

January 2002

**INITIAL ASSESSMENT OF
MODIFICATION PROPOSAL P60 -
AMENDMENT TO OBLIGATION TO
REGISTER METERING SYSTEMS IN
RELATION TO TRADE SALES**

Prepared by ELEXON Limited

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I DOCUMENT CONTROL

a Authorities

Version	Date	Author	Signature	Change Reference
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0.2	10/1/02	Trading Operations		Second draft following internal review comments
1.0	11/1/02	Trading Operations		First Issue

Version	Date	Reviewer	Signature	Responsibility
0.1	10/1/02	Trading Operations		Peer Review
0.2	10/1/02	Trading Strategy		Final Review

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 P60 was submitted on 5th December 2001 by British Gas Trading Limited. The proposal, in the circumstances of a Trade Sale to a single Replacement Supplier, seeks to remove the obligation on the single Replacement Supplier to re-register Metering Systems and appoint Party Agents as soon as reasonably practicable and within 3 months after the Appointment Day of that Replacement Supplier. This therefore places the responsibility on the single Replacement Supplier to decide whether they can best meet their Balancing and Settlement Code (Code) obligations by re-registering their Metering Systems or not.

An Expert Group was convened on 8 January 2002 to discuss this Modification Proposal. Their initial impression was that the Modification Proposal will better facilitate the achievement of the BSC Objectives in Condition C3(3)(c) and (d) of the Transmission Licence. These refer to 'promoting effective competition in the generation and supply of electricity and promoting such competition in the sale and purchase of electricity', and 'promoting efficiency in the implementation and administration of the balancing and settlement arrangements'.

The Modification Proposal is well defined, however, initial assessment has identified that there are issues concerning the consideration of the risk to settlement that need to be progressed and an inaccuracy in the justification for the proposed Modification, as described in section 6 of this report.

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

- **Modification Proposal P60 should be submitted to the Assessment Procedure in accordance with section F2.6 of the Code, in order to allow further consideration and consultation to this issue;**
- **That such Assessment should be undertaken by the Volume Allocation Modification Group with their standard Terms of Reference; and**
- **The Assessment Report for Modification Proposal P60 should be submitted to the Panel for consideration at their meeting of 14 February 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 P60 seeks to amend the Code in the circumstances of a Trade Sale to a single Replacement Supplier. It proposes to remove the obligation placed on the single Replacement Supplier by section K7.6.2 of the Code, to *"take the steps referred to in paragraph 7.6.1 as soon as reasonably practicable after the Appointment Day and, in any event, within 3 months after The Appointment Day."* Paragraph K7.6.1 places the obligation on the single Replacement Supplier to re-register Metering Systems and appoint and register Party Agents.

The Modification Proposal states that a Trade Sale will normally mean that the Failing Supplier's assets are being transferred cooperatively. The issues involved in respect of a Trade Sale differ from that of Supplier of Last Resort scenario and therefore it is proposed that the original obligation to re-register Metering Systems within 3 months will remain in place for the execution of the appointment of a Supplier of Last Resort.

A key principle of the SVA arrangements is that settlement data is allocated to Suppliers on the basis of a unique Supplier ID and metering systems are registered to that Supplier ID. In the circumstances where there are multiple Replacement Suppliers, more than one Supplier purchases the metering system assets relating to a Failing Supplier. However there will still be only one Supplier ID relating to those registrations, therefore there is no means of recognising those Suppliers separately within the SVA arrangements. This constraint is reflected in the Modification Proposal by stating that the original obligation to re-register Metering Systems within 3 months will remain in place for multiple Replacement Suppliers.

The Modification Proposal states that this change will ensure that the stability and integrity of the SVA Trading Arrangements and Settlement data is maintained and is not unnecessarily undermined in a detrimental way. It will also facilitate the achievement of the BSC Objectives in Condition C3(3)(c) and (d) of the Transmission Licence. These refer to 'promoting effective competition in the generation and supply of electricity and promoting such competition in the sale and purchase of electricity', and 'promoting efficiency in the implementation and administration of the balancing and settlement arrangements'.

It should be noted that P60 addresses a separate issue from that addressed by Modification P57 and therefore these modifications should be progressed independently.

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

4 IMPACT ASSESSMENT

4.1 Impact on Other Systems and Processes Used by Parties

System / Process	Potential Impact of Proposed Modification
Purchasing Supplier Processes, in case of Trade Sale with Single Replacement Supplier	Removal of the requirement for the Replacement Supplier to execute a Change of Supply process for all Metering Systems registered to the SVA Supplier ID of the Failing Supplier. Replacement Supplier may need to operate old Failing Supplier processes and systems to meet Code obligations.
Supplier Agents (MO, DC, DA, SMRS) appointed to the Metering System(s) of the Failing Supplier	Removal of the requirement for the Agents of the Failing Supplier to process a Change of Supply for all Metering Systems registered to the SVA Supplier ID of the Failing Supplier.
Replacement Supplier Customer Registration and Billing	Potential for the removal of the need to close and re-register customer accounts (non-BSC requirement).

4.2 Impact on Balancing and Settlement Code

BSC Section	Potential Impact of Proposed Modification
K: Classification and Registration of Metering Systems and BM Units	Rewording of Section K7.6 to amend the obligation to re-register Metering Systems

4.3 Impact on Core Industry Documents

Core Industry Document	Potential Impact of Proposed Modification
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Core Industry Document	Potential Impact of Proposed Modification
Settlement Agreement for Scotland	Strictly speaking, Modification Proposal P60 relates purely to the BSC, and has no impact on the Settlement Agreement for Scotland (SAS). However, it should be noted that the SAS includes Trading Arrangements very similar to those in the BSC. If Modification Proposal P60 were to be approved, SESL and the Scottish Modification Panel might well choose to consider whether a similar change should be made to the SAS. However, this would be done under the Scottish change control procedures, outside the scope of the BSC.

4.4 Impact on ELEXON

Area of Business	Potential Impact of Proposed Modification
ELEXON Procedures	Trading Operations Local Working Instructions – minor amendment

5 PROCESS AND TIMETABLE FOR PROGRESSING THE PROPOSAL

The Modification Proposal is well defined. However, an initial assessment has identified that there is further consideration required of the risk to settlement and of the most appropriate mechanism to mitigate against this risk. This will need to be considered and addressed in progressing the modification. An industry consultation will also be required to allow BSC Parties to assess the proposal.

Therefore ELEXON recommends that this Modification Proposal be submitted to the Assessment Procedure, with the Assessment to be undertaken by the Volume Allocation Modification Group using their standard Terms of Reference. The Volume Allocation Modification Group should be actioned to provide the Assessment Report to the Panel for their meeting on 14 February 2002.

6 ISSUES

The initial assessment of Modification Proposal P60 has identified the following issues:

6.1 Consideration of the Risk to Settlement

P60 states that the proposed change will ensure that the stability and integrity of the SVA Trading Arrangements and Settlement data is maintained and is not unnecessarily undermined. If the Failing Supplier's systems and processes are robust, then this may be the case. However, it may be that the Failing Supplier's systems and processes are not robust and that the stability and integrity of the SVA Trading Arrangements and Settlement data is improved by the re-registration of Metering Systems as defined in the Code, Section K7.6.1.

The Modification Proposal places the responsibility on the single Replacement Supplier to decide whether they can best meet their Code obligations by re-registering their Metering Systems or not. The Performance Assurance Framework will apply to the Replacement Supplier for the assets that it has assumed (e.g. Metering Systems).

An alternative Modification Proposal could be proposed to introduce a control point within the process. For example, it could be at the discretion of the Authority or the Panel as to whether the Replacement Supplier should be relieved of their obligation to re-register Metering Systems upon application.

It may also be appropriate to consider additional monitoring of the performance of the Replacement Supplier in order to provide Parties with sufficient assurance on the operational of the market. This could be a function executed by the Performance Assurance Board.

6.2 Change of Agent Process Not Mandatory

The Modification Proposal states that without approval of this modification, the change of agent process would be mandatory and present unnecessary risk to the SVA arrangements.

The Code, Section K7.1.3 (a) (ii), treats the Replacement Supplier as having appointed and registered the Party Agents of the Failing Supplier and otherwise having complied with any conditions to the appointment and registration thereof (e.g. Entry Processes). The consequence of this is that the Replacement Supplier can continue to operate with the Party Agents that were appointed by the Failing Supplier, regardless of their existing *modus operandi*.

Therefore, it is not the case that a change of agent process is mandatory.

ANNEX 1 – MODIFICATION PROPOSAL

Modification Proposal	MP No: 60 <i>(mandatory by BSCCo)</i>
Title of Modification Proposal <i>(mandatory by proposer):</i> Amendment To Obligation To Register Metering Systems In Relation To Trade Sales	
Submission Date <i>(mandatory by proposer):</i> 05 December 2001	
<p>Description of Proposed Modification <i>(mandatory by proposer):</i></p> <p>Amend the BSC following a Trade Sale to a single Replacement Supplier to relieve a single Replacement Supplier from being obliged to re-register Metering Systems, re-appoint and re-register Party Agents for the failing Suppliers assets, within 3 months. This change will ensure that the stability and integrity of the SVA Trading Arrangements and Settlement data is maintained and is not unnecessarily undermined in a detrimental way.</p> <p>Paragraph 7.6 of Section K of the BSC describes the obligations of the Replacement Supplier to register metering systems, specifically the statement under 7.6.2 quotes "The Replacement Supplier shall take the steps referred to in paragraph 7.6.1 as soon as reasonably practical after the Appointment Day and, in any event, within 3 months after The Appointment Day."</p> <p>BGT believes that this section should only need apply to the Supplier of Last Resort process and not in the circumstances of a Trade Sale involving a single Replacement Supplier where re-registration may be unnecessary within a 3 month period for transferring metering systems in paragraph 7.6.2. A Trade Sale will normally mean that the failing supplier's assets are being transferred cooperatively. The issues involved in respect of a Trade Sale differ from that of Supplier of Last Resort scenario. For the avoidance of doubt the 3 month period should remain for the Supplier of Last Resort process and for multiple Replacement Suppliers.</p> <p>It is therefore proposed that the wording of paragraph 7.6.2 in Section K be amended to read as follows:</p> <p>"In the situation of a Supplier of Last Resort or under the circumstances of multiple Replacement Suppliers, the Replacement Supplier shall take the steps referred to in paragraph 7.6.1 as soon as reasonably practical after the Appointment Day and, in any event, within 3 months after The Appointment Day. In the situation of a Trade Sale involving a single Replacement Supplier, there is no obligation to perform any registration or agent appointments as specified in 7.6.1."</p> <p>The above amendment will facilitate the achievement of the objectives of the Code in Section B paragraph 1.2.1, in particular 1.2.1 (b) (iii) promoting effective competition in the generation and supply of electricity and promoting such competition in the sale and purchase of electricity.</p>	
Description of Issue or Defect that Modification Proposal Seeks to Address <i>(mandatory by proposer):</i> Section K, paragraph 7.6.2 is in conflict with the relevant BSC objectives.	
Impact on Code <i>(optional by proposer):</i> Section K 7.6.2	
Impact on Core Industry Documents <i>(optional by proposer):</i> N/a	

Modification Proposal	MP No: 60 <i>(mandatory by BSCCo)</i>
Impact on BSC Systems and Other Relevant Systems and Processes Used by Parties <i>(optional by proposer):</i>	
N/a	
Impact on other Configurable Items <i>(optional by proposer):</i>	
N/a	
Justification for Proposed Modification with Reference to Applicable BSC Objectives <i>(mandatory by proposer):</i>	
<p>The Applicable BSC Objectives are set out in paragraph 3 of Condition C3 of the Transmission Licence, as follows:</p> <p>(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;</p> <p>(d) Promoting efficiency in the implementation and administration of the balancing and settlement arrangements.</p> <p>This modification addresses shortcomings in the BSC.</p> <p>In view of the current market circumstances it would be prudent not to have to undertake the requirements to perform a change of agent process for the relevant metering systems. Without approval of this modification, the change of agent process would be mandatory and present unnecessary risk to the SVA arrangements.</p> <p>In addition there already exists a precedent for a trading party to have more than one supplier id. For example, Npower hold both "NATP" and "INDE" supplier ids which does not appear to have detrimentally effected the performance of the SVA Settlement process.</p>	
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Modification Proposal	MP No: 60 <i>(mandatory by BSCCo)</i>
Attachments: NO If Yes, Title and No. of Pages of Each Attachment:	