

January 2002

**INITIAL ASSESSMENT OF
MODIFICATION PROPOSAL P61 -
Ad Hoc Adjustments to Settlement
involving material errors without
resorting to Ad Hoc Settlement
Runs**

Prepared by ELEXON Limited

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Author ELEXON

I DOCUMENT CONTROL

a Authorities

Version	Date	Author	Signature	Change Reference
0.1	07/01/02	Clive Cushen		
1.0	10/01/02	Clive Cushen		

Version	Date	Reviewer	Signature	Responsibility
0.1	07/01/02	John Williamson		Trading Development
0.1	07/01/02	John Lucas		Trading Strategy
0.1	07/01/02	Justin Andrews		Trading Strategy
0.1	07/01/02	David Warner		Trading Strategy
0.1	07/01/02	James Shuker		Trading Operations
0.1	07/01/02	Nigel Gibbs		Performance Management
0.1	07/01/02	Catherine Forrester		Performance Management
0.1	07/01/02	Mark Manley		Performance Management
1.0	10/01/02	Nigel Gibbs		Performance Management

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 EXECUTIVE SUMMARY

Modification Proposal P61 was submitted on 31st December 2001 by ScottishPower Energy Trading Ltd. The Modification Proposal seeks to remove Ad Hoc Settlement Runs as the means to effect agreed adjustments with the exception of a single Disputes Final Run.

It proposes that a more cost effective, and practical, standard methodology for adjustment of a material error in Settlement is:

- a) in the case of a pre-Final Reconciliation Run dispute, to undertake the adjustment at the next convenient Timetabled Reconciliation Run; and
- b) in the case of a post-Final Reconciliation Run dispute, to undertake the adjustment through a single Dispute Final Run.

The Modification proposes that where there is an urgent requirement to make an interim adjustment (for example a Settlement error causes credit default), then a simple and approximate manual calculation of the error, carried out by the Trading Disputes Committee and agreed by the BSC Panel, outside the normal Settlement Runs would be put into effect

An initial assessment of Modification Proposal P61 has identified the following potential areas of impact and issues to be considered:

Issues:

- The Modification is related to an existing BSC Systems compliance issue surrounding Ad Hoc Settlement Runs that is being addressed via Change Proposal 517. This issue has been presented to the Panel (paper33/022), indicating a severe impact on participant systems and processes if CP517 is implemented;
- The adequacy of the replacement and whether it meets the needs of all groups of Parties;
- The frequency of post-Final Disputes and the ability of the Trading Disputes Committee to batch more than one post-Final Dispute into a single run and maintain traceability;
- The robustness of an interim adjustment process outside of Settlement Runs, the calculation mechanism to be used, and its acceptability from a BSC Audit perspective;
- Whether additional obligations on participants are required to ensure effective operation of an interim adjustment process;
- The period between the Final Reconciliation Run and the Disputes cut-off point is now 22 months so that interim adjustments would typically span audit years; and
- How the Panel decides whether an interim adjustment is appropriate.

Areas of Impact:

- The Modification has a significant impact on the Disputes process;
- The Modification has a material impact on a number of sections of the Balancing and Settlement Code. Code Subsidiary documents, particularly BSCP 11 – Volume Allocation and Settlement Run Queries are impacted ;

- The Modification has only a minor impact on BSC Systems, as effectively it aligns the Code with the current capability of BSC Systems with regard to Volume Allocation and Settlement Runs; and
- There are potential impacts on Core Industry Codes. Interim adjustments for Settlement errors that affect Supplier Volume Allocation may need to be considered in the Distribution Use of System Agreement.

It is recommended that the Modification Proposal is progressed as follows:

- Modification Proposal P61 should be submitted to the Assessment Procedure in accordance with Section F 2.6 of the Balancing and Settlement Code, in order to enable a Modification Group to evaluate the Modification Proposal, and any Alternative Modification that might achieve the aims of the Modification more effectively and economically;
- The Modification should be considered by a Modification Group formed by members of the ISG and SVG, augmented with members with experience in disputes; and
- The Assessment Report for Modification Proposal P61 should be submitted to the BSC Panel for the meeting of 18th April 2002.

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 Balancing and Settlement Code ('BSC'). The BSC 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 BSC.

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

3 DESCRIPTION OF THE MODIFICATION PROPOSAL

Modification Proposal 61 seeks to remove Ad Hoc Settlement Runs as the means to effect agreed adjustments with the exception of a single Disputes Final Run.

It proposes that a more cost effective, and practical, standard methodology for adjustment of a material error in Settlement is:

- a) in the case of a pre-Final Reconciliation Run dispute, to undertake the adjustment at the next convenient timetabled Reconciliation Run; and
- b) in the case of a post-Final Reconciliation Run dispute, to undertake the adjustment through a single Dispute Final Run.

Where there is an urgent requirement to make an interim adjustment (for example a Settlement error causes credit default), then a simple and approximate manual calculation of the error, carried out by the Trading Disputes Committee and agreed by the BSC Panel, outside the normal Settlement Runs would be put into effect.

For the avoidance of doubt, in BSC terms, an Ad Hoc Settlement Run is a complete run of the settlement process, with Parties obliged to pay the sums calculated by the run.

A copy of the Modification Proposal, as submitted by its proposer, can be found at Annex 1 to this report.

4 IMPACT ON BSC SYSTEMS AND PROCESSES

BSC System / Process	Potential Impact of Proposed Modification
Collection and Aggregation of Metered Data	The suppression of Ad Hoc Settlement Runs, leaving just the Disputes Final Run beyond Timetabled Reconciliation Runs
Supplier Volume Allocation	The suppression of Ad Hoc Settlement Runs, leaving just the Disputes Final Run beyond Timetabled Reconciliation Runs
Settlement	The suppression of Ad Hoc Settlement Runs, leaving just the Disputes Final Run beyond Timetabled Reconciliation Runs
Clearing, Invoicing and Payment	1. The suppression of Ad Hoc Settlement Runs, leaving just the Disputes Final Run beyond Timetabled Reconciliation Runs. 2. The means to make interim adjustments as directed by the Panel/TDC
Reporting	Potential changes to provide reporting of interim adjustments
Dispute Resolution	The Modification has significant implications for the disputes processes.

5 IMPACT ON OTHER SYSTEMS AND PROCESSES USED BY PARTIES

System / Process	Potential Impact of Proposed Modification
Party reconciliation processes	Parties may need to develop processes to support interim adjustments made outside Settlement Runs
Party Distribution Use of System (DuoS) processes	If interim adjustments to Settlement are made where Supplier Volume Allocation is impacted then agreement on any corresponding DuoS adjustment may need to be made. This is outside the governance of the BSC and would need to be considered as part of the Distribution Use of System Agreements

6 IMPACT ON DOCUMENTATION

6.1 Impact on Balancing and Settlement Code

BSC Section	Potential Impact of Proposed Modification
H: General	Potential additions to Section H5 to clarify the scope of the BSC Audit in respect of interim adjustments made outside of Settlement Runs
N: Clearing, Invoicing and Payment	Replacement/rewording of reference to Ad Hoc Settlement Run in Section N6.1.2 Potential additions to define the means of interim adjustments made outside of Settlement Runs.
R: Collection and Aggregation of Metered Data from CVA Metering Systems	Replacement/rewording of reference to Ad Hoc Settlement Run in Section R 5.6.1
S: ANNEX S-2 Supplier Volume Allocation Rules	Replacement/rewording of reference to Ad Hoc Volume Allocation Run in Section 10.1.1
T: Settlement and Trading Charges	Replacement/rewording of reference to Ad Hoc Settlement in Section T 5
U: Provisions Relating to Settlement	Replacement/rewording of reference to Ad Hoc Settlement Run and Ad Hoc Volume Allocation in Section U2
V: Reporting	Replacement/rewording of reference to Ad Hoc Settlement Report in Table 2
W: Trading Queries and Trading Disputes	The Modification has implications for Section W 4
X: ANNEX X-1 General Glossary	Replacement/redefinition of terms Ad Hoc Settlement Run and Ad Hoc Volume Allocation Run

6.2 Impact on Code Subsidiary Documents

Code Subsidiary Document	Potential Impact of Proposed Modification
BSC Procedures	BSCP11 has extensive references to Ad Hoc Runs, and will need to describe the process for interim adjustment BSCP508 references Ad Hoc Runs
BSC Service Descriptions	SAA and FAA Service Descriptions reference Ad Hoc Runs

Code Subsidiary Document	Potential Impact of Proposed Modification
Party Service Lines	PSL120 references Ad Hoc Runs PSL 140 references Ad Hoc Runs
Data Catalogues	Potential impact on the NETA data File Catalogue and SVA Data Catalogue if it is decided to remove Settlement Run Type 'D' from the valid set.
Reporting Catalogue	References Ad Hoc Runs

6.3 Impact on Core Industry Documents

Core Industry Document	Potential Impact of Proposed Modification
Master Registration Agreement	Potential impact on Data Transfer Catalogue if Settlement Run Type 'D' is removed from the valid set.
Distribution Use of System Agreements	Potential impact from interim adjustments for Settlement errors that affect Supplier Volume Allocation

7 IMPACT ON OTHER CONFIGURABLE ITEMS

Item	Potential Impact of Proposed Modification
BSC Agent URS's and IDD's	1. Replacement/rewording of references to Ad Hoc Settlement Runs and Ad Hoc Volume Allocation Runs. 2. Potential impact if it is decided to remove 'D' from the valid set of Settlement Run Types
BSC Business Process Model	Replacement of references to Ad Hoc Settlement Runs and Ad Hoc Volume Allocation Runs by Disputes Final Settlement Run and Disputes Final Volume Allocation Run

8 IMPACT ON ELEXON

Area of Business	Potential Impact of Proposed Modification
ELEXON Systems	Potential requirement for tool to calculate interim adjustments in support of the TDC

ELEXON Procedures	ELEXON disputes processes may be impacted.
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9 IMPACT ON FINANCIAL ARRANGEMENTS AND BUDGET

Not known at this time.

10 IMPACT ON BSC AGENT CONTRACTUAL ARRANGEMENTS

BSC Agent Contract	Potential Impact of Proposed Modification
Logica (BMRA, CRA, CDCA, SAA, ECVAA, TAA(CVA))	This Modification may impact the contractual arrangements with the NETA Central Service Agent in order to reflect functionality and service level amendments required to replace Ad Hoc Settlement Runs by Disputes Final Settlement Run
EPFAL (FAA)	This Modification may impact the contractual arrangements in order to reflect functionality and service level amendments required to replace Ad Hoc Settlement Runs by Disputes Final Settlement Run
ESIS (TAA(SVA))	No impact identified at this time.
Cap Gemini (SVAA)	This Modification may impact the contractual arrangements in order to reflect functionality and service level amendments required to replace Ad Hoc Volume Allocation Runs by Disputes Final Volume Allocation Run
PwC (BSC Auditor, Certification Agent)	This Modification may impact the BSC audit requirements

11 PROCESS AND TIMETABLE FOR PROGRESSING THE PROPOSAL

ELEXON recommends that this Modification Proposal be submitted for Assessment on the basis that it is adequately defined and that the area has had exposure as a result of Change Proposal 517. The Modification Group should be formed from members of the ISG and SVG, augmented with members with experience in disputes. The Modification Group should be actioned to provide its report to the Panel by 18th April 2002.

12 ISSUES

The following issues will need to be considered and addressed in progressing the Modification Proposal:

- The Modification is related to an existing BSC Systems compliance issue surrounding Ad Hoc Settlement Runs that is being addressed via Change Proposal 517. This issue has been presented to the Panel (paper33/022), indicating a severe impact on participant systems and processes if CP517 is implemented;
- The frequency of post-Final Disputes and the ability of the Trading Disputes Committee to batch more than one post-Final Dispute into a single run and maintain traceability;
- The adequacy of the replacement and whether it meets the needs of all groups of Parties;
- The robustness of an interim adjustment process outside of Settlement Runs and its acceptability from a BSC Audit perspective;
- Whether additional obligations on participants are required to ensure effective operation of an interim adjustment process;
- The period between Final Reconciliation Run and the Disputes cut-off point is now 22 months so that interim adjustments would typically span audit years; and
- How the Panel decides whether an interim adjustment is appropriate.

ANNEX 1 – MODIFICATION PROPOSAL

Modification Proposal – F76/01	MP No: 61 <i>(mandatory by BSCCo)</i>
Title of Modification Proposal <i>(mandatory by originator)</i> : Ad Hoc Adjustments to Settlement involving material errors without resorting to Ad Hoc Settlement Runs	
Submission Date <i>(mandatory by originator)</i> : 31 December 2001	
Date Logged <i>(mandatory by BSCCo)</i> :	
Description of Proposed Modification <i>(mandatory by originator)</i>	
<p>To make amendments to the current wording of the BSC to ensure that a Trading Party has access to an appropriate form of redress in order to correct a material Settlement error without resorting to an Ad Hoc Settlement Run.</p> <p>The use of Ad Hoc Settlement Runs (and related Volume Allocation Runs) pre- and post- Final Reconciliation on the resolution of a Trading Dispute is primarily outlined in Sections U and W of the BSC.</p> <p>Experience to date has shown that resort to the use of an Ad Hoc Settlement Run to correct Settlement errors has been relatively rare. The effect of such an Ad Hoc Run would be to re-run the Settlements process for the entire or part of a particular Settlement Day, possibly more than once in some cases. This would create a complex and inefficient method by which to adjust Settlement in two respects:</p> <ol style="list-style-type: none"> a) Substantial new processes would be required in addition to current systems functionality (for central BSC Agents and BSC Parties) to accommodate the use of Ad Hoc Settlement Runs, involving both considerable cost and time for implementation; b) the materiality of the error affecting the Trading Party. Even where a Party was potentially being placed in credit default as the result of a Settlement error, it would be more efficient, on the resolution of a dispute raised by the Party in its favour, for the adjustment for that error to be calculated and rectified through a less elaborate process than an Ad Hoc Settlement Run. <p>It would, therefore, be more cost effective, and practical, if the standard methodology for adjustment of a material error in Settlement was:</p> <ol style="list-style-type: none"> c) in the case of a pre-Final Reconciliation Run dispute, to undertake the adjustment at the next convenient timetabled Reconciliation Run; and d) in the case of a post-Final Reconciliation Run dispute, to undertake the adjustment through a single Dispute Final Run. <p>Where there is an urgent requirement to make an interim adjustment (as in the credit default example given above), a simple and approximate manual calculation of the error, carried out by the TDC and agreed by the BSC Panel, outside the normal Settlement Runs would be put into effect. Ad Hoc Settlement Runs must therefore be removed from the BSC as the means to effect agreed adjustments.</p>	

Modification Proposal – F76/01	MP No: 61 <i>(mandatory by BSCCo)</i>
Description of Issue or Defect that Modification Proposal Seeks to Address <i>(mandatory by originator)</i>	
The potential for using costly and inefficient multiple Ad Hoc Settlement Runs as the means to adjust Settlement after the resolution of a Trading Dispute involving a material error.	
Impact on Code <i>(optional by Originator)</i>	
All references to Ad Hoc Settlement Runs in the Code (Sections U and W in particular) and in BSCPs should be removed and wording inserted to ensure that the standard methodology adopted in adjusting Settlement after resolution of a Trading Dispute is through a calculation of the material error outside of the normal Settlement Runs by the TDC and agreed by the BSC Panel.	
Impact on Core Industry Documents <i>(optional by Originator)</i>	
None.	
Impact on BSC Systems and Other Relevant Systems and Processes Used by Parties <i>(optional by originator)</i>	
None.	
Impact on other Configurable Items <i>(optional by originator)</i>	
None.	
Justification for Proposed Modification with Reference to Applicable BSC Objectives <i>(mandatory by originator)</i>	
In view of the rarity of such an event, the proposed modification would be a more cost effective method of managing the adjustment to Settlement and “promoting efficiency in the implementation and administration of the balancing and settlement arrangements” (paragraph 3 of Condition C3 of the Transmission Licence).	
Details of Proposer:	
<i>Name...Mike Harrison.....</i>	
<i>Organisation...ScottishPower Energy Trading Limited.....</i>	
<i>Telephone Number...0141 568 4469.....</i>	
<i>Email Address...mike.harrison@scottishpower.com.....</i>	

Modification Proposal – F76/01	MP No: 61 <i>(mandatory by BSCCo)</i>
Details of Proposer's Representative: <i>Name...Abid Sheikh.....</i> <i>Organisation...ScottishPower Energy Trading Limited.....</i> <i>Telephone Number...0141 568 3113.....</i> <i>Email address...abid.sheikh@scottishpower.com.....</i>	
Details of Representative's Alternate: <i>Name.....</i> <i>Organisation.....</i> <i>Telephone Number.....</i> <i>Email address.....</i>	
Attachments: No <i>(delete as appropriate) (mandatory by originator)</i> If Yes, Title and No. of Pages of Each Attachment:	