

<b>Change Proposal – BSCP40/01</b>	<b>CP No: 1169</b> <i>Version No: 1.0</i>
<b>Title</b> <i>(mandatory by originator)</i> <b>Within Day Dis-application of Energy Contract Volume Notifications</b>	
<b>Description of Problem/Issue</b> <i>(mandatory by originator)</i> <p>Under Section H 3.2.2 of the Balancing and Settlement Code (the ‘Code’), the Panel has the ability to dis-apply Energy Contract Volume Notifications in relation to Parties which are in Default. Various Change Proposals have been previously raised by ELEXON highlighting concerns with the process for implementing such Panel resolutions.</p> <p>Over winter 2005/6, several Panel resolutions were issued requiring the dis-application of Energy Contract Volume Notifications<sup>1</sup>. Consequently, further operational experience in this area has been gained and a number of outstanding issues with the process highlighted.</p> <p>Currently Energy Contract Notifications can only be removed from Settlement Period One. This approach has been utilised in all previous Defaults, despite Panel resolutions formally requiring an alternative Settlement Period. Fortunately, in every case to date the delay has had no adverse or material effects. However, it can not be guaranteed that this will always be the case.</p> <p>Errors in the dis-application of Energy Contract Volume Notifications would have a material impact and, although it may be possible to rectify problems post event as a Settlement Error, the process needs to be fully auditable. Due to the interaction of the dis-application procedures with ongoing system processing, there are also potential impacts on credit checking and participant contract submissions to be managed.</p> <p>Given the requirement under the BSC to support dis-application of Contract Notifications under the Default Process, the materiality potentially associated with an error in the process and the nature of the circumstances when it is likely to be invoked; further consideration of the procedure is necessary.</p> <p>ELEXON indicated its intention to raise a Change Proposal to consider the matter via Imbalance Settlement Group (ISG) paper 60/005. Consequently, a number of approaches were identified which would allow contracts to be dis-applied from any Settlement Period. Information on the existing mechanisms and issues surrounding the process has also been identified (see Attachment 1).</p>	
<b>Proposed Solution(s)</b> <i>(mandatory by originator)</i> <p>ELEXON’s recommended approach is to introduce a new process based on existing functionality. The CP1140 (approved by the ISG on 27 September 2005) and approved Modification P110 Volume Notification Nullification Request (VNNR) functionality would be combined. The CP1140 process would be used to remove all notification data for Settlement Days after the day on which the Panel direction was issued. Each Authorisation that the Defaulting Party had in place would be identified manually. A separate VNNR would then be manually submitted for each Authorisation. Once loaded, these VNNRs would remove the notifications for the current day’s remaining Settlement Periods.</p> <p>The Service Provider cost of this option has been estimated to be £39,050. This approach would avoid the requirement for additional outages; however there would be an impact on the accuracy of the Credit Cover calculation for the Defaulting Party and its counter Parties (which has been estimated to extend up to 1 week in the worst case scenario). The impact on the Credit Cover calculation is due to</p>	

<sup>1</sup> For further details please refer to ELEXON Circulars EL01341, EL01342, EL01344, EL01345, EL01346 and EL01347

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<p>the extended timescale required to dis-apply those Energy Contract Volume Notifications for Settlement Periods within day (due to the VNNR execution timescales).</p> <p>In recommending this option, it is recognised that the estimated timescales that the accuracy of the credit calculation would be affected are likely to be much less in practice than the worse case scenario. In addition, by knowing which contracts are going to be dis-applied, it may also be possible for BSCCo to assess a Party’s Energy Indebtedness external to the ECVAA Credit Checking Processes, and establish whether an affected Party poses a risk. It is also acknowledged that the implementation costs of the process are significantly less than those of other options identified.</p> <p>Industry Impact Assessment should consider whether any of the alternative options identified are preferred by participants.</p>	
<p><b>Justification for Change</b> <i>(mandatory by originator)</i></p> <p>Under Section H 3.2.2 of the Balancing and Settlement Code (the ‘Code’), the Panel has the ability to, and has previously, issued instructions requiring Energy Contract Volume Notifications to be terminated within day. Central systems do not currently provide a defined process that allows this to be achieved in a robust manner. Although Defaults occur relatively infrequently, it is vital that a process exists that meets the Code requirements and can be operated with confidence.</p>	
<p><b>Is the Change being proposed a Housekeeping Change?</b> <i>(optional by originator)</i></p> <p>No</p>	
<p><b>Configurable Items Potentially Affected by Proposed Solution(s)</b> <i>(optional by originator)</i></p> <p>Changes to the ECVAA Service Description and the ECVAA User Requirements Specification. Minor amendment of the manual interface between BSCCo and ECVAA (ECVAA-I049 &amp; ECVAA-I050) would also be required.</p>	
<p><b>Impact on Core Industry Documents or System Operator-Transmission Owner Code</b> <i>(optional by originator)</i></p> <p>None Identified</p>	
<p><b>Related Changes and/or Projects</b> <i>(mandatory by BSCCo)</i></p>	
<p><b>Requested Implementation Date</b> <i>(mandatory by originator)</i></p> <p>Next feasible Release containing other CVA changes.</p> <p><b>Reason:</b></p> <p>Project overhead costs should be minimised by aligning with other CVA changes.</p>	
<p><b>Agreed Release/Implementation Date</b> <i>(mandatory by BSCCo)</i></p>	

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<b><i>Originator's Details:</i></b>  <b><i>BCA Name</i></b>  <b><i>Organisation..... ELEXON</i></b>  <b><i>Email Address</i></b>  <b><i>Date.....26 May 2006</i></b>	
<b>Attachments: Yes (If Yes, No. of Pages attached:...4.....)</b> <i>(delete as appropriate)</i>	

## **CP1169 - Attachment 1: Options for the Disapplication of Contract Notifications for Parties in Default**

### **Summary:**

A number of options have been identified which allow Energy Contract Volume Notifications (“contracts”) to be dis-applied from any Settlement Period. Information on the existing mechanisms and the impact on participants of the issues surrounding the process have also been identified.

ELEXON’s recommended approach is to introduce a new process which combines existing functionality and allows contracts to be dis-applied from any Settlement Period (Option 1). The Service Provider cost of this option has been estimated to be £39,050. This approach would avoid the requirement for additional outages of the Central Systems; however there would be an impact on the accuracy of the Credit Cover calculation (which has been estimated to extend up to 1 week in the worst case scenario). The impact on the Credit Cover calculation is due to the extended timescale required to dis-apply Energy Contract Volume Notifications for Settlement Periods within day. The Credit Cover calculation for the Defaulting Party and its counter Parties would be affected.

In recommending this option, it is recognised that the estimated timescales that the accuracy of the credit calculation would be affected are likely to be much less in practice than the worse case scenario. In addition, by knowing which contracts are going to be dis-applied, it may also be possible for BSCCo to assess a Party’s Energy Indebtedness external to the ECVAA Credit Checking Processes, and establish whether an affected Party poses a risk. It is also acknowledged that the implementation costs of the process are significantly less than those of other options identified.

### **Impacts:**

All identified methods for dis-applying contracts potentially have an undesirable impact on participants. Any delay in the processing of contract dis-applications has an adverse impact on the Credit Cover calculation for Parties associated with those contracts. In addition, some options require an outage of the Central Systems. An outage may lead to delays in the processing of Contract Notifications and associated reporting.

Where there is a delay in dis-applying a contract, the Credit Cover calculation for a Defaulting Party and the associated counter Party will be adversely impacted. This is because the Credit Cover calculation will be performed with contracts in place that will eventually be removed; hence a Party’s imbalance position will be estimated based on an inaccurate view of its contractual position. Errors in the Credit Cover calculation are particularly undesirable where Defaults are occurring. The effect of one Party Defaulting may have an adverse impact on its counter Parties and it will be important to monitor the Credit position of these Parties.

Where an outage is required, communications to and from the central systems will be adversely impacted. Any contracts received during this time will still be loaded at the end of the outage. However, Parties will not be provided with confirmation that notifications have been received and their notified positions will not be reported until the end of the outage. This adverse impact on Parties’ ability to understand their notified position is undesirable, particularly at a time when Parties may be trying to trade out positions with the Defaulting Party.

### **Existing Functionality:**

Two mechanisms exist which can be adapted to support the dis-application of contracts. The CP1140 process allows contracts to be automatically dis-applied from Settlement Period One via termination of the Party registration. The Volume Notification Nullification Request (as introduced under P110) allows contracts to be manually dis-applied within day at an individual authorisation level.

Under **CP1140** a process was introduced that allows contracts to be dis-applied from Settlement Period One of the following Settlement Day. The process works by temporarily terminating the Party registration; this automatically dis-applies contracts from the following Settlement Day. The Party registration is then reinstated. Because the participant's registration status is stored on a daily basis, this process can only be applied from Settlement Period one.

The CP1140 process requires a short outage (approximately 5-10 minutes), during which time communications to and from the central systems will be adversely impacted. In most cases the process will be completed within one Settlement Period, thereby avoiding missing the next Credit Check.

Under **P110**, a manual process was introduced that allows Volume Notifications to be terminated by a counter Party at an Authorisation level. This is a manual process which allows all contracts that are associated with a particular Authorisation (i.e. with a particular counter Party) to be terminated. The process applies from a defined Settlement Period; however the process is given low priority and may not take effect until some time after it is initiated. It is a requirement of P110 that the process can only be used within working hours (in order to protect Parties which do not have 24 hour trading desk cover).

In identifying an option to progress it was the aim to minimise the impact on the Credit Cover calculation and outage requirement whilst maximising the use of existing functionality (thereby reducing implementation costs).

### **Option 1: Formalise manual use of existing Functionality**

A new process would be formalised which combines existing functionality and allows contracts to be dis-applied from any Settlement Period. This approach would avoid the requirement for additional outages; however there would be an impact on the accuracy of the Credit Cover calculation.

Existing CP1140 and P110 Volume Notification Nullification Request (VNNR) functionality would be utilised. The CP1140 process would be used to remove all contract data for Settlement Days after the day on which the Panel direction was issued. Each Authorisation that the Defaulting Party had in place would be identified manually. A separate VNNR would then be manually submitted for each Authorisation. Once loaded, these VNNRs would remove the contract data for the current day's remaining Settlement Periods.

By using CP1140 to remove whole day future effective notifications the magnitude of the impact on the Credit Check is reduced to only that of those Settlement Periods within the current day. This inaccuracy exists because the contract data for Settlement Periods on the day which Panel direction was issued would not be removed until the VNNRs were processed. The Credit Check impact may persist over a number of working days, due to the extended execution period for the dis-application of within day contracts.

The key elements determining the duration of the execution period are:

- Manual identification and submission of VNNRs;
- Working hour restriction of VNNRs entry; and
- Low priority processing of VNNRs.

Consequently it is possible that this process would take a number of days for a 'large' participant. It has been estimated that in the worst case scenario this could be around one week, this includes:

- 2-4 Days until the next working day (including Bank Holiday);
- 10 hrs to manually enter VNNRs for all Authorisations (based on an estimate of ~15 minutes per VNNR for around 40 Authorisations); and
- 2-3 days for background processing of around 40 VNNR files.

It is recognised that in practice, the timescales involved are likely to be much shorter than the worst case scenario identified.

Under this solution, ECVAA documentation would be amended to reflect the new process (based on a combination of existing processes). Minor amendment of the manual interface between BSCCo and ECVAA (ECVAA-I049 & ECVAA-I050) would be required. The new process would also need to be tested. The total Service Provider cost of these changes has been estimated as **£39,050** (£13,198 Change Specific + £25,852 Release Overhead).

#### **Option 2a: Automation of existing functionality (low priority VNNRs)**

This approach would be similar to Option 1 but would automate the process for identification of Authorisations to be terminated and the submission of the associated VNNRs. By automating the process it would be possible to apply the VNNRs outside of working hours (since the validation to ensure input occurs is achieved through the manual input interface). It has been estimated that, in the worst case scenario, the impact on Credit Check would persist for around 2-3 days as this is the time required for background processing of VNNRs, and hence the whole process.

Option 2a would require documentation of the new process (based on a combination of existing processes) and testing. Further development would be required to automate the submission of the required VNNRs. Minor amendment of the manual interface between BSCCo and ECVAA (ECVAA-I049 & ECVAA-I050) would also be required. The total Service Provider cost of these changes has been estimated as **£200,985** (£77,733 Change Specific + £123,252 Release Overhead).

#### **Option 2b: Automation of existing functionality (High priority VNNRs)**

This approach would be similar to Option 2a but in addition to automating the VNNR process the prioritisation of the VNNRs would also be increased. This would reduce the execution time and therefore decrease the time for which any adverse impact on the accuracy of credit check exists. However, there would be an outage of the Central Systems for approximately 5 hours whilst the VNNRs were processed as high priority. For this 5 hour period communications to and from the central systems would be adversely impacted. This period would constitute the total duration of the process.

Option 2b would require documentation of the new process (based on a combination of existing processes) and testing. Further development would be required to automate the submission and amend the processing priority of the required VNNRs. Minor amendment of the manual interface between BSCCo and ECVAA (ECVAA-I049 & ECVAA-I050) would also be required. The total Service Provider cost of these

changes has been estimated as **£206,110** (£81,999 Change Specific + £124,111 Release Overhead).

**Option 3: Purpose Developed Functionality**

Under this approach new functionality would be developed specifically to allow a particular Party's notifications to be dis-applied from a specified Settlement Period. Utilising background pre-processing the requirement for any outage would be minimised. This approach would also remove any adverse impact on the Credit Check. However, there would still be an outage of up to 1 hour, during which communications to and from the central systems would be adversely impacted.

Option 3 would require documentation of the new process and testing. Further development would be required to establish the new functionality. Minor amendment of the manual interface between BSCCo and ECVAA (ECVAA-I049 & ECVAA-I050) would also be required. The total Service Provider cost of these changes has been estimated as **£357,661** (£187,148 Change Specific + £170,513 Release Overhead).