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06 March 2002

The National Grid Company, BSC Signatories and
Other Interested Parties

Our Ref : MP No: P47

Dear Colleague,

Modification to the Balancing and Settlement Code (“BSC”) - Decision and Notice in relation to Modification Proposal P47: “Termination Process for ECVNA and MVRNA Authorisations”.

The Gas and Electricity Markets Authority (the “Authority”)¹ has carefully considered the issues raised in Modification Proposal P47 “Termination Process for ECVNA and MVRNA Authorisations”.

The Balancing and Settlement Code Panel (the “Panel”) recommended to the Authority that the Modification Proposal P47 be rejected.

The Authority has decided not to direct a Modification to the Balancing and Settlement Code (the Code).

This letter explains the background to the Modification Proposal and sets out the Authority’s reasons for its decision.

Background to the Proposal

Modification Proposal P47 began by way of a Panel Paper (Panel paper 27/010) entitled “Minor Inconsistency in the Termination Process for ECVNA and MVRNA Authorisations” and was presented to the Panel at its meeting of 30 July 2001. The paper detailed an inconsistency between the Code (the Energy Contract Volume Aggregation Agent (ECVAA) system functionality and documentation) and Code Subsidiary documentation. The paper further invited the Panel to raise a Modification to the Code to remove the inconsistency. The Panel subsequently agreed to raise this Modification.

Modification Proposal P47 was consequently submitted on 24 October 2001 and was raised under the provisions of the Code, Section F 2.1.1 (d) (i) “on the recommendation of BSCCo in accordance with Section C3.8.8”. This provision allows the Panel to raise a Modification if

¹ Ofgem is the office of the Authority. The terms “Ofgem” and “the Authority” are used interchangeably in this letter.

they believe such a Modification better facilitates achievement of the Applicable BSC Objectives² as defined in the Transmission Licence Condition C3, paragraph (3). It should be noted that the Panel had originally agreed to raise the Modification under the provisions of Section F 2.1.1 (d)(iv) of the Code, which allows the Panel to raise a Modification to amend minor inconsistencies in the Code. However, this reference was amended at the request of the Panel, as the Panel intended that this Modification be raised on the grounds of promoting efficiency in the implementation and administration of the balancing and settlement arrangements, i.e., Transmission Licence Condition C3 (3) (d).

The Modification Proposal

Modification Proposal P47 seeks to modify the BSC so as to address an inconsistency between the Code and the operational practice of the ECVAA system (which is supported by the Code Subsidiary Documentation). An interpretation of the relevant sections (Section P 2.2.2 and 3.2.2) of the Code requires that Energy Contract Volume Notification Agent (ECVNA) and Metered Volume Reallocation Notification Agent (MVRNA) Authorisation Termination Requests become effective on their receipt by the ECVAA. However, operationally the ECVAA requires one calendar day's notice to ensure that the ECVNAs and MVRNAs Authorisations are terminated for complete Settlement Days. The one calendar day's notice requirement of ECVAA is supported by the associated BSC Procedure (BSCP 71 'ECVNA and MVRNA Registration, Authorisation and Termination') and the ECVAA system documentation and ECVAA Service Description.

Under the current version of the Code, an Authorisation termination submitted to the ECVAA will become effective when received by the ECVAA. It is therefore possible that an Authorisation termination request can be received and become effective on the same calendar day and hence allow partial day terminations. Under the current arrangements the ECVAA is required to process Authorisations and Notifications within 60 and 15 minutes respectively. It has been stated that the current functionality of ECVAA Systems do not support an Authorisation termination request becoming effective on the same day as it has been received by the ECVAA. To implement this requirement in the ECVAA system will require a change in the ECVAA system software.

ELEXON published an Initial Written Assessment (IWA) on 15 November 2001 which recommended that Modification Proposal P47 should be submitted directly to the Report Phase in accordance with Section F 2.7 of the BSC. The IWA also recommended that the Panel approve the Modification Proposal and recommend its approval to the Authority. The Panel at its meeting on 15th November 2001 noted the IWA and determined that the proposal be submitted to the Report Phase with a recommendation in the draft Modification Report that the Authority approve Modification Proposal P47. ELEXON published a Draft

² The Applicable BSC Objectives are contained in Condition C3 Paragraph 3 of the National Grid Company (NGC) Transmission Licence and are:

- (a) the efficient discharge by the licensee of the obligations imposed upon it by this licence;
- (b) the efficient, economic and co-ordinated operation by the licensee of the licensee's transmission system;
- (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;
- (d) promoting efficiency in the implementation and administration of the balancing and settlement arrangements.

Modification Report on 26 November 2001 which invited respondents' views by 5 December 2001.

Respondents' views

In total, ELEXON received seven responses, representing thirty parties to the consultation, on Modification Proposal P47. Of the responses, three responses (representing ten parties) expressed support for the proposed Modification. Four responses (representing the remaining twenty parties) did not support the Modification Proposal.

The respondents' views are comprehensively summarised in the Final Modification Report for Modification Proposal P47, dated 17 December 2001.

Panel's Recommendation

At their meeting of 15 November 2001, the Panel initially concluded that Modification Proposal P47 would better facilitate the Applicable BSC Objectives as set out in the Transmission Licence. In particular, it was felt it would better facilitate achievement of Objective C3 (3) (d) 'promoting efficiency in the implementation and administration of the balancing and settlement arrangements'.

The Panel met again on 13 December 2001 and considered Modification Proposal P47, the draft Final Modification Report and the responses received for the draft Final Modification Report. The majority of responses to the draft Final Modification Report disagreed with the Panel recommendation to the Authority to approve the Modification Proposal. The responses cited the events surrounding the party default process (not the credit default process) as a reason for requiring immediate termination of notification agent Authorisations. Furthermore, comments indicated that the benefit to parties of enabling Authorisations to be terminated on receipt of the request, without the requirement for one calendar day's notice, would outweigh the costs of implementation and development to amend the ECVAA system.

It was noted at this stage that if the Modification Proposal were to be rejected, then a Change Proposal would have to be raised by ELEXON to amend the ECVAA system to accord with the Code, (and that no subsequent Modification Proposal need be raised).

The Panel considered that in light of both the concerns raised in the consultation responses, and the majority view of those responses, the Modification Proposal should be rejected.

The Panel agreed to amend their initial recommendation, and agreed to recommend to the Authority that Modification Proposal P47 be rejected.

Ofgem's view

Ofgem considers, having had regard to its statutory duties, that Modification Proposal P47 does not better facilitate achievement of the relevant objectives of the BSC. In coming to this decision Ofgem has taken into account the findings of the Panel meetings of 30 July 2001, 15 November 2001 and 13 December 2001. Ofgem has also taken account of the IWA of 15th November 2001 and the Final Modification Report of 17 December 2001.

Ofgem has considered the consultation responses of the draft Final Modification Report for Modification Proposal P47. The responses indicate a majority concern that the Code should not be amended to reflect the operational requirement for one calendar day's notice when

submitting Authorisation Termination requests to the ECVAA. Ofgem shares some of these concerns. A recent high profile case of party default has indicated that it will be vital for terminations to be made as quickly as possible.

Therefore, it is Ofgem's view that the Code should not be amended to reflect the operational requirement for one calendar day's notice when submitting Authorisation Termination Requests to the ECVAA.

The Final Modification Report indicates an expectation that the necessary steps will be taken by ELEXON to amend ECVAA functionality, in consultation with parties, so as to accord with the requirements of the BSC. Ofgem agrees with this approach.

Ofgem agrees with the Panel's recommendation that Modification Proposal P47 should be rejected. It is Ofgem's view that Modification Proposal P47 would not better facilitate achievement of the Applicable BSC Objective C3 (3) (d), i.e., promoting efficiency in the implementation and administration of the balancing and settlement arrangements.

The Authority's decision

The Authority has, therefore, decided not to direct that Modification Proposal P47 should be made and implemented.

Having regard to the above, the Authority, in accordance with Section F1.1.4 of the Code, hereby notifies NGC that it does not intend to direct NGC to modify the Code as set out in Modification Proposal P47, a copy of which is attached to this letter.

If you have any queries in relation to the issues raised in this letter, please feel free to contact me on the above number.



David Edward

Head of Electricity Code Development

Signed on behalf of the Authority and authorised for that purpose by the Authority