party":

- BSCCo shall give notice to that effect to such Party; and
- such Party shall automatically cease to be a Party (and cease to be a party to the Framework Agreement) with effect one month after the date on which BSCCo gives such notice (and such Party shall be treated as being a Discontinuing Party and as having withdrawn from the Code for the purposes of paragraph 5.3.1(a)).

We propose that the modification of the BSC to allow Non-Trading Parties full access to market data be implemented in one of the following ways:

- i) by removing paragraph 2.6 of Section A of the BSC "Withdrawal of a Party which does not commence trading" completely so that Non-Trading Parties would be entitled to remain BSC Parties, notwithstanding that none of the steps specified in paragraph 2.6.3 of Section A has been taken;
- ii) by creating a new category of BSC Party, registered with a "Non-Trading" status and thereby excused the necessity to commence trading; or
- iii) some form of licensing agreement whereby Non-Trading Parties would sign this agreement and receive market data currently restricted to BSC Parties.

It is proposed that Non-Trading Parties would be charged an appropriate fee in the event of the implementation of any of these options.

Modification Proposal

MP No: 114
(mandatory by BSCCo)

Description of Issue or Defect that Modification Proposal Seeks to Address *(mandatory by proposer):*

With the advent of NETA, some consideration was given to how market data could be made publicly available. The Balancing Market Reporting System (BMRS) provides, free-of-charge, a range of information. This includes final physical notifications, imbalance price data and the anticipated net system imbalance for each half-hour.

The BMRS provides information in advance of and shortly after real-time. However, out-turn information (such as actual system imbalance and actual generation) is not published.

Other data of commercial relevance to Non-Trading Parties, including the half-hourly transmission loss and "beer fund" values, and the net metered and imbalance position of market participants, is restricted to BSC Parties. Such data is not deemed commercially confidential, as information relating to every BSC Party is available to every other BSC Party (in the form of the "SO142" report). However, non-Parties have no access to such data. This is in contrast with the Pool, where ESIS provided a similar set of data (including generator bid prices) to all paying subscribers.

As an example of how the proposed modification would assist Non-Trading Parties, knowing the metered quantities and the imbalance position of potential contracting counterparties would substantially assist LEGs in determining who is in a position to contract with them and to better understand the trading position of that counterparty.

The vast majority of LEGs, as under the Pool, choose to contract under Supplier Volume Allocation (SVA) with a licensed supplier, rather than become a BSC Party and trade directly within the NETA markets. This is mainly because of the large fixed costs and administrative burdens that are unfeasible for most small generators. However, in choosing this path, they are restricted from accessing vital market information. The dilemma for LEGs is that the only way of accessing this information is by embarking on a route to market that, as under the Pool, is uneconomic for the vast majority. Hence, the current arrangements directly imply an unjustified cost on LEGs wishing to access market data. We see no reason for denying access to market data without having to commence trading (as presently defined in the BSC) whilst still selling their export to suppliers under SVA; or for not allowing access to this data for others who are currently non-BSC Parties. A copy of a report by Ilex Energy Consulting which explains administrative barriers facing licence-exempt generation under NETA is attached.

Impact on Code *(optional by proposer):*

Impact on Core Industry Documents *(optional by proposer):*

Impact on BSC Systems and Other Relevant Systems and Processes Used by Parties *(optional by proposer):*

Impact on other Configurable Items *(optional by proposer):*

Modification Proposal

MP No: 114
(mandatory by BSCCo)

Justification for Proposed Modification with Reference to Applicable BSC Objectives (mandatory by proposer):

The Applicable BSC Objectives are set out in paragraph 3 of Condition C3 of the Transmission Licence, as follows:

a) The efficient discharge by the Transmission Company of the obligations imposed under the Transmission Licence;

N/A

b) The efficient, economic and co-ordinated operation by the Transmission Company of the Transmission System;

N/A

c) Promoting effective competition in the generation and supply of electricity, and (so far as consistent therewith) promoting such competition in the sale and purchase of electricity;

Making available crucial market information to Non-Trading Parties for whom trading activities as a BSC signatory is not a practical option, will assist in creating a fairer negotiating position for these parties. In the case of LEGs, it will also enable them to verify independently the benefits of particular supplier contracts or consolidation benefits where the counterparty is a BSC Party and is in possession of such information.

For example, the effect of the inequality of market information available to LEGs who do not trade as BSC signatories as opposed to their contracting counterparties who are signatories, is one of a range of barriers faced by LEGs. It is an unequal and unfair aspect of the NETA market structure that such information, which is not confidential, should be available to one contracting party, but not the other. The effect of this barrier, with others, has been to contribute to disproportionate and damaging effects which NETA has had upon LEGs. This has resulted in withdrawals from the LEG sector and extreme financial consequences for that sector which threaten its continued participation in the generation market and its contribution to completion.

d) Promoting efficiency in the implementation and administration of the balancing and settlement arrangements.

BSC modification P50 sought to introduce summary reports of market data for both BSC Parties and non-Parties. This was rejected on the grounds of the cost of producing such reports. This modification proposal will achieve the objectives of data access and data transparency without incurring significant cost to existing BSC Parties. Indeed, as Non-Trading Parties will need to incur a cost under any of the three implementation options described above, they will contribute towards any minimal increase in costs that may be incurred in making the market information available to a wider group of participants.

Modification Proposal

MP No: 114
(mandatory by BSCCo)

Details of Proposer:

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Details of Representative's Alternate:

Name:

Organisation:

Telephone Number:

Email Address:

Attachments: Yes

If Yes, Title and No. of Pages of Each Attachment:

"Contractual and Administrative Barriers facing Licence-Exempt Generators under NETA" 30 pages (Separate document)