
Meeting name	BSC Panel
Date of meeting	9 August 2007
Paper title	Report on Issue 28 'Further Considerations on Section P'
Purpose of paper	For Information
Synopsis	Issue 28 was raised to consider further issues relating to Section P of the BSC, following Modification P210 'Revisions to the Text in Section P related to Single Notifications of Energy Contract Volumes and Metered Volume Reallocations'. The Issue 28 Group concluded that issues in the areas of dual notification, replacement of notification Agents and erroneous placement into Credit Default should be resolved by raising a Modification Proposal.

1 Introduction

- 1.1 [Issue 28](#) 'Further Considerations on Section P' was raised by the BSC Panel to investigate issues that arose during assessment of Approved Modification [P210](#) 'Revisions to the Text in Section P related to Single Notifications of Energy Contract Volumes and Metered Volume Reallocations' or that were identified by the Trading Disputes Committee (TDC). The Issue 28 Group ('the Group') met twice to consider these matters, and any further concerns in the area of notifications, or regarding Section P of the Balancing and Settlement Code ('the Code') in general, that the Group felt should be explored. The aim of the Group was to consider the issues, develop options for their resolution and ultimately make a recommendation as to whether a Modification (or Modifications) should be raised.
- 1.2 Six issues were considered, five of which were identified when Issue 28 was raised, while one was raised by the Group. The issues were:
- a) the dual notification process (i.e. the process of matching notifications, as specified in Code section P, paragraphs 2.4 and 3.4, and performed by the Energy Contract Volume Aggregation Agent (ECVAA));
 - b) the process for replacing one notification Agent with another (Code section P2.2.5 and 3.2.5);
 - c) the inability to correct Settlement errors arising from erroneous placement into Credit Default (Code section M);
 - d) the handling of Metered Volume Reallocation Notifications (MVRN) associated with negative CALF values by the ECVAA refusal/rejection process (Code section P3.5);
 - e) the treatment of overwrite notifications by the refusal/rejection process in the ECVAA system (Section P); and
 - f) the possible rejection of internal Energy Contract Volume Notifications (ECVN) (this issue was raised by the Group).

2 Discussion of Issues

2.1 Issue 1 - Dual Notification Process (Section P)

2.2 Approved Modification P210 was raised by the Panel after ELEXON became aware of potential for misinterpretation between the BSC and the ECVAAs system regarding ECVN and MVRN processing. P210 resolved inconsistencies by revising the text of Section P of the Code in relation to the single notification process. However, it was recognised that similar discrepancies may still exist for the dual notification process. Dual notification was not considered under P210, as the urgency of P210 was not considered applicable with regard to dual notification because the dual notification process is not currently used by any Parties.

2.3 The Group established (via a walkthrough exercise between ELEXON and the ECVAAs service provider) that the requirements of the Code in Section P do not fully reflect the operation of central systems with regard to the dual notification 'matching' process (see Attachment A). In particular the matching processes for ECVNs and MVRNs in paragraphs P2.4 and P3.4 respectively do not include the concept of a 7-day 'matching window'. This matching window is an operational concept used by the ECVAAs system which determines when the status of a match between submitted notifications becomes 'firm' (i.e. as opposed to 'provisional', a status assigned for operational reasons). An important aspect of the status of a match is that a provisional match can be nullified by either of the Parties submitting a matching notification with a different volume, whereas a firm match can only be changed by both Parties submitting matching notifications with the same new volume. The Code effectively treats all matches as firm, so on the basis of the Code provisions in this area a Party might argue that it has a firm match prior to the start of the 7 day window and potentially use this as grounds for a trading dispute if its counterparty undid the match.

2.4 The Group concluded that the Code requirements around the dual notification matching process should be changed to reflect the operation of central systems. It was noted that consideration would need to be given to whether:

- as part of this change, timescales for matching could be defined by stating that no match can be made until notifications enter the matching window; or
- concepts of 'provisional' and 'firm' matches would need to be introduced into the Code.

A factor in determining this may be the Forward Contract Report (ECVAAs-I022). The ECVAAs has confirmed that the Forward Contract Report includes any matched position (i.e. including provisional). Although the default length of the standard report is 7 days (hence containing only firmly matched submissions), ad-hoc reports covering a longer date range can be requested. Assessment of the impact of the Forward Contract Report would therefore be needed when considering whether the concept of provisional matches should be included in the Code.

2.5 The final aspect of the dual notification process considered and noted by the Group was the interaction between the notification overwrite process and the manner in which the ECVAAs system handles dual notification 'match overwriting'. Though individually the operation of each of these processes appears satisfactory, there are no references between them in the Code, i.e. there is no reference in the Code provisions for notification overwrites to the fact that dual notifications can effectively be overwritten or nullified outside of the notification overwrite process in some circumstances by the submission of matching notifications with different volumes; the Group agreed that further explanation or clarification in the Code may be useful.

2.6 **Issue 2 - Process for replacing one notification Agent with another (P2.2.5, P3.2.5)**

2.7 Sections P2.2.5 and P3.2.5 of the Code requires that a replacement Agent is specified as part of the process of terminating the old Agent's Authorisation; however, the ECVA system allows any Agent with a valid Authorisation to overwrite the old Agent's notifications.

2.8 The Group considered whether the provisions of Approved Modification P110 'Nullification of Volume Notifications where no Authorisations are in place' had superseded the Code requirements in this area, but were satisfied that the P110 process was designed for a different situation to that intended to be covered by P2.2.5 and P3.2.5. Consideration was given to the possibility of changing the ECVA system in order to align it with the Code, but it was noted that it was difficult to determine what the Code requirements actually prescribe in terms of system operation, and furthermore that a change to Central Systems in this area would involve a change to the ECVN loader, an integral element of the system.

2.9 The Group concluded that the Code should be changed to reflect the operation of the ECVA system in this area.

2.10 **Issue 3 - Inability to correct Settlement errors arising from erroneous placement into Credit Default (Section M)**

2.11 A case considered by the TDC highlighted that if a Party is erroneously put into Level 2 Credit Default, clauses in Section M of the Code prevent any adjustments to notifications that were refused/rejected; a Party affected in this way raised a Trading Dispute which may be upheld by the TDC. Section M includes provision for a Party to claim compensation because of an erroneous calculation of Credit, but only covers the case of incorrect 'calculation' of Credit (in which case the affected Party can claim compensation) and does not permit compensation when a Party is placed into Credit Default in error. Any Party erroneously put into Credit Default has no recourse to either correct the situation in Settlement or claim compensation via a Dispute.

2.12 The Group noted that this issue could potentially be rectified by changing the criteria for eligibility for compensation in M4.2. Consideration was given to whether such revised criteria should apply to counter Parties of directly affected Parties, because they may be negatively impacted by having to trade out their position, through no fault on their part. If counter Parties were to be included in the criteria it would be prudent to limit eligibility to only the affected Party and their direct counter Parties.

2.13 The Group concluded that action should be taken to resolve this issue. Consideration should be given to changing the criteria for compensation in paragraph M4.2 of the Code, and to extending eligibility for compensation to counter Parties as well as Lead Parties.

2.14 **Issue 4 - Handling of MVRNs associated with negative CALF values by the ECVA refusal/rejection process (Code section P3.5)**

2.15 This issue involves Parties that are in Level 2 Credit Default and have BM Units that have been assigned negative CALF values (see Attachment B). The ECVA system would currently refuse/reject percentage MVRNs relating to such BM Units that would actually *decrease* the Energy Indebtedness of the Party. This is counter to the intent and requirements of the Code as set out in Sections M and P, which state that a Party that is in Level 2 Credit Default is subject to refusal or rejection of any MVRNs which would have the effect of *increasing* its Energy Indebtedness.

- 2.16 The Group agreed that this issue should be resolved, but concluded that no change to the Code should be made; a system change may, however, be necessary to resolve this issue. ELEXON, in conjunction with the ECVAAs service provider will investigate the issue outside the Issue process, and assess the cost and impact associated with its resolution.
- 2.17 Issue 5 - Treatment of overwrite notifications by the refusal/rejection process in the ECVAAs system (Section P)**
- 2.18 The operation of the refusal/rejection process in the ECVAAs system does not take account of what a notification may be overwriting. For example, a notification by a Party in Level 2 Credit Default to sell 100MWh of energy would be refused or rejected - but if that notification is overwriting a previous notification to sell 200MWh, it could be argued that it would actually be decreasing the Party's net energy indebtedness.
- 2.19 The Group agreed in principle that the ECVAAs system should take account of the values of notifications and what a notification is overwriting. However, the costs of such a change would need to be fully explored before it could be determined whether such a change should be progressed. ELEXON will assess the cost and impact of an ECVAAs system change to resolve this issue, outside the Issue process.
- 2.20 Issue 6 - Possible rejection of internal ECVNs**
- 2.21 The Group considered whether the operation of Level 2 default refusal/rejection processing by the ECVAAs system would impact Parties using ECVNs between its accounts, i.e. whether the central systems would refuse/reject internal ECVNs of Parties in Level 2 Credit Default. It was agreed that such internal notifications should not be refused/rejected as they would not increase the net indebtedness of that Party.
- 2.22 The ECVAAs service provider confirmed that the Notification Loader and Credit Checker elements of the systems operate in the same way: if any one Settlement Period value for a given notification by a Party in Level 2 Credit Default would on its own (i.e. without consideration of the other periods or the counter Party) increase that Party's energy indebtedness, that notification is rejected/refused. That is, the system uses the simplest approach and takes no account of net position.
- 2.23 The Group concluded that no change to the Code was necessary with regard to this matter. However, ELEXON will assess the cost and impact of an ECVAAs system change to resolve this issue, outside the Issue process.

3 Conclusions

- 3.1 The Group concluded that there are outstanding issues relating to Section P and to Section M of the Code that should be resolved. Issues 1 and 2, as set out in this paper, which relate respectively to dual notification matching and the process for replacing one notification Agent with another, should be resolved by changing the Code to reflect how the ECVAAs system operates in practice. Issue 3, which concerns the inability, arising from clauses in Section M, to correct Settlement errors arising from erroneous placement into Credit Default, should be resolved by revising the criteria for compensation in the Code and considering extension of eligibility for compensation to counter Parties. The Group agreed that a Modification Proposal should be raised to progress these changes.

- 3.2 The Group further agreed that it would be appropriate for the BSC Panel to raise such a Modification Proposal. The Group felt that the nature of the issues considered under Issue 28 was such that the potential impact on the industry as a whole and on any affected Parties was significant, but the risk to each individual Party of being impacted is relatively low. The Group considered that in these circumstances, and if no BSC Party was minded to raise a Modification Proposal, it would be appropriate for the Panel to act on behalf of the industry.
- 3.3 Under Section F of the Code, the Panel may raise a Modification upon a recommendation from ELEXON, where such a Modification would better facilitate Applicable BSC Objective (d) (promoting efficiency in the implementation and administration of the balancing and settlement arrangements). Furthermore, and also under Section F, the Panel may raise a Modification on the basis of a TDC recommendation in consequence of a Trading Dispute. It should be noted that issues 1 and 2 arose during consideration of P210, which was raised by the Panel, while issue 3 was identified due to a Trading Dispute considered by the TDC. ELEXON is seeking advice to confirm whether the Panel is able to raise these changes.
- 3.4 The Group concluded that no Modification was necessary with respect to the remaining issues considered, issues 4, 5, and 6, concerning respectively the impact of negative CALF values on the MVRN refusal/rejection process, the handling of overwrite notifications by the refusal/rejection process, and the treatment of internal ECVNs by the refusal/rejection process. However, the Group agreed that costs and impacts associated with resolving these issues should be assessed, with a view to possible ECVAAs system changes; ELEXON will carry out investigation of these issues with the ECVAAs service provider, and will progress Change Proposals as appropriate.

4 Recommendations

- 4.1 The Panel is invited to:
- a) **NOTE** the conclusions of the Issue 28 Group;
 - b) **NOTE** that the Issue 28 Group agreed that a Modification Proposal should be raised to resolve issues 1, 2, and 3 as set out in this paper;
 - c) **NOTE** that the Issue 28 Group agreed that it would be appropriate for the Panel to raise a Modification Proposal with regard to Issue 28;
 - d) **NOTE** that the Issue 28 Group agreed that the Code did not require amendment in relation to issues 4, 5 and 6 as set out in this paper, but that these issues should be investigated further; and
 - e) **NOTE** that ELEXON will conduct further investigation of issues 4, 5 and 6, and will progress assessment of costs and impacts associated with their resolution, outside of the Standing Issues process.

Dean Riddell

ELEXON Change Delivery
dean.riddell@elexon.co.uk
 T: 0207 380 4366

List of attachments

Attachment A – Dual Notification Walkthrough
 Attachment B – Negative Calf issue and example