

December 2002

MODIFICATION REPORT
MODIFICATION PROPOSAL P96–
'MERGER OF ASSESSMENT AND
DEFINITION PHASES IN THE
MODIFICATION PROCESS'

Prepared by ELEXON on behalf of the Balancing
and Settlement Code Panel

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c References

Ref.	Document	Owner	Issue Date	Version
1	P96 Initial Assessment	ELEXON	12 September 2002	1.0
2	P96 Assessment Report	ELEXON	14 November 2002	1.0

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e Related Documents

Reference 1	P96 Initial Assessment (12 September 2002)
Reference 2	P96 Assessment Report (8 November 2002)

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1 SUMMARY AND RECOMMENDATIONS

1.1 Recommendations

On the basis of the analysis, consultation and assessment undertaken in respect of Modification Proposal P96 'Merger of Assessment and Definition Phases in the Modification Process' (P96) and the resultant findings of this report, the Balancing and Settlement Code Panel (the Panel) recommends that:

Proposed Modification P96 should be made with an Implementation Date of 15 Business Days after the Authority decision.

1.2 Background

P96 was raised by Dynegy UK Ltd on 13 August 2002. The Initial Written Assessment (Reference 1) was considered by the BSC Panel at their meeting on 12 September 2002. The Panel agreed to submit P96 to the Assessment Procedure, to be undertaken by the Governance Standing Modification Group (GSMG). The Panel also agreed that an Assessment Report (Reference 2) be presented to the Panel on 14 November 2002.

The GSMG conducted the Assessment Procedure in accordance with the Panel's requirements and presented the Assessment Report, making the recommendations set out above, to the Panel for consideration at their meeting on 14 November 2002. The Panel agreed with the GSMG's recommendations and that P96 should proceed to the Report Phase and that the Draft Modification Report contain a provisional recommendation that the Proposed Modification should be made.

The Panel considered the draft Modification Report at its meeting on 12 December 2002, together with the responses to the consultation and confirmed their view and determined to make the recommendations set out above.

P96 seeks to increase the efficiency of the existing separate process of Definition and Assessment Procedures by amalgamating them into a single process, the Evaluation Procedure.

1.3 Rationale for Recommendations

The GSMG's belief, supported by the Panel, is that P96 would better facilitate the achievement of Applicable BSC Objective (d) – 'the promotion of efficiency in the implementation and administration of the balancing and settlement arrangements' for the following reasons:

- The additional flexibility of the procedure will increase the overall efficiency of the process, without detracting from the level of certainty that it affords parties as to how their proposals will be progressed;
- Fewer consultations may be possible and consultations will only take place at the most appropriate times, thereby increasing the overall efficiency of the process and may encourage more (particularly smaller) participants to respond;
- No hiatus in the process between the Definition and Assessment Procedures, whilst awaiting a Panel decision, should allow more timely progression;

- Time spent during the Evaluation Procedure will be better spent, as process requirements will be more clearly understood; and
- P96 will address the current feature of the Procedures whereby it is not possible to define and evaluate proposals in a flexible and iterative manner.

2 INTRODUCTION

This Report has been prepared by ELEXON Ltd., on behalf of the Panel, in accordance with the terms of the Balancing and Settlement Code ('the Code'). The Code 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 Code.

This Modification Report is addressed and furnished to the Gas and Electricity Markets Authority ('the Authority') and none of the facts, opinions or statements contained herein may be relied upon by any other person.

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

3 HISTORY OF PROPOSED MODIFICATION

P96 was raised by Dynegy UK Ltd on 13 August 2002. The Initial Written Assessment was considered by the Panel at its meeting on 12 September 2002. The Panel agreed to submit P96 to the Assessment Procedure, to be undertaken by the GSMG. The Panel also agreed that an Assessment Report be presented to the Panel on 14 November 2002.

The GSMG met twice during the Assessment Procedure for P96 (18 September 2002 and 22 October 2002). An Assessment Procedure consultation was prepared seeking participant opinion on whether or not P96 would better facilitate the achievement of the Applicable BSC Objectives. This was distributed on 2 October 2002 and allowed 10 Working Days for responses.

15 responses (62 Parties) were received as a result of the Assessment Procedure consultation. 14 respondents were in favour of P96; 1 respondent was against.

The respondent who did not support the Proposed Modification suggested that the introduction of the Evaluation Procedure would make little difference to the efficiency and timeliness of the process. The GSMG felt that this would not be the case as the removal of the 'dead time' at the end of the Definition Procedure waiting for the Panel to review and approve the Definition Report would speed up the process. Also, the GSMG felt that the removal of the additional mandatory consultation/impact assessment within the Definition Procedure should also increase efficiency. The GSMG felt that participants are currently unsure what is required of them when they receive requests for consultation during the Definition Procedure. This has led to Modification Groups sometimes receiving the same information twice or participants not responding at all.

An alternative proposal was suggested whereby it would be possible to retain the existing Definition and Assessment Procedures and introduce a third Procedure – the amalgamation of the two. The GSMG agreed that they did not support this proposal, as it was likely to add further complexity to the procedures, rather than to simplify or add flexibility.

An Assessment Report (Reference 2) was produced recommending that the Proposed Modification should be made. This was presented to the Panel on 14 November 2002. The Panel concurred with the GSMG's recommendations and agreed that P96 should proceed to the Report Phase.

Accordingly, a draft Modification Report was prepared and issued for consultation on 22 November 2002. A summary of the responses received can be found in section 8 and copies of all responses found in Annex 1 of this report.

4 DESCRIPTION OF PROPOSED MODIFICATION

P96 seeks to reduce the overall timescale to process a Modification Proposal through the Modification Procedures by merging the Definition and Assessment Procedures to create an Evaluation Procedure. This would allow each Modification Proposal to be defined and assessed as one complete stage. The same range of definitional and assessment activities would be undertaken, but in a single process. The Proposer also suggested that this change would introduce greater clarity and flexibility into the Modification Procedures and would facilitate more effective consultation on Modification Proposals and their respective Alternative Modifications.

The proposed modification also ensures that transitional arrangements are in place to allow continued progression of modifications currently with the process.

5 RATIONALE FOR PANEL RECOMMENDATIONS

The rationale is outlined in Section 1.3 above.

6 LEGAL TEXT

The legal text for P96 can be found as Attachment 1 of this Report.

7 ASSESSMENT

The GSMG determined that a detailed assessment of the impact of making the changes on central and parties' systems and processes should not be undertaken as no changes would be required to any systems and any changes to processes would be of a minor nature.

The proposed modification will require amendments to be made to Section F and X-1 of the Code. No changes will be required to any Code Subsidiary Documents.

The details of the assessment of P96 are contained within the P96 Assessment Report (Reference 2). A copy of this can be obtained from the BSC Website at www.elexon.co.uk.

8 SUMMARY OF REPRESENTATIONS

8 responses (24 Parties) were received to the consultation on the draft Modification Report.

1 Respondent, who had indicated that their organisation did not support the proposal during the Assessment Procedure, is still not in favour of it. Their reasons for the lack of support remain the same i.e. that P96 would not make much difference to the efficiency and timeliness of the process. The GSMG did not support their view as they felt that P96 would remove 'dead time' between the Definition and Assessment Procedures as well adding clarity to the overall definition/assessment process.

1 Respondent, who supported the proposed modification, submitted a number of comments on the proposed legal text. These have all been reviewed by ELEXON's Legal Department and resolved as follows:

- A change to F2.6A.3 has been required following consultation, to introduce a new paragraph for the Panel to establish a Modification Group. This obligation already existed in the separate Definition and Assessment Procedures but was omitted during the drafting of the legal text for P96. As a result of the introduction of the new paragraph, subsequent paragraphs have been renumbered and cross-references amended appropriately.
- A further cross-referencing change has also been made to F2.5.10(b).

The Respondent has been notified of those resolutions.

There were no costs associated with the implementation of P96 identified by respondents to the consultation.

ANNEX 1 – REPRESENTATIONS

The draft Modification Report was sent out for consultation on 22 November 2002 with responses due back on 2 December 2002. The table below gives a list of Respondents and the actual responses received are attached below.

Responses from P96 Draft Report Consultation

Consultation issued 22 November 2002

Representations were received from the following parties:

No	Company	File Number	No. Parties Represented
1.	LE Group	P96_DR_001	7
2.	British Gas Trading	P96_DR_002	1
3.	Scottish and Southern	P96_DR_003	4
4.	British Energy	P96_DR_004	3
5.	Aquila Networks	P96_DR_005	1
6.	SEEBBOARD	P96_DR_006	1
7.	Scottish Power	P96_DR_007	6
8.	IMServ	P96_DR_008	1

P96_DR_001 – LE Group

LE Group is happy to support the proposal set out in P96 to merge the Definition and Assessment Procedures to create an Evaluation Procedure.

This reply is sent on behalf of: LE Group Plc, London Electricity Plc, Jade Power Generation Ltd, Sutton Bridge Power Ltd, West Burton Power, London Power Network Plc, and Eastern Power Network Distribution Ltd, ECS.

With kind regards, Paul Chesterman
for Liz Anderson
General Manager, Energy Strategy & Regulation

P96_DR_002 – British Gas Trading

Modification Proposal P96: Merger of Assessment and Definition Phases in the Modification Process

Thank you for the opportunity of responding to this draft modification report considering Modification Proposal P96 (P96). British Gas Trading (BGT) support this Modification Proposal and believe it better facilitates the achievement of Applicable BSC Objective d. The proposal will improve the overall efficiency of the Modification Process by removing any 'dead' time between the completion of the Definition Procedure and the commencement of the Assessment Procedure. This amalgamation into a single evaluation phase will enhance the

process by reducing the administrative burden on Elexon and participants without undermining the ability to consult.

A single evaluation phase will still provide the facility for the Modification Group to be able to better define the proposal where appropriate. As such we do not believe that there will be any weakening of the current checks and balances that are in place under the current arrangements.

BGT supports the proposed maximum time period of 5 months to undertake the evaluation process. However, we believe that Modification Proposals should be processed as promptly as possible and we do not expect 5 months to become the normal timescales for progressing a Modification Proposal.

Yours faithfully

Mark Manley
Contracts Manager

P96_DR_003 – Scottish and Southern

This response is sent on behalf of Scottish and Southern Energy, Southern Electric, Keadby Generation Ltd. and SSE Energy Supply Ltd.

Further to your note of 22nd November 2002, and the associated Draft Modification Report for P96, we agree with the proposed BSC Panel recommendation to the Authority that the Proposed Modification P96 should be made.

If the Modification Proposal P96 is approved, we agree with the proposed BSC Panel recommendation on the timing for the Implementation Date, as outlined in Section 1.1 of the Modification Report.

Regards

Garth Graham
Scottish & Southern Energy plc

P96_DR_004 – British Energy

To Modification Secretary

From: Rachel Ace

Date: 2nd December 2002

The present arrangements involving separate definition and assessment phases has in general worked well. The definition phase imposes a sensible discipline and incentive on those submitting changes to fully define their proposals up front which if adhered to will allow proposals to move directly to assessment and therefore is already flexible. We believe this proposal could lead to inefficiencies.

As things stand, ill defined proposals are rigorously reviewed before moving

to assessment we suspect that under this change there will be a blurring of the activities such that important points of definition are missed and subsequently will need to be revisited creating inefficiencies and potentially ill thought out proposals.

If governance problems exist they exist at the modification submission stage where poorly defined proposals are allowed to be processed under the BSC with proposer's being required to do no more than provide a cursory outline of their proposals. If anything, the hurdle for submission of a modification proposal should be raised so that proposer's are required to work up their proposals in far greater detail and not rely on the BSC processes to do their work for them.

Regards

Rachel Ace

On behalf of

British Energy Generation
Eggborough Power Ltd
British Energy Power and Energy Trading Ltd

P96_DR_005 – Aquila Networks

Please find that Aquila Networks Plc response to P96 Consultation on draft Modification Report is 'No Comment'.

regards
Rachael Gardener

Deregulation Control Group &
Distribution Support Office
AQUILA NETWORKS

P96_DR_006 – SEEBOARD

With respect to draft modification report, dated 22nd November, for modification P096 (Merger of Assessment & Definition Phases in Modification Process). We still feel any benefits of this change are likely to be marginal. However, as majority of parties feel this change is worthwhile we accept recommendations in section 1.1 of this report and implementation date detailed.

Dave Morton
SEEBOARD Energy Limited

P96_DR_007 – Scottish Power

P96 Draft Modification Report Comments

With reference to the above, we wish to reiterate the view which we have previously expressed that P96 meets the Applicable BSC Objective of promoting efficiency in the implementation and administration of the trading arrangements. The merger of Definition and Assessment Procedures should enhance the flexibility of the mods process and reduce costs. All BSC Parties should also benefit from potentially

fewer consultations, which should help their planning when considering responses. While concerns have been raised about the possible adverse impact on small players of the merged process, it has to be pointed out that small players will always be active in terms of responding to mods where they have a particular interest. A reduced number of consultations ought to help their focus and resourcing for such responses.

We have some concerns about the legal drafting and how the transitional provisions to give effect to the merged process should be expressed:-

There are some inconsistencies between the retention of "Definition", "definition", "Assessment" and "assessment" in some parts of Section F and removal in other parts.

F2.2.3 (b) - suggest that retain sub-paras (i) and (ii) and add a new sub-para (iii): "submit the Modification Proposal to the Evaluation Procedure pursuant to paragraph 2.6A; or". The retained sub-paras should be removed under the transitional provisions. The current sub-para (iii) becomes sub-para (iv). The cross-reference in F2.2.4 to sub-para (iii) should be amended accordingly.

F2.2.3 (c) - retain references as follows - "..submitted to the Definition, Assessment or Evaluation Procedure..."

F2.2.6 - This para should be retained and all subsequent paras and cross-references to amended subsequent paras elsewhere should be changed back to the current position. This para should fall away under the transitional provisions.

F2.2.7(as revised) - retain references as "definition and/or assessment and"

F2.2.8 (as revised) - the para should be amended to read "...the Panel shall set the timetable referred to in paragraph 2.2.3(c)(ii) such that...

(c) in respect of an Evaluation Procedure, it is no longer than 5 months..."

F2.4.2 - retain references as "Definition, Assessment or Evaluation"

F2.4.3 - retain references as "...to carry out definition, assessment and/or evaluation of ..."

F2.4.6 - retain references as "...relevant Definition, Assessment or Evaluation Procedure..."

F2.5.10 - suggest slight amendment to provide comprehensive removal of all references to Definition and definition in Section F as follows - "This paragraph 2.5, and all references to it and its sub-provisions and to 'Definition' or 'definition' in this Section F, shall cease to apply...". Also, in 2.5.10(b) - amend to read "...in accordance with paragraphs 2.5.9(c) or 2.6.13(a)(ii)." This is because a mod can go directly to Report stage from Definition.

F2.6.15 - suggest new para to provide comprehensive removal of all references to Assessment and assessment in Section F as follows - "All references to 'Assessment' or 'assessment' in this Section F outwith this paragraph 2.6, and excluding Annex F-1, (but not including references to initial written assessment, initial assessment or impact assessment), shall cease to apply in accordance with paragraph 2.6.14."

F2.6A.3 - insert a new para similar to 2.5.3 and 2.6.3, renumber subsequent paras and amend any cross-references - "The Panel shall establish or designate a Modification Group and shall determine its terms of reference in accordance with the provisions of paragraph 2.4."

I trust that you will find these comments helpful. Nonetheless, should you require further clarification of any of the above, please do not hesitate to contact me.

Yours sincerely,

Man Kwong Liu

Calanais Ltd.

For and on behalf of: - *Scottish Power plc; ScottishPower Energy Trading Ltd.; Scottish Power Generation plc; ScottishPower Energy Retail Ltd.; SP Transmission plc; SP Manweb plc*

P96_DR_008 – IMServ

We have only one comment which is as follows:

IMServ do agree with the proposed changes in P96, providing sufficient time is allowed in the 'Evaluation procedure' for participants to respond to changes.

Thanks

Katie Sarl
Project Office