



December 2002

**ASSESSMENT REPORT  
MODIFICATION PROPOSAL P98 –  
Dual Notification of Contract Positions**

**Prepared by the Settlement Standing Modification  
Group on behalf of the Balancing and Settlement  
Code Panel**

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### c Related Documents

Reference	Document
Reference 1	Modification Proposal P98 'Dual Notification of Contract Positions' 2 September 2002 <a href="ftp://www.elexon.co.uk/ta/modifications/modsprops/P098/P98.pdf">ftp://www.elexon.co.uk/ta/modifications/modsprops/P098/P98.pdf</a>
Reference 2	Assessment Report Modification Proposal P4 'Dual Energy Contract Notification' (012AMU, V1.0) 20 July 2001 <a href="ftp://www.elexon.co.uk/ta/modifications/modsprops/hP004/P4_Report_Final.pdf">ftp://www.elexon.co.uk/ta/modifications/modsprops/hP004/P4_Report_Final.pdf</a>
Reference 3	Modification Report Modification Proposal P4 'Dual Energy Contract Notification' (MR004, V2.0) 21 March 2002 <a href="ftp://www.elexon.co.uk/ta/modifications/modsprops/hP004/P4_Mod_Report_Final.pdf">ftp://www.elexon.co.uk/ta/modifications/modsprops/hP004/P4_Mod_Report_Final.pdf</a>
Reference 4	MP4 Requirements Specification (014AAR, V1.0) 24 May 2001 <a href="ftp://www.elexon.co.uk/ta/modifications/modsprops/hP004/P4_Dual_Not_Req_Spec.pdf">ftp://www.elexon.co.uk/ta/modifications/modsprops/hP004/P4_Dual_Not_Req_Spec.pdf</a>
Reference 5	Initial Assessment of Modification Proposal P98 'Dual Notification of Contract Positions' (P098IR, V1.0) 6 September 2002 <a href="ftp://www.elexon.co.uk/ta/modifications/modsprops/P098/P098_IWA.pdf">ftp://www.elexon.co.uk/ta/modifications/modsprops/P098/P098_IWA.pdf</a>

Reference	Document
Reference 6	Modification Proposal P98 Assessment Consultation (P098AC, FINAL) 26 September 2002  <a href="ftp://www.elexon.co.uk/ta/modifications/modsprops/P098/P098_AC.pdf">ftp://www.elexon.co.uk/ta/modifications/modsprops/P098/P098_AC.pdf</a>
Reference 7	Interim Report: Modification Proposal P98 'Dual Notification of Contract Positions' (51/020) 11 October 2002  <a href="ftp://www.elexon.co.uk/DOCS/ta/panel/papers/51_020.pdf">ftp://www.elexon.co.uk/DOCS/ta/panel/papers/51_020.pdf</a>
Reference 8	Modification Proposal P98 'Dual Notification of Contract Positions' Requirements Specification (P098AS, V1.0) 1 November 2002
Reference 9	Modification Proposal P98 Second Assessment Consultation (P098AC, FINAL) 18 November 2002  <a href="ftp://www.elexon.co.uk/ta/modifications/modsprops/P098/P98_sec_assess_consult.pdf">ftp://www.elexon.co.uk/ta/modifications/modsprops/P098/P98_sec_assess_consult.pdf</a>
Reference 10	Authority 'Decision and Direction in relation to Modification Proposal P4: 'Dual Energy Contract Notification'' (15 May 2002)  <a href="ftp://www.elexon.co.uk/ta/modifications/modsprops/hP004/P4_Ofgem_Decision.pdf">ftp://www.elexon.co.uk/ta/modifications/modsprops/hP004/P4_Ofgem_Decision.pdf</a>
Reference 11	Change Proposal CP755 'Enhanced ECVAAs Reporting'  <a href="ftp://www.elexon.co.uk/ta/change/props/closed/CP755.pdf">ftp://www.elexon.co.uk/ta/change/props/closed/CP755.pdf</a>

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## 1 SUMMARY AND RECOMMENDATIONS

### 1.1 Recommendations

On the basis of the analysis, consultation and assessment undertaken in respect of this Modification Proposal during the Assessment Procedure, and the resultant findings of this report, the Settlement Standing Modification Group (SSMG) recommends that the BSC Panel:

- a) **NOTE the contents of the P98 Assessment Report and the recommendations of the SSMG;**
- b) **AGREE that the draft Modification Report contain a provision recommendation that the Proposed Modification P98 'Dual Notification of Contract Positions' should not be made;**
- c) **However, if the Authority determine that Proposed Modification P98 should be made, AGREE that the Implementation Date should be 5 July 2004, should the Authority determination be received before 8 April 2003. Should an Authority determination be received after this date, but prior to 19 August 2003 then the Implementation Date should be 8 November 2004;**
- d) **NOTE the BSC Central Service Agent development and implementation costs<sup>1</sup> of £1,888,540 for Proposed Modification P98. This cost excludes ELEXON effort of approximately 500 man days;**
- e) **ENDORSE the recommendation of the SSMG and proceed to the Report Phase in accordance with Section F2.7 of the Code; and**
- f) **AGREE that the draft Modification Report be issued for consultation and issued to the Panel meeting on 16 January 2003.**

### 1.2 Background

Modification Proposal P98 'Dual Notification of Contract Positions' (P98) (Reference 1) was raised by Dynegy UK Limited on 2 September 2002. P98 seeks to introduce a (voluntary) dual notification system within the BSC Systems. It should be noted that P98 seeks to address the issues that were identified under Modification Proposal P4 'Dual Energy Contract Notification' (P4) (raised in March 2001) (References 2 and 3). P98 also seeks to utilise the definition and assessment work undertaken under P4, to provide a solution based upon the P4 Requirements Specification (014AAR V1.0 (Reference 4)).

The BSC Panel (the Panel), considered the Initial Written Assessment for P98 (Reference 5) at their meeting of 12 September 2002, and agreed to submit Modification Proposal P98 to the Assessment Procedure, with the Assessment Report to be submitted for consideration at the Panel meeting of 12 December 2002. The Panel also agreed that the Assessment Procedure should be undertaken by the Settlement Standing Modification Group (SSMG). The Panel further agreed that an initial consultation should be undertaken to determine the likely take up of the voluntary dual notification system, with an interim report to be submitted for consideration at the Panel meeting of 17 October 2002 (Reference 7).

#### 1.1.1.1

<sup>1</sup> It should be noted that a breakdown of these costs is provided in section 7 of this Assessment Report.

During the Assessment Procedure for P98, the SSMG met five times, on 23 September 2002, 10 and 16 October 2002, and 14 and 29 November 2002, to assess P98 against the assessment criteria identified, define the requirements for the dual notification service, consider the consultation responses and impact assessments and to agree the recommendations to be made to the Panel in respect of P98.

To assist in the assessment of P98:

- An Assessment Consultation (Reference 6) mainly aimed at determining the likely take up of the voluntary dual notification service (indicated as just over a third of respondents), but also requesting information for assisting the SSMG assessment of P98, was issued on 26 September 2002, with responses received by 8 October 2002;
- A request for an Impact Assessment, based on the Requirements Specification (Reference 8), was issued on 4 November 2002 for industry high level impact assessment (MC00022), with responses received by 12 November 2002, and to the BSC Central Service Agent for detailed level impact assessment, on 4 November 2002, with an interim response received on 14 November 2002 and a final response received on 27 November 2002; and
- A second Assessment Consultation (Reference 9), aimed at obtaining information to assist the SSMG in making their recommendations in respect of P98, was issued on 18 November 2002, with responses received by 27 November 2002.

The SSMG met on 29 November 2002 to consider the responses made in respect of the second assessment consultation and to finalise the assessment of P98, agree the Assessment Report and the recommendations in respect of P98.

On balance the majority (two thirds) of the SSMG agreed that Proposed Modification P98 should not be made. The SSMG noted that approximately the same proportion of consultation responses (just under two thirds) were of the same opinion.

### **1.3 Rationale for Recommendations**

The following details the high level rationale for the decisions and determinations of the SSMG with regards to P98. The supporting deliberations and considerations are provided throughout this Assessment Report.

#### **1.3.1 Solution to Modification Proposal P98**

The SSMG considered four options for implementation of Modification Proposal P98:

- Option 1: Dual notification, with web based reporting and web based notification submission, no changes to single notification;
- Option 2: Dual notification with web based reporting and web based notification submission, plus enhancements to the single notification process;
- Option 3: Dual notification with web based reporting only;
- Option 4: Dual notification only.

It should be noted that Option 2, 3 and 4 include the following enhancements to the single notification process, which are considered, by the SSMG, to offer benefits to the users of the single notification process (without incurring additional BSC Central Service (or ELEXON) implemented and development cost):

- Functionality to specify who wishes to receive Acceptance Feedback Reports and Rejection Feedback Reports for each Authorisation.

- ECVAA business validation at Settlement Period level.

Currently if any part of a notification submitted fails business validation, the notification is rejected in entirety. However, as specified in section 4.2.3, dual notification proposes to validate at Settlement Period level, such that Settlement Periods that pass validation are accepted, and only those Settlement Periods that fail validation are rejected.

- Web Based View of Contract Positions.

Contract positions will be available to view for each counterparty against each Authorisation.

- Web Based Entry of Contract Positions.

Contract positions will be available for submission for each counterparty against each Authorisation.

- The capability to retain single notification in the BSC Central Systems.

As a consequence of the amendment to Authorisation structure, i.e. one notification agent specified for single notification and two for dual notification, the BSC Central Systems will retain the capability for Parties to use single notification even in extremely small volumes, as the processing is identical. Therefore Parties do not need to be concerned that single notification will become redundant and thus be removed from the BSC Systems in time.

- A low grade service back up where the high grade service fails.

The hardware (and software) solution proposed to give effect to the web based reporting and notification submission involves moving the sending and receipt of interfaces from the BSC Central Services to a new server. This has the effect of providing Parties with a high grade service, a low grade service back up, without the requirement for a transfer or 'fail over' process (i.e. all the reports are in the same place).

The SSMG considered these Options 1 to 4, and noted that only Option 1 to 3 could be considered to address the defect raised by the Modification Proposal, as they include the requisite web based reporting functionality required by the Proposal. The SSMG identified Option 2 as the Proposed Modification, for the following reasons.

- The SSMG agreed that Option 1 should be disregarded as it decreases the efficiency of the trading arrangements by requiring the maintenance of two separate and discrete notification processes;
- The SSMG agreed that Option 3 should also be disregarded as the incremental cost between web based reporting only and web based reporting and notification submission meant that there was little benefit from limiting web access to reporting only; and
- The SSMG agreed that Option 4, which could be proposed as an Alternative to P98, should be disregarded because excluding web based notification submission effectively means that BSC Parties have no notification back up where there is a party notification system failure.

Therefore the SSMG agreed that there was no Alternative Modification Proposal and agreed to recommend Option 2 (dual notification with web based reporting and web based notification submission) as the Proposed Modification for P98. The solution is set out in more detail in section 4 of this Assessment Report.

### 1.3.2 Assessment Issues

The SSMG identified a set of issues that it considered to be the key issues to be considered in the Assessment of P98. The discussions and considerations of the SSMG with respect to these issues are set out in section 5 of this Assessment Report, but are summarised as follows:

#### – **Potential for Exposure to Unlimited Liability from Single Notification**

The Proposer of P98 asserts that the Modification Proposal was raised primarily to address the issue of the potential for exposure to unlimited (settlement) liability as a consequence of an erroneous or malicious notification under single notification. The Code contains no concept of limitation of exposure to Energy Imbalance charges, and therefore Settlement liability, in the event of an erroneous or malicious notification made against a Party by their counterparty. It was further noted that there is the potential for malicious or erroneous notifications to push a BSC Party into Credit Default under the Code.

The SSMG noted that there are commercial arrangements in place (outside of the Code) to deal with these circumstances, for example the Grid Trade Master Agreement (GTMA), however, it was noted that these commercial arrangements will not address the circumstance where the notifier can not meet their obligations under the commercial contract, for example, where either they are insolvent, potentially as a consequence of the settlement liability (perhaps resulting from the erroneous notification), or where they are in administration (and the administrators are enforcing a certain course of action).

The SSMG noted that although the probability of such extreme circumstances is relatively low, the materiality could be high and potentially catastrophic for the Party on the receiving end of the erroneous / malicious notification, and the implication is that this may have (detrimental) knock on effects for other Parties.

The SSMG agreed that the key consideration is the perception of risk. The risk of exposure to unlimited settlement liability is present, but some believe it to be an acceptable risk, or a risk that can be mitigated. However, others believe it to be an unmanageable risk that, whilst it has a low probability of occurring, has a high materiality with potentially catastrophic consequences.

#### – **Incentives to Maintain Robust Systems**

One of the concerns raised by the Authority in their determination on Modification Proposal P4 'Dual Energy Contract Notification' (Reference 10), was the potential for the implementation of dual notification to incentivise a reduction in the robustness of BSC Party notification systems.

Under the current single notification system, there is the potential for the other counterparty to notify where there is a failure of a party notification system. However, under dual notification, there is no such back up, as both Parties have to notify, and notify correctly. Therefore the consequences of Party notification system failure are potentially higher under dual notification, incentivising notification systems that are equally, or potentially more robust than under the current single notification arrangements, as noted by the majority of consultation responses (made in respect of the second assessment consultation on P98).

#### – **Notification (Commercial) Disputes Resolution**

The SSMG noted that the use of a dual notification system could clarify the identification of the culpability of erroneous notifiers. It is proposed that adoption of a dual notification system would

improve the ability of Parties to identify where the culpability, and therefore liability, for an erroneous notification lies, as it is clear which of the counterparties made the error. This may improve the efficiency of the (commercial) disputes resolution process where there have been erroneous notifications made.

However, there was no consensus amongst the SSMG as to whether this would be the case. A number of the SSMG believe that it will require as much effort to assign culpability for incorrect notifications under dual notification as it does under single.

– **Liability for Errors in the Dual Notification Process**

Another of the concerns raised by the Authority in their determination on P4 (Reference 10), was the potential for the liability associated with erroneous contract notifications / matching to be carried by the BSC Central Service Agent and therefore recovered from all BSC Parties via BSCCo charging mechanism.

The SSMG noted that the liability of the provider of any dual notification commercial service arises as a consequence of the inability of the provider to correct the erroneous notification in the Energy Contract Volume Aggregation Agent (ECVAA) systems. Thus the counterparties that are the subject of the erroneous notification / match are exposed to Energy Imbalance charges to the extent of the erroneous notification / match and are entitled to recover some portion of this from the service provider in accordance with the commercial contract in place.

If the dual notification service were to be part of the BSC Central Services and a BSC System, then the liability for an erroneous match would fall on the BSC Central Services (and therefore on ELEXON). However, under these circumstances, and under strict Code obligations and constraints, the error can be corrected in the ECVAA data, meaning that there is effectively no material liability, as Settlement has been corrected to reflect the correct notification / match. Thus the exposure to Energy Imbalance charges to the extent of the erroneous notification / match is removed, and this could be considered, by some, to be more efficient.

The SSMG considered that this approach would mean that there is no increase in the liability of ELEXON, and therefore BSC Parties, as a consequence of erroneous notifications / matches falling within the scope of the dual notification service.

– **Existing Commercial Provision of Dual Notification Services**

A further point raised by the Authority in their determination on P4 (Reference 10), is the existing provision of commercial dual notification services.

In the first Assessment Consultation on P98, the SSMG specifically asked Parties whether they used the commercially provided dual notification services. Of the twenty-two responses made in respect of the consultation, only one respondent indicated that they utilised such services. Rationale was requested as to the reasons for utilisation, or not, and the majority of respondents indicated that the reasons for not using commercially provided dual notification services are the perceived expense of such services, the limitation of liability by the provider, and additionally the perceived complexity of such services.

Therefore a number of the SSMG believe that the commercially provided services do not address the issues that P98 is seeking to address.

– **Changes to Pattern of Trading and Market Liquidity**

The SSMG considered the impact that implementation of a dual notification service might have on the way in which Parties trade. A number of the SSMG proposed that implementation of dual notification may lead to a move away from the notification of trades at peak times, under the current GTMA arrangements to a more flexible, trade by trade notification system. This, in turn, may have the effect of reducing the peak load of notifications on the ECVAA system.

However, the SSMG could make no definitive comment on how the implementation of dual notification may change notification habits, as the consultation responses (made in respect of the second assessment consultation) indicated that the manner in which notification habits would change is dependent on many other factors.

The SSMG also considered the impact that implementation of dual notification may have on the liquidity of the market. Some members of the SSMG believe that any reduction in notification risk may have the effect of increasing liquidity in the trading markets. However, others believe that the implementation of the enhanced ECVAA reporting would have a more material effect on liquidity, and that dual notification may have very little effect on liquidity in the traded markets.

The SSMG considered the issue to assess whether notification risk is the reason why there is little within day trading and therefore relatively low liquidity. The SSMG concluded that if the sole reason for not trading within day is the notification risk, then dual notification has the potential to improve the liquidity within day. However, if this is not the case, then the implementation of dual notification is likely to have more limited impact on liquidity.

– **Cost Benefits from Implementation of Dual Notification**

The SSMG noted that P98 is a cost-benefit driven Modification Proposal. A number of the SSMG believe that the costs of implementation of dual notification are far outweighed by the benefits that the dual notification process offers, namely the reduction in notification risk from erroneous or malicious notifications, the mitigation of the potential for unlimited (settlement) liability resulting from such erroneous or malicious notifications, and in the increased ability to identify culpability for errors in notifications, and the associated reduction in the cost of recovering commercial compensation for such errors.

In the first of the assessment consultations, a number of questions were aimed at determining the cost to the industry resulting from erroneous / malicious notifications in the six months prior to the issue of the consultation. The costs provided in the responses ranged from zero to sums in the region of £250,000, with the number of erroneous notifications quoted ranging from none to forty-five.

Some of the SSMG noted that it is almost impossible to quantify the cost benefit of dual notification. In the worst case scenario where there is a catastrophic Party failure, then the cost of implementing dual notification could be considered to be negligible in comparison to the benefit. However, others of the SSMG noted that it is tempting to remain with the status quo, on the basis that the risk can be managed / mitigated.

Therefore the SSMG concluded that the assessment as to whether the implementation of dual notification is cost beneficial comes down to whether it is believed that the risk of exposure to unlimited settlement liability is manageable or not.

– **Cost Recovery of Dual Notification Development and Implementation Costs**

The SSMG noted that one of the concerns regarding the implementation of dual notification raised by consultation responses, was the issue of cost recovery of the development and implementation (and potentially operational) costs from those Parties choosing to utilise dual notification. The concerns raised by a number of consultation responses indicate that those Parties choosing not to use dual notification should not be required to incur the costs of its development, implementation and operation.

The SSMG considered this aspect of P98 and noted that:

- The implementation of the dual notification service would also improve, by association, the robustness and other aspects of the single notification process (as set out in section 4). Thus all Parties would benefit from the implementation of P98, making a case for all Parties incurring the relevant costs;
- Defining a cost recovery mechanism that would recover the costs of development, implementation and operation of dual notification from users of the service equitably would be difficult to impossible, given that different Parties would use the process different amounts, and there would also be the issue of Parties moving to dual notification at different points, according to their counterparties level of usage; and
- The intent and implementation of the BSCCo charging structure means that costs are recovered from all Parties on a proportional basis (as set out in Section D of the Code) and this effectively means that all Parties may be paying for functionality that they do not use.

Therefore, the SSMG concluded that, on balance, the current BSCCo cost recovery mechanism would be appropriate for recovering the costs associated with P98.

– **Complexities from Operation of Two Notification Systems**

A number of consultation responses, made in respect of the first assessment consultation (Reference 6) on P98, as well as a number of responses made in respect of the industry Impact Assessment request (MC00022), indicated that a number of Parties believe that there is increased complexity for them, as they will be required to operate two notification systems / processes, and apply them according to any agreement with the specific counterparty, and even specific trade.

The SSMG concluded that dual notification may increase or decrease the complexity of notifying for different Parties, dependent upon current practice, systems and processing.

In the second assessment consultation, the SSMG requested opinions from Parties as to whether, in principle (i.e. disregarding incumbent systems), new entrants would prefer to use dual or single notification. A number of respondents indicated that new entrants would choose the system that was preferred by the majority of incumbents in order to maximise their trading opportunities.

The SSMG noted that one response made in respect of the second assessment consultation was received from a new entrant (Conoco Phillips) indicated that dual notification would be their preferred system, because new entrants are likely to make more notification errors, and dual notification protects new entrants to some degree from the consequences of these errors.

– **Enhanced ECVAAs Reporting**

The SSMG noted that Alternative Modification P4 (References 2 and 3) and CP755 (Reference 11) implementing enhanced ECVAAs reporting by introducing Acceptance Feedback Reports from ECVAAs

(ECVAA – I028 and ECVAA – I029) for notification submissions, was implemented on 8 October 2002.

A number of the SSMG believe that, although the additional reporting implemented is extremely useful, it still does not address the main issue that P98 is seeking to address, namely the potential exposure to unlimited (settlement) liability where an erroneous or malicious notification has been made against a Party by their counterparty.

The SSMG noted that some Parties believe that the implementation of enhanced ECVAA reporting does not address the key issue that P98 is seeking to address, namely the mitigation of the risk of exposure to unlimited settlement liability. Whereas other Parties believe that the implementation of the enhanced ECVAA reporting assists in mitigating this risk, and therefore negates the requirement for dual notification.

Therefore the SSMG noted that again, the requirement for dual notification comes down to an assessment of the risks associated with unlimited settlement liability by individual Parties.

– **Provision of Dual Notification by a non BSC Agent**

The SSMG considered the possibility of ELEXON procurement of dual notification from an existing commercial provider, rather than from the current BSC Agent, noting that provisions would be required to be put in place to make the dual notification service effectively a BSC System.

The SSMG noted that any decision regarding procurement of a dual notification service would be entirely the responsibility of ELEXON, and that any 'instruction' from the SSMG in this matter, would be beyond the vires of the SSMG. Thus the SSMG would be limited to consideration of the potential for the dual notification service to be provided by a provider other than the BSC Central Service Agent.

The SSMG noted that there were a number of issues associated with the (external) procurement of a dual notification service. These can be summarised as follows:

- The requirement for ELEXON to establish and maintain a new contract for an additional BSC Agent. It is expected that the establishing and maintaining such a contract would require significant ELEXON resource.
- The implementation of an external dual notification service as a BSC System will materially increase the complexity of the ECVAA System Failure process. Very clear and unambiguous definitions of failure would be required in order to ensure that the ECVAA System Failure process is identified correctly and then recovered from appropriately.
- To ensure that there are no rejections on the grounds of business validation by the ECVAA following successful matching in the dual notification provider, it is expected that the dual notification provider may be required to emulate the ECVAA validation rules.
- A more complex issue surrounding validation is the validation required to be undertaken to refuse notifications as a consequence of credit default and to reject Metered Volume Reallocation Notifications (MVRNs) where either one of the counterparties is in credit default (refusal) or the MVRN requires an allocation in excess of 100%. These validations require information at a detailed level from the ECVAA, on a real time basis, in order that a notification is not matched and then rejected on these grounds.
- Potentially new interfaces from the (external) dual notification service provider into the ECVAA will be required to ensure that the notifications received by the external provider by Gate

Closure can get into the ECVAA and be processed as if they were received by the ECVAA in time for Gate Closure.

The SSMG raised these points, which would need to be addressed should ELEXON procure the dual notification service from a provider other than the existing BSC Central Service Agent.

The SSMG concluded that in reality there is one key argument for or against dual notification and that is the individual Party assessment of the materiality of the issue of unlimited settlement liability. Those Parties that believe the risk of the potential for exposure to unlimited settlement liability is unmanageable will support dual notification at any cost, as the cost of providing the dual notification service will be negligible compared to the costs of erroneous / malicious notifications to individual BSC Parties and potentially the industry as a whole.

However, those Parties that believe that the risk of the potential for exposure to unlimited settlement liability is manageable by other mechanisms (checking of notification reports, contractual and legal recourse) are not likely to support dual notification, as the cost of implementing dual notification, including the costs to industry from amending notification processes and renegotiating the Grid Trade Master Agreement (GTMA) will outweigh their perceived benefits.

Therefore the SSMG agreed that the decision to support the implementation of P98 would be down to whether the perceived risk of not implementing it is too great.

On balance the majority (two thirds) of the SSMG agreed that the potential risk of exposure to unlimited settlement liability was insufficient to warrant implementation of dual notification at this time. The SSMG noted that approximately the same proportion of consultation responses (just under two thirds) were of the same opinion.

### **1.3.3 Applicable BSC Objectives**

The SSMG, having reached a conclusion on each of the assessment issues (see section 1.3.2 and section 5), considered how the conclusions on the impacts and incentives of P98 would lead to the Modification better facilitating achievement of each of the Applicable BSC Objectives, and the extent to which this is the case.

The SSMG noted that the assessment as to whether Proposed Modification P98 better facilitates achievement of the Applicable BSC Objectives lies with the assessment as to whether the implementation of dual notification is cost beneficial, which in turn, results from the assessment as to whether the risk of exposure to unlimited settlement liability is manageable, or not.

However, on balance, the majority (two thirds) of the SSMG believed that, although Proposed Modification P98 may have the effect of reducing notification risk and thus may improve competition in the sale and purchase of electricity (Objective 3(c)), the costs associated with the implementation of dual notification, (i.e. the costs to industry from renegotiating the Grid Trade Master Agreement (GTMA), the changes to Party notification systems and the cost of the development and implementation of dual notification in the central services), and therefore the decrease in the efficiency of the implementation of the balancing and settlement arrangements (Objective 3(d)) outweigh these benefits to competition, and therefore, the Proposed Modification P98 does not better facilitate achievement of the Applicable BSC Objectives.

The SSMG noted that the consultation responses made in respect of the second assessment consultation were split, to the same degree as the SSMG, as to whether Proposed Modification P98 better facilitates achievement of the Applicable BSC Objectives, with the majority (two thirds) indicating that they did not believe Proposed Modification P98 to be better.

### 1.3.4 Implementation Aspects

The SSMG noted that the Detailed Level Impact Assessment from the BSC Central Service Agent quoted timescales for development and implementation of Proposed Modification P98 of **45 weeks**.

ELEXON require a number of weeks both before and following the BSC Central Service Agent development and implementation to complete full participant testing. It is envisaged that this will incur **18 weeks** additional to the timescales quoted by the BSC Central Service Agent.

It was further noted that, given the requirement for Parties to set up Authorisations for their notification agents to operate under dual notification, an additional week would be required (following any implementation in the BSC Systems of the Proposed Modification) to enable Parties to set up their Authorisations. Therefore an additional week has been added following the release date, to enable Parties to set up the relevant Authorisations such that dual notification becomes available to all on a specified date.

Thus for the release scheduled for 29 June 2004, it is proposed that the ECVAAs be available for dual notification Authorisations from 29 June 2004, with the dual notification service being implemented on 6 July 2004.

For the release scheduled for 2 November 2004, it is proposed that the ECVAAs be available for dual notification Authorisations from 2 November 2004, with the dual notification service being implemented on 8 November 2004.

**Therefore any Authority determination to implementation would require 64 weeks development and implementation prior to the Implementation Date.**

The SSMG noted that the current timetable of BSC Releases could allow Proposed Modification P98 to be implemented as part of the June 2004 release, at the earliest, with a more likely implementation in the November 2004 release, depending upon the date of Authority determination, and the SSMG agreed that these represent the earliest practicable implementation dates.

The SSMG noted that there is the potential for a two phase implementation of the Proposed Modification. The BSC Central Service Agent quoted development and implementation timescales of 31 weeks for the dual notification part of the Proposed Modification. Therefore there is the potential to deliver dual notification in an earlier release, with the web based reporting and submission delivered in a later release.

The SSMG noted, from discussion with the BSC Central Service Agent, that this two phased implementation would not impact the development and implementation costs associated with the Proposed Modification.

The SSMG further noted that this two phased implementation would also be dependent upon the legal drafting, as there is no mechanism in the Modification Procedure to have two Implementation Dates for different parts of the legal drafting. Therefore the two phased implementation could only be effected if the Code did not require amendment to support the web based reporting and the web based submission of notifications.

Therefore the SSMG agreed to explore the implementation possibilities further to ensure the most efficient implementation of the Proposed Modification, should the Authority determine that the Proposed Modification should be made.

In relation to any implementation of Proposed Modification P98, the SSMG also recommended that, following any Authority determination that Proposed Modification P98 should be made, there should be

scope for ensuring that the solution identified by the SSMG at this time, is consistent with any baseline at the time of implementation. The SSMG believe that the solution will require refinement only, recognising that there may be amendments to the BSC Central Services which require technically different solutions to those identified. It should be noted that any such refinements are expected to be at a level of detail below the obligations set out in the Code and will therefore, remain consistent with the legal drafting for Proposed Modification P98.

## 2 INTRODUCTION

This Report has been prepared by ELEXON Ltd., on behalf of the Balancing and Settlement Code 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.

An electronic copy of this document can be found on the BSC website, at [www.elexon.co.uk](http://www.elexon.co.uk)

## 3 MODIFICATION GROUP DETAILS

This Assessment Report has been prepared by the P98 Settlement Standing Modification Group. The Membership of the Modification Group was as follows:

Name	Organisation
Mike Downing	ELEXON (Chair)
Thomas Bowcutt	ELEXON
Mandi Francis	ELEXON
Lisa Waters (Proposer)	Dynegy
Marie Branch	International Power
Paul Dawson	Barclays Capital
Tim Johnson	Powergen
Richard Lavender	National Grid
Ashley Nettleton	Gaz de France
Catherine Robinson	Centrica
Phil Russell	TXU
Maurice Smith	Campbell Carr
Mark Thomas	Innogy
Ben Willis	NPower
Adam Higginson	Ofgem

## 4 PROPOSED MODIFICATION

The SSMG considered four options for implementation of P98:

**Option 1:** Dual notification, with web based reporting and web based notification submission, no changes to single notification;

**Option 2:** Dual notification with web based reporting and web based notification submission, plus enhancements to the single notification process;

**Option 3:** Dual notification with web based reporting only;

**Option 4:** Dual notification only.

The SSMG considered these options and noted that only Option 1 to 3 could be considered to address the defect raised by the Modification Proposal, as they include the requisite web based reporting functionality required by the Proposal. The SSMG identified Option 2 as the Proposed Modification, for the following reasons.

The SSMG agreed that Option 1 decreased the efficiency of the trading arrangements by requiring the maintenance of two separate and discrete notification processes. This also means that users of the single notification process would not be able to benefit from the enhancements to the single notification process. Therefore the SSMG agreed to disregard option 1 as a viable option.

The SSMG considered Option 3 and agreed to disregard this option as the incremental cost between web based reporting only and web based reporting and notification submission (approximately £200,000) meant that there was little benefit from limiting web access to reporting only.

The SSMG then considered Option 4, dual notification only. The SSMG noted that the reduction in the development and implementation costs (approximately £780,000), as well as the reduction in implementation timescales (from 45 weeks for option 2 to 31 weeks for option 4) could make option 4 a more cost beneficial Alternative to Option 2 (the Proposed Modification),

However, the SSMG agreed that Option 4, dual notification only, would not better facilitate achievement of the Applicable BSC Objectives than the Proposed Modification (option 2), because excluding the web based notification submission effectively means that BSC Parties have no notification back up where there is a party notification system failure. Therefore the SSMG agreed that there was no Alternative Modification Proposal.

It should be noted that the following description and definition of the dual notification process is based, as much as is possible, on the existing single notification process, in an attempt to minimise the impact on BSC Parties and their notification agents.

It should also be noted that the following definition and description, is for the implementation of the dual notification system within the BSC Systems, within the existing Energy Contract Volume Aggregation Agent (ECVAA) system, i.e. along side the single notification process.

It should be further noted that the description and definition focuses on the dual notification process for Energy Contract Volume Notifications (ECVNs), since this is the greatest volume process. Section 4.6 details the dual notification process for Metered Volume Reallocation Notifications (MVRNs), focusing on the differences between the ECVNA and MVRN processes to avoid repetition.

## **4.1 Proposed Modification Overview**

### **4.1.1 Single Notification**

Under the current single notification process, the Authorisation is set up for the nominated ECVNA to notify on behalf of a specified pair of counterparties, and their nominated Energy Accounts. Any notification received from the Authorised ECVNA is validated by the ECVAAs to ensure that the counterparties and nominated Energy Accounts are those that the ECVNA is authorised for.

The submitting ECVNA indicates, in their contract volume notification, whether the notified volumes are additional to those already in the database, or overwrites for existing volumes.

On receipt of the contract volume notification, ECVAAs validate the submission. Currently if any part of the submission fails validation, or is to be refused under Credit Default rules, then the submission is rejected in entirety.

Where the submission is accepted, an Acceptance Feedback Report (AFR) is generated, containing the detail of what has been accepted by the ECVAAs. The contract volumes are placed in a table waiting for Gate Closure for the Settlement Period. At this point, they can be overwritten and / or added to, up to Gate Closure for the relevant Settlement Period.

At Gate Closure for each Settlement Period, the contract volumes for that Settlement Period are 'pulled out' and the Credit check performed. Where there is to be a rejection on the grounds of credit default rules, then the relevant contract volumes are rejected, using the Rejection Feedback Report (RFR).

The same process is used for MVRNs, noting that there is additional validation to ensure that the MVRN has not exceeded 100% reallocation.

At the end of each Settlement Day, the ECVAAs provide a report containing a summary of all the notifications processed by ECVAAs for that Settlement Day to the relevant notification agents and counterparties.

At specified periods during each Settlement Day, the ECVAAs also generate a Forward Contract Report (often referred to as the 7 day report), to all counterparties (not notification agents) which provides a view (for each counterparty) of their contract positions for the current day and next seven calendar days.

These reports, plus any Rejection Feedback Reports and Acceptance Feedback Reports for individual submissions, provide the information required by BSC Parties to determine their contract position at any time.

This process is represented by the following diagram entitled 'Current Notification Process'.

### **4.1.2 Dual Notification**

Dual notification is the process of notifying whereby both parties to the notification (via their nominated notification agent) submit their agreed contract volumes to the BSC Central Service Agent, where the volumes are matched, and submitted to settlement, as an agreed position. This ensures that both Parties have effectively agreed the contract volumes that go forward into Settlement.

Under dual notification, the Authorisation is set up such that each counterparty nominates an ECVNA, to notify on behalf of that counterparty under dual notification (the expectation is that in the majority of cases, the notification agent will be the same organisation as the counterparty). The Authorisation will specify the pair of counterparties, their nominated Energy Accounts and their nominated ECVNA.

It is expected that both ECVNAs will use a common, agreed identifier, in order that the notifications submitted against that Authorisation can be recognised by the ECVAA and the associated contract volumes applied to the correct counterparty and Energy Account combination.

Any notifications received from the Authorised ECVNAs are validated by the ECVAA to ensure that the counterparties and nominated Energy Accounts are those that the ECVNA is authorised for.

Under dual notification, if a pair of counterparties wishes to use single notification, then the Authorisation is set up such that each Counterparty nominates the same ECVNA, to notify on their behalf. The Authorisation will specify the pair of counterparties, their nominated Energy Accounts and the nominated ECVNA.

As the Authorisation process is a paper based manual process, it is not envisaged that this will require material changes to the Authorisation process for Parties.

Each ECVNA indicates whether the contract volume notification(s) submitted are additional to those already in the database, or overwrites for existing volumes. It should be noted that in order to obtain a match, each ECVNA must specify additive or overwrite, using the agreed identifier.

Under dual notification, Parties and notification agents, will be able to submit contract volumes via a web based interface, allowing them secure access to their contract positions. The submission of contract volumes via the web based interface will also apply to single notification.

On receipt of the notification, ECVAA validates the submission. If any part of the submission fails validation, or is to be refused under Credit Default rules, then the contract volumes for the affected Settlement Periods are rejected individually, notified in the Rejection Feedback Report.

Where the submission is accepted, the contract volumes are submitted for matching, (noting that where the notification is the first of the two to be submitted, then it is expected that a 'no match' report will be generated for the entire notification).

Where there are matches for individual Settlement Periods, then an Acceptance Feedback Report (AFR) is generated, containing the detail of what has been accepted and matched by the ECVAA. A 'no match' report can be generated for the Settlement Periods that are not matched.

The transaction references in the reports will provide the sequence of acceptances and no matches, and these can be seen on the web view.

The matched contract volumes are placed in a table waiting for Gate Closure for the Settlement Period. At this point, they can be overwritten and / or added to, up to Gate Closure for the relevant Settlement Period.

P98 also seeks to implement a web based view of the matching of notifications, this could look as follows:

For each Authorisation Reference (ECVNAA Id)

Counterparty 1:	Counterparty 2:	Matched Volumes:
Volumes Submitted against each Settlement Period	Volumes Submitted against each Settlement Period	Latest matched volume against all SPs
Transaction of last submitted notification	Transaction of last submitted notification	N/A

i.e. each BSC Party can see their position for each Authorisation they have, and each counterparty.

This web based view could be applied to single notification as well, such that Parties can determine their position at all times from the viewer.

At Gate Closure for each Settlement Period, the contract volumes for that Settlement Period are 'pulled out' and the Credit check performed. Where there is to be a rejection on the grounds of credit default rules, then the relevant contract volumes are rejected, using the Rejection Feedback Report.

The same process is used for MVRNs, noting that there is additional validation to ensure that the MVRN has not exceeded 100% reallocation.

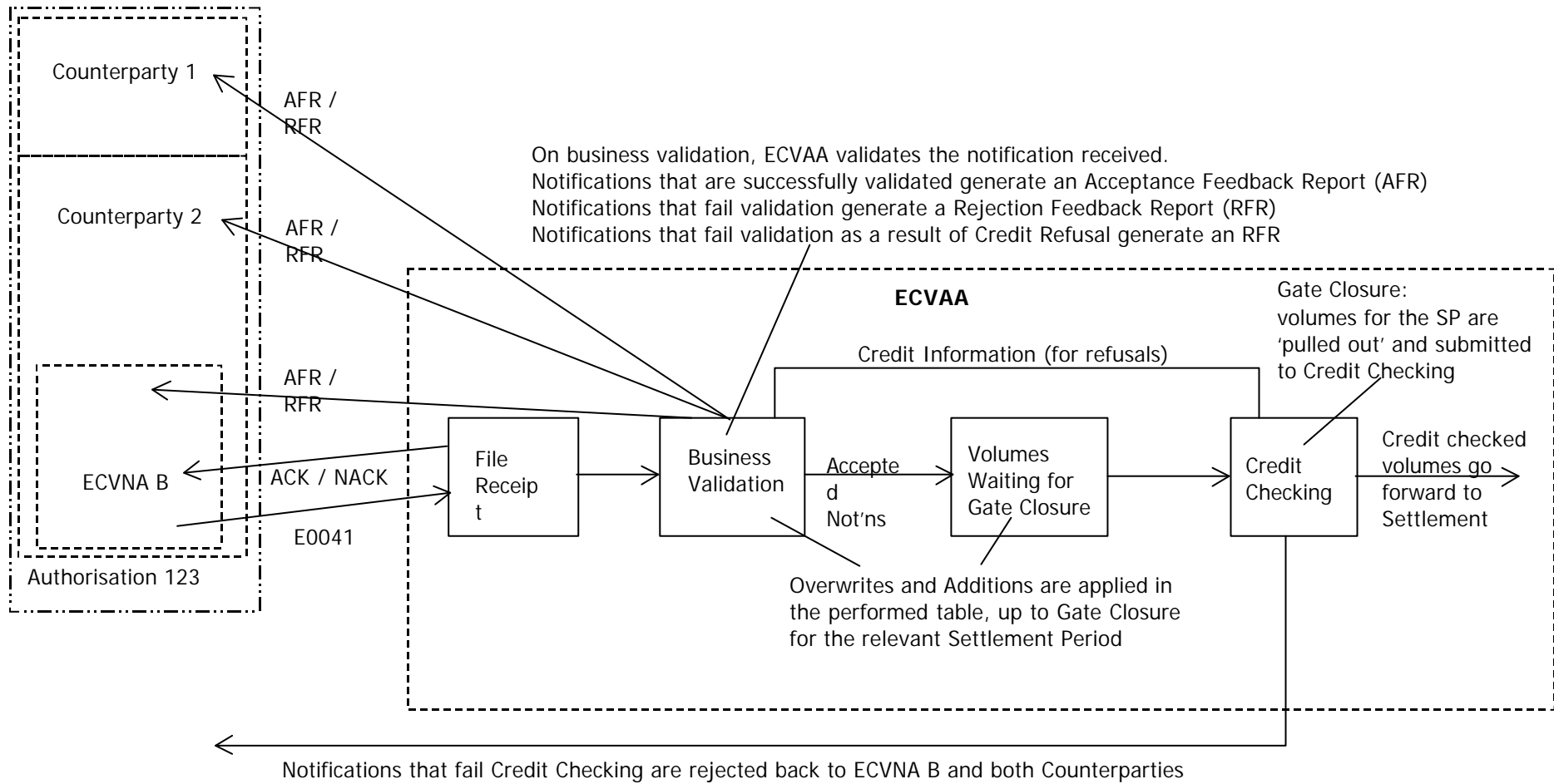
At the end of each Settlement Day, the ECVAA provides a report containing a summary of all the notifications processed by ECVAA for that Settlement Day to the relevant notification agents and counterparties.

At specified periods during each Settlement Day, the ECVAA also generates a Forward Contract Report (often referred to as the 7 day report), to all counterparties (not notification agents) which provides a view (for each counterparty) of their contract positions for the current day and next seven calendar days.

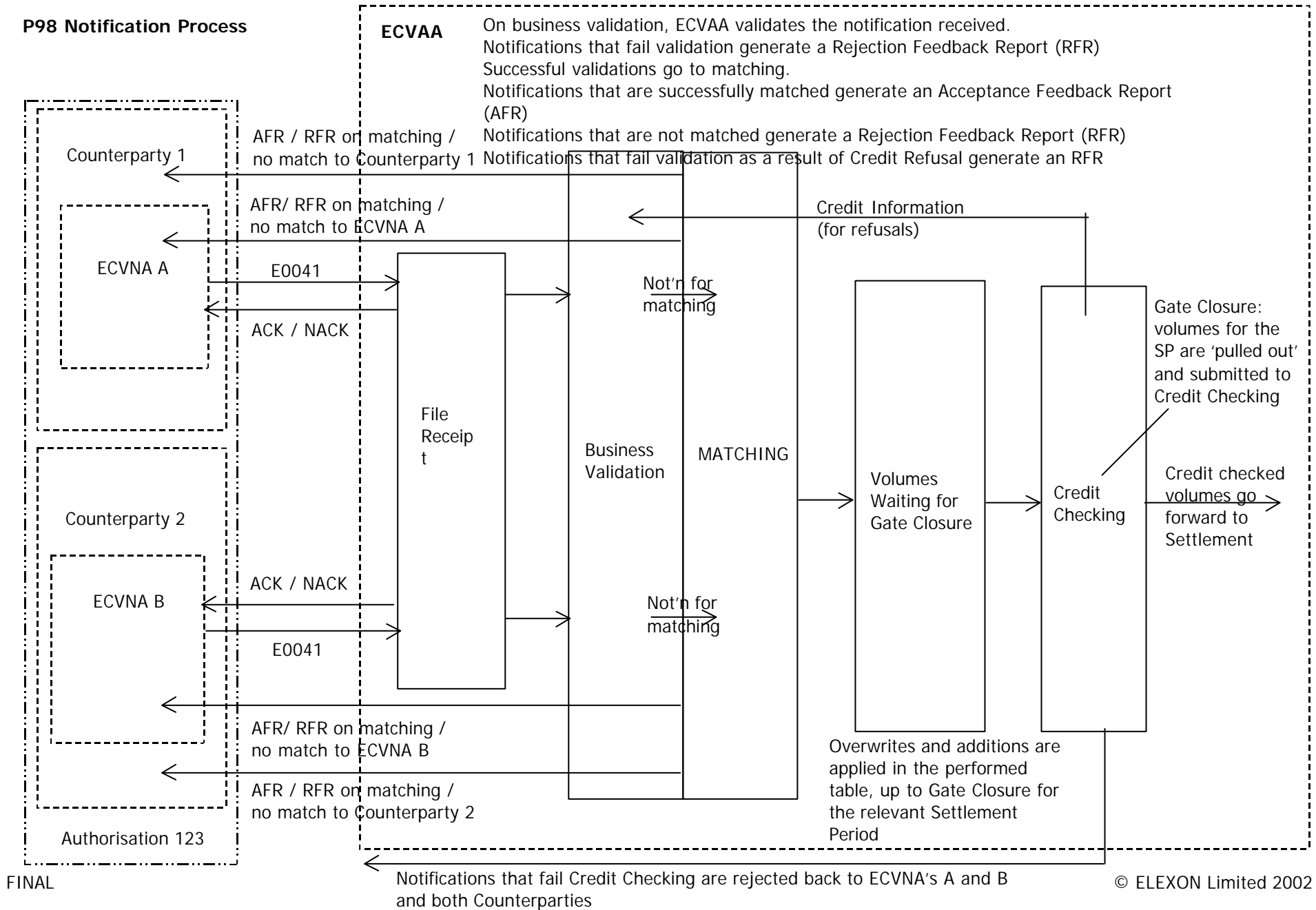
These reports, plus any Rejection Feedback Reports and Acceptance Feedback Reports for individual submissions, provide the information required by BSC Parties to determine their contract position at any time. However, it should be noted that the web based reporting will also provide a real time (secure) view of the contract position for each counterparty and authorisation.

This process is represented by the following diagram entitled 'P98 Notification Process'.

**Current Notification Process**



**P98 Notification Process**



FINAL

#### 4.1.3 Dual Notification Process: No Change to ECVAA Functionality

As noted above, the intent is to implement dual notification alongside the current single notification process, attempting to minimise the impact on the single notification processing, whilst keeping the two processes as similar as possible, in order to minimise impact on those Parties choosing to use dual notification.

On this basis, it should be noted that there is no change to the following ECVAA functionality required to support dual notification:

- **Credit Procedures** – Credit default, credit checking and other related procedures. Since the dual notification submissions will not be treated any differently to currently, other than the requirement to match contract volumes prior to submission onwards within ECVAA, the process will be the same as that currently defined, undertaken to the same timescales.
- **Authorisation Terminations and Other Authorisation Activities** – All other Authorisation activities, such as requesting the termination of an Authorisation, requesting Key changes etc. will remain as currently defined.
- **Use and Handling of File Sequence Numbers (FSNs)** – Since the dual notification submissions will not be treated any differently to currently, the process will be the same as that currently defined, noting the requirement to receive and process reports in the order of submission, and return feedback reports (AFRs and RFRs) in the correct sequential order. Handling of out of sequence files will not require amendment specific to dual notification. Therefore it should be noted that the same issues with out of sequence files will exist with dual notification as with the current single, but that the issues are unlikely to be exacerbated by use of dual notification.
- **Clock Change Rules** - Since the dual notification submissions will not be treated any differently to currently, other than the requirement to match contract volumes prior to submission onwards within ECVAA, the processing of clock change notifications will be the same as that currently defined.
- **Forward Contract Report** – The Forward Contract Report (ECVAA – I022, E0222) will continue to provide a forward looking view of the contract volumes held by the ECVAA for each BSC Party, against Authorisation and counterparty. Under dual notification, the forward contract report will contain this information for the contract volumes that have been matched, and therefore no amendment to usage or format is envisaged. It is not intended to amend the Forward Contract to report unmatched volumes.
- **End of Day Report** – The End of Day Report (ECVAA – I014, E0141) provides a view of the notifications processed by ECVAA during the preceding Settlement Day, and this supports the dual notification functionality. Therefore, it is not intended that the format or usage of this report be amended.

#### 4.1.4 Amendments to the Single Notification Process

There are potential enhancements to the current single notification process that are to be implemented to bring it in line with the dual notification process. These can be summarised as follows:

- Functionality to specify who wishes to receive Acceptance Feedback Reports and Rejection Feedback Reports for each Authorisation.

For a single notification, each Authorisation specifies the counterparties and the submitting notification agent. Currently, all of these three will each receive RFRs and AFRs, as generated. However, where the notification agent is the same as one of the counterparties, this duplicates the reports received, and the implementation of dual notification has the potential to increase this duplication further by introducing another notification agent.

Therefore, as specified in section 4.2.2, the parties / notification agents to receive the AFRs and RFRs can be specified. For example, where counterparty 1 is the same party as the notification agent, then the counterparty can choose not to receive the RFRs and AFRs, instead these can be received and acted upon by the notification agent.

- ECVAAs business validation at Settlement Period level.

Currently if any part of a notification submitted fails business validation, the notification is rejected in entirety. However, as specified in section 4.2.3, dual notification proposes to validate at Settlement Period level, such that Settlement Periods that pass validation are accepted, and only those Settlement Periods that fail validation are rejected. This does not require amendment to the format of the RFRs and AFRs, only to the interpretation.

- Web Based View of Contract Positions.

Dual notification proposes to implement a facility to view contract positions on the internet, as a web based viewing facility. As specified in section 4.2.7, contract positions will be available to view for each counterparty against each Authorisation.

- Web Based Entry of Contract Positions.

Dual notification proposes to implement a facility to submit contract positions via the web front end of the web based view of contract positions, i.e. on the internet. As specified in section 4.2.8, contract positions will be available for amendment for each counterparty against each Authorisation.

- Low Grade Back up where the High Grade Service fails.

The BSC Central Service Agent noted that one way of dealing with the increased volumetrics, without degrading the service is to restructure such that all '10' reports (i.e. automated reports in and out of the BSC Central Service Agent) are moved to the low grade server, such that there is a high grade and low grade link. This has the added advantage that where the high grade service fails currently, a cut over process is required to the low grade. However, with the proposed configuration, this would not be the case, as the reports would be there, and there would be no requirement to cut over.

## **4.2 Dual Notification Process**

Described in full in Annex 5.

## **5 ASSESSMENT OF MODIFICATION PROPOSAL P98**

The SSMG identified a set of issues that it considered to be the key issues to be considered in the Assessment of P98. The following reflect the considerations and conclusions of the SSMG in respect of each of these issues.

It should be noted that the considerations made, and conclusions reached, by the SSMG have been utilised by the SSMG in determining whether P98 better facilitates achievement of the Applicable BSC Objectives. This assessment is explicitly detailed in section 6 of this Assessment Report and is not covered by this section.

### **5.1.1 Potential for Exposure to Unlimited Liability from Single Notification**

The Proposer of P98 asserts that the Modification was raised primarily to address the issue of the potential for exposure to unlimited liability as a consequence of an erroneous or malicious notification under single notification. The Balancing and Settlement Code (the Code) contains no concept of limitation of exposure to Energy Imbalance charges, and therefore Settlement liability, in the event of an erroneous or malicious notification made against a Party by their counterparty.

It was further noted that erroneous and / or malicious notifications can push the Party on the receiving end into Credit Default under the Code, and that such notifications can continue to be made / to be effective until the Party reaches its Credit Limit under the Code.

The SSMG noted that there are commercial arrangements in place (outside of the Code) to deal with these circumstances, for example the Grid Trade Master Agreement (GTMA), however, it was noted that these commercial arrangements will not address the circumstance where the notifier can not meet their obligations under the commercial contract, for example, where either they are insolvent, potentially as a consequence of the settlement liability (perhaps resulting from the erroneous notification), or where they are in administration (and the administrators are enforcing a certain course of action).

The SSMG noted that although the probability of such extreme circumstances is relatively low, the materiality could be extreme and potentially catastrophic for the Party on the receiving end of the erroneous / malicious notification.

The SSMG also noted that, although dual notification would not allow cancellation of notifications previously submitted and still in force, as a consequence of the requirement for matching from both counterparties, the ability to determine the contract position at all times (from the Acceptance Feedback Reports and from the web based view) would enable Parties to trade out the position. Dual notification would also prevent further notifications being submitted to Settlement against an 'unwilling' Party.

It should further be noted, in respect of this point, that a number of the SSMG believe that the potential risk of unlimited (settlement) liability under the current single notification process could be considered to be a barrier to entry for new participants. It was proposed that there are a number of potential new entrants who are not currently entering the market, directly as a consequence of this notification risk.

The SSMG considered alternative methods for limiting liability resulting from erroneous and / or malicious notifications, for example:

- Implementation of time banded notification agent Authorisation, such that notifications submitted outside of working hours would be rejected by the ECVAA; and
- Mechanisms similar to those proposed by Modification Proposal P44 'Correction of Notification Errors where Parties are able to satisfy a Reasonable and Prudent Operator Test' and Modification Proposal P35 'Qualified ECVNAs' were considered, which would enable recovery from erroneous or malicious notifications made against a Party, under certain, specified, circumstances.

However, the SSMG noted that the first method of time banding authorisations would not prevent erroneous or malicious notifications being made against a Party during the 'authorised' time. If such notifications were made close to Gate Closure, or were not picked up immediately, despite the best endeavours of the counterparty, then there is still the risk of unlimited liability from the potential exposure to imbalance.

The SSMG noted that the second method of allowing rectification provided there is sufficient proof of the error (as proposed by both P44 and P35) had been proposed by a number of previous Modification Proposals, all of which had been rejected by the Authority.

Therefore the SSMG believe that the key issue that P98 seeks to address, namely the limitation of the exposure to unlimited (settlement) liability, cannot be addressed by other mechanisms.

The SSMG specifically requested information during both Assessment consultations (References 6 and 9) regarding the perception of such risk by Parties. The consultation responses indicated that there are a number of BSC Parties (roughly a third of respondents) who believe that the risk of malicious or erroneous notifications is significant.

The other respondents indicated that they believe the risk to be present, but believed that there are mechanisms for mitigating that risk, such as diligent contract notification checking, contractual and legal mechanisms.

It was noted that a number of the consultation responses indicated that the current system could be considered to be robust for Party default / failure, given the two instances that have occurred since go live. However, the SSMG noted that these two instances have been a reasonably well managed decline into default and administration, and that the robustness exhibited by the current arrangements under these circumstances has been more by accident than by design.

The SSMG agreed that the key consideration is the perception of risk. The risk of exposure to unlimited settlement liability is present, but some believe it to be an acceptable risk, or a risk that can be mitigated. However, others believe it to be an unmanageable risk that, whilst it has a low probability of occurring, has a high materiality with potentially catastrophic consequences.

### **5.1.2 Incentives to Maintain Robust Systems**

One of the concerns raised by the Authority in their determination on Modification Proposal P4 'Dual Energy Contract Notification' (Reference 10), was the potential for the implementation of dual notification to incentivise a reduction the robustness of BSC Party notification systems.

The Authority determination stated that "*Ofgem believes that the original Modification Proposal (Dual Notification) reduces the incentives on participants to develop robust systems of contract notification and risk management. Under single notification the responsibility and risk for matching the correct traded volumes and notifying them to central systems lies with the two Trading Parties. Participants can determine which aspects of the risk in contract notification they want to manage themselves, and which they want to mitigate through commercial contracts with nominated Notification Agents.*"

The SSMG considered the incentives on Parties to maintain robust notification systems from the implementation of dual notification. The SSMG noted that under dual notification there is potentially more incentive to maintain robust notification systems than under the current single notification process. Under single notification, the Grid Trade Master Agreement (GTMA) splits the liability for erroneous notifications between the two counterparties, regardless of which of the Party's notification agent made the error, (provided that the error is not discovered by the counterparty that did not notify).

However, the SSMG believe that under dual notification, culpability for errors in notifying will be more apparent (explored in 5.1.3 below) and that since the culpability will be more easily determined than under the current system, the full liability for such errors will be placed on the culpable notifier. This, in conjunction with the increased potential for mistakes to be made, on the grounds that the notification has to be submitted twice, by different notifiers. This effectively means that there is more incentive on Parties to retain robust notification systems.

The dual notification process requires Parties to close their contract position by the process of matching their contract volumes with those agreed with their counterparty. Therefore the requirement to monitor reports from the ECVAAs, such as the Rejection Feedback Reports (ECVAA – I009 and ECVAA – I010) and the Acceptance Feedback Reports (ECVAA – I028 and ECVAA – I029), is retained under dual notification, as Parties will be required to ensure that there is an agreed, matched contract volume being submitted to Settlement. Therefore the majority of the SSMG believe that there will be no reduction in the requirement for robust notification checking / verification systems / processes.

The SSMG further considered the implications of the implementation of web based notification submission on notification system robustness. The Authority representative at the SSMG raised concerns that enabling parties to submit notifications via a web based interface would further decrease the incentives for robust notification systems. The SSMG noted that the web based application would not be considered to be part of the ECVAAs system, and therefore if the web based application failed, for whatever reason, that the responsibility for finding a different mechanism for notification submission would sit with the Parties.

It was further noted that the existing definition of ECVAAs System Failure (Section P 5 of the Code) would not be extended to include any web based submission. Therefore the existing 'boundaries' for an ECVAAs System Failure would be retained, such that failures of the web based system would be specifically excluded from the classification of a failure.

On this basis, the SSMG believe that the implementation of any web based reporting and notification submission would not decrease the incentives on Parties to maintain robust notification systems.

The SSMG asked a specific question in the second assessment consultation (Reference 9) regarding Parties opinions on the incentives for maintaining system robustness under dual notification, and the consultation responses indicated that implementation of a dual notification process is unlikely to decrease the incentives for maintaining robust notification systems.

Some members of the SSMG believe that the implementation of dual notification may decrease the pre-notification confirmation procedure, i.e. the confirmation of trades made between Trading Parties ahead of the trade being notified to the ECVAAs, as Parties may choose to rely on the screen based contract reporting and matching process to confirm their trades.

However, other members of the SSMG noted that in the majority of cases, it is the net position that is notified following confirmation of trades, and in reality each notification could comprise a number of trades, and therefore if the net position is incorrect, then there may be one or more incorrect or

missing trades. Therefore these members of the SSMG believe that the present incentives to maintain robust notifications systems will be retained, but there may be increased incentive to have robust notification systems as there is no back up for notifying when there is a Party notification system failure.

Under the current single notification system, there is the potential for the other counterparty to notify where there is a failure of a party notification system. However, under dual notification, there is no such back up, as both Parties have to notify. Therefore the consequences of Party notification system failure are potentially higher under dual notification, incentivising more robust notification systems.

### **5.1.3 Notification (Commercial) Disputes Resolution**

The SSMG noted that the use of a dual notification system could clarify the identification of the culpability of erroneous notifiers. It is proposed that adoption of a dual notification system would improve the ability of Parties to identify where the culpability for an erroneous notification lies, as it is clear which of the counterparties made the error. This may improve the efficiency of the (commercial) disputes resolution process where there have been erroneous notifications made.

It was also proposed that this may increase the incentives on Parties (and their notification agents) to maintain robust notification systems to avoid making notification errors and thus being deemed culpable / liable for the error, (as explored in 5.1.2 above).

The SSMG noted that the costs of recovering the sums associated with liability arising from erroneous / malicious notifications are not immaterial and a number of the SSMG believe that implementation of a dual notification service would reduce these costs as a consequence of the increased transparency in culpability for errors in notifying.

The SSMG asked a specific question in the second assessment consultation (Reference 9) regarding Parties opinions on any change in efficiency in commercial disputes resolution arising from the implementation of dual notification, and the consultation responses indicated that roughly a third of respondents believe that dual notification will make it easier to assign liability / culpability for erroneous notifications, whereas the remainder of the respondents indicated that dual notification will not make it easier to assign liability / culpability.

### **5.1.4 Liability for Errors in the Dual Notification Process**

Another of the concerns raised by the Authority in their determination on Modification Proposal P4 'Dual Energy Contract Notification' (Reference 10), was the potential for the liability associated with erroneous contract notifications / matching to be carried by the BSC Central Service Agent and therefore recovered from all BSC Parties via BSCCo charging mechanism. The Authority determination stated that *"Commercial agreements can be undertaken with Notification Agents where they take the commercial liabilities of an erroneous contract notification once they have confirmed a trade to the counterparty. ... than if this service [contract notification] and the responsibilities of failure are solely borne by NETA Central Systems with the costs being smeared back across the industry as a whole."*

The SSMG considered this aspect of the dual notification process and noted that where the dual notification service is provide commercially, then the provider carries the liability of the exposure to imbalance for an erroneous notification/ match, as governed by the commercial contract in place with the users of that service. The liability of the service provider arises as a consequence of the inability of the service provider to correct the erroneous notification in the Energy Contract Volume Aggregation Agent (ECVAA) systems. Thus the counterparties that are the subject of the erroneous notification / match are exposed to Energy Imbalance charges to the extent of the erroneous notification / match.

If the dual notification service were to be part of the BSC Central Services and a BSC System, then the liability for an erroneous match would fall on the BSC Central Services (and therefore on ELEXON). However, under these circumstances, a recovery procedure, much like that in place for errors in the processing of single notifications by the ECVAAs, could be invoked, and the error corrected in the ECVAAs data, meaning that there is effectively no material liability, as Settlement has been corrected to reflect the correct notification / match. Thus the exposure to Energy Imbalance charges to the extent of the erroneous notification / match is removed.

The SSMG considered that this approach, necessarily governed by strict rules and obligations in the Code, would mean that there is no increase in the liability of ELEXON, and therefore BSC Parties, as a consequence of erroneous notifications / matches falling within the scope of the dual notification service.

### **5.1.5 Existing Commercial Provision of Dual Notification Services**

A further point raised by the Authority in their determination on Modification Proposal P4 'Dual Energy Contract Notification' (Reference 10), is the existing provision of commercial dual notification services. The Authority determination stated that *"Ofgem believes that the market provides more efficient and competitive services for contract notification than if this services and the responsibilities of failure are solely borne by NETA Central Systems with the costs being smeared back across the industry as a whole."*

The SSMG considered the availability of commercial dual notification services and it was noted that there are a number of dual notification services available for use commercially. A number of the SSMG noted that there are a number of issues

- Commercially provided dual notification services are disproportionately priced in order to recover the development and operational costs of the service, thus making the service expensive in comparison to single notification services; and
- Providers of such dual notification services limit the liability, resulting from an erroneous notification / match, therefore Parties using the service can still face material exposure to Energy Imbalance charges as a consequence of an erroneous notification / match by the service provider.

In the first Assessment Consultation, the SSMG specifically asked Parties whether they used the commercially provided dual notification services. Of the twenty-two responses made in respect of the consultation, only one respondent indicated that they utilised such services. Rationale was requested as to the reasons for utilisation, or not, and the majority of respondents indicated that the reasons for not using commercially provided dual notification are those set out above, namely perceived expense of such services and the limitation of liability, and additionally the perceived complexity of such services.

Therefore the majority of the SSMG believe that the commercially provided services do not completely address the issues that P98 is seeking to address.

### **5.1.6 Changes to Pattern of Trading and Market Liquidity**

The SSMG considered the impact that implementation of a dual notification service might have on the way in which Parties trade. A number of the SSMG proposed that implementation of dual notification may lead to a move away from the notification of trades at peak times, under the current GTMA arrangements to a more flexible, trade by trade notification system. This, in turn, may have the effect of reducing the peak load of notifications on the ECVAAs system.

The SSMG wished to quantify the likely changes to participant notification behaviour that may result from the implementation of dual notification, and therefore aimed a specific consultation question in the second assessment consultation (Reference 9) at attempting to determine whether trading behaviour would change, and how.

The consultation responses indicate that the implementation of dual notification is unlikely to have an effect on the way in which Parties trade. The majority of responses indicate that there are a number of factors that influence the way in which Parties trade, such as the GTMA, and the requirement under dual notification to agree the references for matching, and therefore, dual notification may possibly change the way in which trades are notified, but the nature of the change is unclear.

The SSMG could therefore make no definitive comment on how the implementation of dual notification could change notification habits.

The SSMG also considered the impact that implementation of dual notification may have on the liquidity of the market. Some members of the SSMG believe that any reduction in notification risk may have the effect of increasing liquidity in the trading markets. However, others believe that the implementation of the enhanced ECVAAs reporting would have a more material effect on liquidity, and that dual notification may have very little effect on liquidity in the traded markets.

The SSMG wished to assess the likely changes to trading market liquidity that may result from the implementation of dual notification, and therefore aimed a specific consultation question in the second assessment consultation (Reference 9) to obtain Parties views on the likely changes to liquidity, should dual notification be implemented.

The consultation responses indicate that there is a mixed view as to the effect dual notification could have on liquidity. Some respondents indicate that any decrease in the risk associated with notifying would have the effect of increasing liquidity. Some respondents indicated that they believe that dual notification could have the effect of decreasing liquidity, or splitting liquidity between the dual and the single process.

The SSMG considered the issue to determine whether notification risk is the reason why there is little within day trading and therefore relatively low liquidity. The SSMG noted that exchanges have little within day trading. A number of the SSMG proposed that this may result from a number of factors such as:

- Exchanges may be considered by some to be too expensive to trade within day;
- Portfolio / Integrated Parties will (internally) adjust their physical position to match their contracted position, negating the need to trade within day; and
- The combination of notification risk and the risk of exposure to Energy Imbalance charges may deter Parties from trading within day.

The SSMG noted that if the single notification process could be considered to be a barrier to entry for some participants as a consequence of the exposure to unmanageable risk (see 5.1.1), then removing such a barrier by the implementation of dual notification could have the effect of increasing liquidity by increasing the number of Parties trading.

Therefore the SSMG concluded that if the sole reason for not trading within day is the notification risk, then dual notification has the potential to improve the liquidity within day. However, if this is not the case, then there is likely to be little impact on liquidity from the implementation of dual notification.

### **5.1.7 Cost Benefits from Implementation of Dual Notification**

The SSMG noted that P98 is a cost-benefit driven Modification Proposal. A number of the SSMG believe that the costs of implementation of dual notification are far outweighed by the benefits that the dual notification process offers, namely the reduction in notification risk from erroneous or malicious notifications, the mitigation of the potential for unlimited (settlement) liability resulting from such erroneous or malicious notifications, and in the increased ability to identify culpability for errors in notifications, and the associated reduction in the cost of recovering commercial compensation for such errors.

In the first of the assessment consultations, a number of questions were aimed at determining the cost to the industry resulting from erroneous / malicious notifications in the six months prior to the issue of the consultation. The costs provided in the responses ranged from zero to sums in the region of £250,000, with the number of erroneous notifications quoted ranging from none to forty-five.

The SSMG noted the relative disparity of the responses to the initial consultation, and therefore specifically requested opinions, and supporting rationale, on whether dual notification is considered to be cost beneficial. The consultation responses indicated that there is a similar split to that seen regarding the question on unlimited liability (i.e. roughly a third of respondents believe dual notification to be cost beneficial).

The split in the responses indicate that those respondents that believe that the risk of exposure to unlimited settlement liability to be significant and / or unmanageable believe that the implementation of dual notification would be cost beneficial (at any cost). However, those that believe the risk to be manageable and / or acceptable, do not believe the implementation of dual notification to be cost beneficial.

Some of the SSMG noted that it is almost impossible to quantify the cost benefit of dual notification. In the worst case scenario where there is a catastrophic Party failure, then the cost of implementing dual notification could be considered to be negligible in comparison to the benefit. However, others of the SSMG noted that it is tempting to leave the status quo, on the basis that the risk can be managed / mitigated.

Therefore the SSMG concluded that the assessment as to whether the implementation of dual notification is cost beneficial comes down to whether it is believed that the risk of exposure to unlimited settlement liability is manageable or not.

### **5.1.8 Cost Recovery of Dual Notification Development and Implementation Costs**

The SSMG noted that one of the concerns regarding the implementation of dual notification raised by consultation responses, was the issue of cost recovery of the development and implementation (and potentially operational) costs from those Parties choosing to utilise dual notification. The concerns raised by a number of consultation responses indicate that those Parties choosing not to use dual notification should not be required to incur the costs of its development, implementation and operation.

The SSMG considered this aspect of P98 and noted that:

- The implementation of the dual notification service would also improve, by association, the robustness and other aspects of the single notification process (as set out in section 4, such as web based contract position reporting, web based notification submission and low grade back up). Thus all Parties would benefit from the implementation of P98, making a case for all Parties incurring the relevant costs;

- Defining a cost recovery mechanism that would recover the costs of development, implementation and operation of dual notification from users of the service equitably would be difficult to impossible, given that different Parties would use the process different amounts, and there would also be the issue of Parties moving to dual notification at different points, according to their counterparties level of usage;
- The Code does not allow for specific recovery of the costs associated with a service provided under the normal operation obligations of the Code, (i.e. falling outside of Section D, Annex D3, 6) and therefore, should a non discriminatory charging mechanism be defined, the Code would require amendment to reflect the mechanism; and
- The intent and implementation of the BSCCo charging structure means that costs are recovered from all Parties on a proportional basis (as set out in Section D of the Code) and this effectively means that all Parties may be paying for functionality that they do not use.

Therefore, the SSMG concluded that, on balance, that the current BSCCo cost recovery mechanism would be appropriate for recovering the costs associated with P98.

#### **5.1.9 Complexities from Operation of Two Notification Systems**

A number of consultation responses, made in respect of the first assessment consultation (Reference 6) on P98, as well as a number of responses made in respect of the industry Impact Assessment request (MC00022), indicated that a number of Parties believe that there is increased complexity for them, as they will be required to operate two notification systems / processes, and apply them according to any agreement with the specific counterparty, and even specific trade.

A number of the SSMG noted that there is sufficient room in the current process for mistakes to be made by operatives / traders, and believe that increasing the choice of process for such operatives / trades will have the effect of increasing the number of errors being made.

However, conversely, a number of the SSMG believe that implementation of dual notification may have the effect of simplifying their internal systems and processes and therefore increasing their efficiency. One of the key reasons for this simplification was seen as resulting from the alignment of the process for making notifications in the electricity market with that for the gas market.

The SSMG concluded that dual notification may increase or decrease the complexity of notifying for different Parties, dependent upon current practice, systems and processing.

In the second assessment consultation, the SSMG requested opinions from Parties as to whether, in principle (i.e. disregarding incumbent systems), new entrants would prefer to use dual or single notification. A number of respondents indicated that new entrants would choose the system that was preferred by the majority of incumbents in order to maximise their trading opportunities.

The SSMG noted that one response made in respect of the second assessment consultation was received from a new entrant (Conoco Phillips) indicated that dual notification would be their preferred system, because new entrants are likely to make more notification errors, and dual notification protects new entrants to some degree from the consequences of these errors.

#### **5.1.10 Enhanced ECVAA Reporting**

The SSMG noted that Alternative Modification P4 (References 2 and 3) and CP755 (Reference 11) implementing enhanced ECVAA reporting by introducing Acceptance Feedback Reports from ECVAA (ECVAA – I028 and ECVAA – I029) for notification submissions, was implemented on 8 October 2002.

A number of the SSMG believe that, although the additional reporting implemented is extremely useful, it still does not address the main issue that P98 is seeking to address, namely the potential exposure to unlimited (settlement) liability where an erroneous or malicious notification has been made against a Party by their counterparty.

The provision of the Acceptance Feedback Reports enables a Party to determine whether there has been an erroneous or malicious notification against them, but if that Party is unable to notify (as they are not the authorised notification agent, or they do not have systems for notifying, or the Acceptance Feedback Report has arrived close to / after Gate Closure for the affected Settlement Period), and cannot get the notifying Party to agree to correct the notification, then the Party is still exposed to the potential Energy Imbalance charges associated with that erroneous or malicious notification.

The SSMG specifically asked Parties questions in both the first (Reference 6) and second (Reference 9) assessment consultation based on whether Parties considered there to still be a requirement for dual notification, given operational experience of the enhanced reporting. The consultation responses made in respect of the second assessment consultation were made in light of several weeks operational experience of the enhanced reporting.

The consultation responses indicated that those respondents who believe that the risk of exposure to unlimited settlement liability is significant and / or unmanageable (roughly a third of respondents) still believe there to be a requirement for dual notification, as the implementation of enhanced ECVAAs Reporting (the Acceptance Feedback Report) does not alleviate the risk of erroneous or malicious notifications being made against a Party, where there is insufficient time or an inability to amend the notifications.

Those respondents who believe that the risk of exposure to unlimited settlement liability can be managed and / or is an acceptable risk believe that the implementation of enhanced ECVAAs reporting negates the requirement for dual notification.

The SSMG noted this split in the responses, and the rationale for such split and concluded that some Parties believe that the implementation of enhanced ECVAAs reporting does not address the key issue that P98 is seeking to address, namely the mitigation of the risk of exposure to unlimited settlement liability.

Therefore the SSMG noted that again, the requirement for dual notification comes down to an assessment of the risks associated with unlimited settlement liability by individual Parties.

#### **5.1.11 Provision of Dual Notification by a non BSC Agent**

The SSMG considered the possibility of ELEXON procurement of dual notification from an existing commercial provider, rather than from the current BSC Agent, noting that provisions would be required to be put in place to make the dual notification service effectively a BSC System.

The SSMG noted that any decision regarding procurement of a dual notification service would be entirely the responsibility of ELEXON, and that any 'instruction' from the SSMG in this matter, would be beyond the vires of the SSMG. Thus the SSMG would be limited to consideration of the potential for the dual notification service to be provided by a provider other than the BSC Central Service Agent.

The SSMG noted that there were a number of issues associated with the (external) procurement of a dual notification service. These can be summarised as follows:

- The requirement for ELEXON to establish and maintain a new contract for an additional BSC Agent. It is expected that any procurement of a commercial organisation for the provision of dual

notification as a new BSC System / BSC Agent would incur material costs, as the dual notification service provider will potentially implement a charging structure aimed at recouping the development, implementation and operational costs.

It is also expected that the establishing and maintaining such a contract would require significant ELEXON resource.

- The implementation of an external dual notification service as a BSC System will materially increase the complexity of the ECVAA System Failure process. Very clear and unambiguous definitions of failure would be required in order to ensure that the ECVAA System Failure process is identified correctly and then recovered from appropriately. As there is the potential for various scales of failure, it is expected that there would be an increase in resource required for ELEXON, and the ECVAA in order to manage the process.
- To ensure that there are no rejections on the grounds of business validation by the ECVAA following successful matching in the dual notification provider, it is expected that the dual notification provider may be required to emulate the ECVAA validation rules. It would then be expected that when the validation rules require amendment, both systems would have to be amended to retain consistency. If this is not undertaken, then there is the risk of a matched notification being rejected by the ECVAA, leading to an increase in rectification procedures.
- A more complex issue surrounding validation is the validation required to be undertaken to refuse notifications as a consequence of credit default and to reject Metered Volume Reallocation Notifications (MVRNs) where either one of the counterparties is in credit default (refusal) or the MVRN requires an allocation in excess of 100%. These validations require information at a detailed level from the ECVAA, on a real time basis, in order that a notification is not matched and then rejected on these grounds. It is believed that such interfaces would be onerous to implement and maintain, and the potential for matched notifications being rejected by ECVAA as a consequence of an overlap in processing could increase the number of Trading Disputes / Queries and thus the burden on the rectification.
- Potentially new interfaces from the (external) dual notification service provider into the ECVAA will be required to ensure that the notifications received by the external provider by Gate Closure can get into the ECVAA and be processed as if they were received by the ECVAA in time for Gate Closure. This may result in a delay to the ECVAA processing of notifications at Gate Closure waiting on those from the dual notification service to ensure that credit checking is completed correctly for all notifications for the Settlement Period.

The SSMG raised these points, which would need to be addressed should ELEXON procure the dual notification service from a provider other than the existing BSC Central Service Agent.

## **6 APPLICABLE BSC OBJECTIVES**

The Applicable BSC Objectives are set out in paragraph 3 of Condition C3 of the Transmission Licence, as follows:

- (a) The efficient discharge by the Transmission Company of the obligations imposed under the Transmission Licence;
- (b) The efficient, economic and co-ordinated operation by the Transmission Company of the 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;
- (e) Undertaking of work by BSCCo (as defined in the BSC) which is:
  - (i) necessary for the timely and effective implementation of the proposed British Electricity Trading and Transmission Arrangements (BETTA); and
  - (ii) relevant to the proposed GB wide balancing and settlement code;and does not prevent BSCCo performing its other functions under the BSC in accordance with its objectives.

The SSMG, having reached a conclusion on each of the Assessment Issues (see section 5), considered how the conclusions on the impacts and incentives of P98 would lead to the Modification better facilitating achievement of each of the Applicable BSC Objectives, and the extent to which this is the case.

On balance, the majority (two thirds) of the SSMG believed that, although Proposed Modification P98 may have the effect of reducing notification risk and thus may improve competition in the sale and purchase of electricity (Objective 3(c)), the costs associated with the implementation of dual notification, i.e. the costs to industry from renegotiating the Grid trade Master Agreement (GTMA), the changes to Party notification systems and the cost of the development and implementation of dual notification in the central services, and therefore the decrease in the efficiency of the implementation of the balancing and settlement arrangements (Objective 3(d)) outweigh these benefits to competition, and therefore, the Proposed Modification P98 does not better facilitate achievement of the Applicable BSC Objectives.

It should be noted that the remainder of the SSMG believe that Proposed Modification P98 will have the effect of improving the competition in the sale and purchase of electricity (Objective 3(c)) by reducing notification risk, and protecting Parties from the risk of exposure to unlimited settlement liability. It is also proposed by these members of the SSMG that dual notification is more efficient for Parties and therefore the balancing and settlement arrangements (Objective 3(d)) as a consequence of the improvement in identifying culpability for notification errors, thus reducing the recovery costs for Parties.

Furthermore, these members of the SSMG noted that during the pre Go Live considerations as to the process to implement, dual or single notification, dual notification appeared to be the preferred option for Parties. Therefore these members of the SSMG believe that Proposed Modification P98 does better facilitate the Applicable BSC Objectives.

The SSMG noted that the consultation responses made in respect of the second assessment consultation were split, to the same degree as the SSMG, as to whether Proposed Modification P98 better facilitates achievement of the Applicable BSC Objectives, with the majority (two thirds) indicating that they did not believe Proposed Modification P98 to be better.

The SSMG noted that the assessment as to whether Proposed Modification P98 better facilitates achievement of the Applicable BSC Objectives lies with the assessment as to whether the implementation of dual notification is cost beneficial, which in turn, results from the assessment as to whether the risk of exposure to unlimited settlement liability is manageable, or not.

The SSMG agreed that Proposed Modification P98 is neutral to the remaining BSC objectives (3(a), (b) and (e)).

## 7 IMPACT ON BSC SYSTEMS

The Detailed Level Impact Assessment is provided in ANNEX 3 of this Assessment Report.

It should be noted that the BSC Central Service Agent was requested to provide the costs and timescales associated with four different implementation options, as follows:

**Option 1:** Dual notification, with web based reporting and web based notification submission, no changes to single notification;

**Option 2:** Dual notification with web based reporting and web based notification submission, plus enhancements to the single notification process;

**Option 3:** Dual notification with web based reporting only;

**Option 4:** Dual notification only.

The SSMG are proposing **Option 2** as the Proposed Modification P98, and therefore the following costs and timescales are for Option 2.

### Development and implementation of all changes to support the Proposed Modification:

– Development and Implementation (change specific) costs:	<b><u>£1,888,540</u></b>
– Ongoing Operate costs:	<b><u>£433,800 p.a.</u></b>
– Ongoing Maintenance costs:	<b><u>£365,162 p.a.</u></b>
– Development Timescales:	<b><u>45 weeks</u></b>

The SSMG noted that some of the costs associated with the development and implementation of Proposed Modification P98 (option2) resulted from the requirement to procure more hardware, with the hardware specifications based on a 'worst case' usage scenario, i.e. the BSC Central Service Agent has assumed a large increase in the number of notifications being submitted and in the reports being generated as a consequence of the implementation of the dual notification process. Therefore a breakdown of the costs associated with the hardware is provided below.

For example, if dual notification were to be implemented, then the following assumptions could be made:

- 30% of notifications are single notifications, i.e. one notification in, three feedback reports out;
- 70% are dual. Of that 70%, 90% get two notifications in and two feedback reports out, assuming immediate match, and notification agents same as BSC Parties, so no need for more than two feedback reports;
- Of that 70%, 10% get two notifications in and four feedback reports out.

This has the effect of increasing the volume of inputs and outputs by a factor of ten.

The BSC Central Service Agent noted that one way of dealing with the increased volumetrics, without degrading the service is to restructure such that all 'IO' reports (i.e. automated reports in and out of the BSC Central Service Agent) are moved to the low grade server, such that there is a high grade and low grade link. This has the added advantage that where the high grade service fails currently, a cut over process is required to the low grade. However, with the proposed configuration, this would not be the case, as the reports would be there, and there would be no requirement to cut over.

It should further be noted, that as a consequence of the hardware being based on a worse case basis, there may not be a requirement to utilise all of the hardware identified. The key cost that this can be applied to is that for the additional four CPUs and the associated Oracle Licence.

### Hardware

<b>Fixed Costs</b>	<b>Live site</b>	<b>Disaster recovery</b>
Storage Disks controllers (Including Backup)	£80,000	£80,000
Additional CPU * 4	£34,000	£17,000
Oracle Licence	£120,000	£0
FTP Server Cluster	£14,000	£14,000
Application Server cluster	£14,000	£14,000
Checkpoint firewall cluster	£14,000	£14,000
Upgrade to Low Grade Comms	<u>(4 * 2mb)</u>	£10,000
Deployment test kit	£20,000	£0

### **Web based ECVAA**

Web Cluster	£14,000	£14,000
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Discounts and contingency applied.

Total Hardware Costs	<b>£319,200</b>	<b>£162,593</b>
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## **8 IMPACT ON CORE INDUSTRY DOCUMENTS AND SUPPORTING ARRANGEMENTS**

### **8.1 Grid Trade Master Agreement (GTMA)**

Implementation of Proposed Modification P98 would require considerable renegotiation of the GTMA. However the amendments required are beyond the scope of the BSC and are not discussed further here.

## **9 IMPACT ON ELEXON**

The ELEXON Impact Assessments are provided in ANNEX 4 of this Assessment Report.

It is expected that ELEXON would incur effort in the region of **500 man days** for the implementation and development of the Proposed Modification P98, and will require an **additional 18 weeks** at the beginning (four weeks) and end of the development and implementation (fourteen weeks) of the BSC Central Service Agent for Participant testing and regression testing.

Other than the impact from the development and implementation of Proposed Modification P98, the operational impact is expected to be low, and can be subsumed into the current operational framework.

## **10 IMPACT ON PARTIES AND PARTY AGENTS**

The request for industry impact assessment (high level) was issued to industry on 4 November 2002 (MC00022), with responses due 12 November 2002. The impact assessment request required an indication of the impact on parties from implementing the solution set out in the Requirements Specification for P98 (Reference 8). The responses to this consultation are provided in full in Annex 2(b), and can be summarised as follows:

There were eleven responses to the request for impact assessment on P98.

The estimated impact on Party / Party Agent notification systems ranged from 2 months and £5000 to 12 to 15 months and £250,000 to £600,000. The average implementation time seemed to be around 6 months, with associated implementation costs of £100,000.

Therefore it can be seen that this is a relatively high impact change for Parties / Party Agents. The main concerns raised in the responses to the request for impact assessment, is the potential complexity introduced by the requirement to operate two processes, single and dual notification.

Another concern expressed by a number of responses is the requirement to maintain stability in a key area of the trading arrangements. The impact assessment responses indicate that there should be a period of stability following the implementation of the enhanced ECVAA reporting in order to let these arrangements settle in. The SSMG noted that any implementation of dual notification would necessarily have a material lead time (63 weeks), and that therefore these concerns would be addressed by this implementation period.

Parties are further impacted by the requirement to renegotiate the Grid Trade Master Agreement (GTMA) to reflect dual notification, and it is expected that the costs associated with this negotiation to be material.

## **11 LEGAL ISSUES**

None identified at this time.

## **12 SUMMARY OF REPRESENTATIONS**

### **12.1 First Assessment Consultation Responses**

The first assessment consultation was issued to industry on 26 September 2002, with responses due 8 October 2002. The proforma for P98 contained twelve questions, as follows:

- Q1.** Do you support the principle of P98, namely to introduce a voluntary dual notification system within the BSC systems?
- Q2.** P98 proposes that the dual notification system is voluntary, and Parties would still be able to use the single notification system. Should P98 be introduced, would you use the dual notification system?

- Q3.** With the currently available information, do you believe that P98 will increase the efficiency of the market by reducing the risks associated with trading?
- Q4.** If you answered yes to Question 2, would you still deal with Parties preferring single notification?
- Q5.** Is the dual notification mechanism relevant to Metered Volume Reallocation Notifications (MVRNs)? If so, why? If not, why not?
- Q6.** In your opinion, is there any potential risk in having two differing mechanisms for notifying contract volumes, i.e. both single and dual notification?
- Q7.** Dual notification is available commercially in the market. Do you use these services? If so, why? If not, why not?
- Q8.** What is your perception of the risk levels associated with erroneous notification, and the potential for erroneous notifications to be made against you?
- Q9.** In the last six months, how many erroneous notifications have been made, where you have been a counterparty to the notification?
- Q10.** How much, approximately, has this cost?
- Q11.** Do you think that dual notification would mitigate, or assist in mitigating, the effects of BSC Party failure?
- Q12.** Would the implementation of enhanced ECVAAs reporting (CP755 - the Acceptance Feedback Report) have changed your response to any of the above questions?

The responses to this consultation are provided in full in Annex 2(a), but can be summarised as follows:

BSC Parties were asked whether they supported the principle of P98, namely to introduce a voluntary dual notification system within the BSC Systems. Eight respondents (14 Parties) supported the principle, eleven respondents (29 Parties) did not support the principle, and three respondents (25 Parties) did not state a preference (i.e. either no comment, or an unclear response).

BSC Parties were then asked whether they would use the voluntary dual notification system (noting that single notification would still be available). Seven respondents (14 Parties) indicated that they would use the service, ten respondents (27 Parties) indicated that they would not, and five respondents (27 Parties) did not state either way (i.e. either no comment, or an unclear response).

The SSMG noted that, given the responses detailed in the attachment to this paper, the industry was relatively evenly split in terms of supporting / not supporting dual notification, and in terms of the likely take up of the service, were it to be introduced.

The SSMG further noted that the consultation responses to the twelve questions asked, raised a number of issues for further consideration during the assessment of P98, including the following:

- Commercial dual notification services are available, however, due to various reasons, including the relatively high expense of the services available, the limitation on liability from the providers of the services and the perceived complexity of such services, very few (only one of the twenty-two respondents) use them;
- The operational impact resulting from the implementation of CP755 (Enhanced ECVAAs Reporting) should be determined before the final decision on P98 is taken, to ensure that P98 is still justified;

- The costs of developing and implementing a second notification process, both within the BSC Central Systems, and within their own systems, raises concerns for a number of respondents;
- The risks associated with running two differing systems for notifying, i.e. single and dual notification raises concerns for a number of respondents;
- The wish to follow market liquidity raises concerns, i.e. if 'bigger' Trading Parties choose to use dual notification to the exclusion of single notification, Trading Parties may feel that they have to implement dual notification in order to trade with these Parties; and
- The perceived exposure to potentially unlimited liability for errors made by others associated with single notification, and the fact that this may deter new entrants to the market, was a major concern of some.

On the basis of the take up indicated in the consultation responses, the SSMG considered that there was sufficient interest in the dual notification service to warrant continuing the Assessment Procedure for P98.

The SSMG considered the issues raised by respondents to the first assessment consultation for P98, and these have been addressed by the solution that has been defined for Proposed Modification P98 (section 4 of this Assessment Report) and in the considerations of the SSMG on the assessment issues (section 5 of this Assessment Report).

#### **12.1.1 Summary of Confidential Responses**

The first assessment consultation for P98 contained three questions with potentially commercially sensitive responses. Therefore Parties were requested to provide confidential responses if they felt that to be the case.

The questions were as follows:

- Q8** What is your perception of the risk levels associated with erroneous notification, and the potential for erroneous notifications to be made against you?
- Q9** In the last six months, how many erroneous notifications have been made, where you have been a counterparty to the notification?
- Q10** How much, approximately, has this cost?

Nine confidential responses were received in respect of these questions. The responses are summarised in the following sections.

##### **Q8: Perceived Risk**

The following comments were made in respect of the perceived risk of erroneous notifications:

- A number of responses indicated that within day trading, especially coming closer to Gate Closure carries a relatively high risk. Some believe that this risk is vastly mitigated by the implementation of the ECVAAs Acceptance Feedback Report via CP755;
- One response believes that dual notification will increase the risk of erroneous notification, especially closer to Gate Closure, as the main risk results from the Notification Agent system failure;
- Perceived risk is higher for notifying Parties, as the liability for the erroneous notification falls on them; and

- A number of responses indicate that the GTMA is sufficient in terms of recovering the costs of erroneous notification, therefore mitigating the risk of erroneous notifications made against a Party, and providing sufficient incentive to dissuade the notifying Party from making erroneous notifications.

#### **Q9: Number of Erroneous notifications**

The responses reported the number of erroneous notifications in the last six months as between 1 and 45 erroneous notifications. Figures between these of 6, 16 and 25 erroneous notifications, were also provided.

#### **Q10: Cost of erroneous notifications**

Where quoted, the (total) cost of these erroneous notifications is as follows:

- 1 error cost nothing, as was resolved and costs recovered, via the GTMA;
- 6 errors have cost £10,000;
- 6 errors were 'low value';
- 16 errors have cost £27,000;
- 25 errors have cost £250,000; and
- 45 errors have cost £110,000.

## **12.2 High Level Impact Assessment Responses**

The request for industry impact assessment (high level) was issued to industry on 4 November 2002 (MC00022), with responses due 12 November 2002. The impact assessment request required an indication of the impact on parties from implementing the solution set out in the Requirements Specification for P98 (Reference 8). The responses to this consultation are provided in full in Annex 2(b), and are summarised in section 10 of this Assessment Report.

## **12.3 Second Assessment Consultation Responses**

The second assessment consultation was issued to industry on 18 November 2002, with responses due 27 November 2002. The consultation consisted of the Requirements Specification for P98 (Reference 8) and some supporting information. The proforma for P98 contained eight questions, as follows:

- Q1.** What significance do you attach to the risk of unlimited (settlement) liability from erroneous or malicious notifications made against you?
- Q2.** In your opinion, will the implementation of dual notification make it easier under contracts to clarify, legally, responsibility for incorrect notifications?  
What effect do you think this will have on incentives for notifiers and on the robustness of Party notification systems?
- Q3.** In your opinion, considering the issues set out in this consultation document, do you consider the implementation of dual notification to be cost beneficial? If so why? If not, why not?
- Q4(a)** In your opinion, will the implementation of dual notification mean the adoption of different approach to trading, for example, trade by trade notifications, or a move away from Parties notifying contracts in a batch at the end of the working day? If so, how?

Do you anticipate the changes you describe as being implemented by your own organisation and / or the market as a whole?

**Q4(b)** Will dual notification lead to changes in market liquidity? For example, will the potential reduction in notification risk lead to any change in the liquidity of short-term trading?

**Q5.** Do you think, in principle, that a new entrant would choose to use dual notification or single notification (i.e. disregarding the system incumbent Parties are using)?

**Q6.** CP755 Enhanced ECVA Reporting (implementation of the Acceptance Feedback Report) has been operational since 8 October 2002. In light of operational experience, does the requirement for dual notification remain?

**Q7.** Given the solution to dual notification set out in the attached requirements specification, do you support the implementation of a voluntary dual notification process?

Would you use the dual notification process were it to be implemented (please indicate whether this would be either as an organisational initiative, or whether the move would be as a consequence of pressure from your counterparties)?

Has your response changed since the initial consultation

**Q8.** In your opinion, does dual notification better facilitate achievement of the Applicable BSC Objectives than the current baseline?

The responses to this consultation are provided in full in Annex 2(c), but can be summarised as follows:

Twenty-one responses (on behalf of sixty-two Parties) were received in response to the second assessment consultation on P98. Since the Transmission Company was one of the respondents, their response is presented separately in section 13 of this Assessment Report and is not included in this summary.

It should also be noted that one respondent (one Party) responded only to one question, and their response is excluded from the general summary, but is referenced against the relevant question for completeness.

Therefore, for the purposes of the following summary, nineteen responses (on behalf of sixty Parties) are summarised against each of the consultation questions.

**Q1. What significance do you attach to the risk of unlimited (settlement) liability from erroneous or malicious notifications made against you?**

- Seven responses (12 Parties) indicated that they attach high or material significance to the risk of exposure to unlimited settlement liability; and
- Eleven responses (48 Parties) indicated that they attach low or medium significance to the risk and / or believe that such risk can be managed by other means.

**Comments made in respect of Q1:**

- Although the instances of erroneous notifications by counterparties are relatively low, the monetary impact can be huge;
- There is a significant commercial and legal risk for Parties. The instances of incorrect notifications are relatively limited, but where they do occur, legal liabilities are split and disputes are relatively difficult to resolve;

- Incorrect notifications out of office hours are a real risk;
- Notification could be used maliciously with potentially devastating effects, pushing companies past their credit cover and potentially out of business;
- This is the single largest risk associated with trading UK power. There are many ways of mitigating notification risk, it cannot be eradicated completely. For example, major changes to notifications following a participant's entry into administration, the counterparty has no control over the changes and may result in massive imbalance exposure with no contractual recourse. Also, deliberate mis-notification could result in a participant facing unlimited liability. Both circumstances could have catastrophic consequences on the wider market, including knock on collapse of other market participants;
- The sharing of liabilities of incorrect notifications may also discourage Parties from using robust systems themselves. The ability to request others to notify has, in some cases, provided a useful back up, and in other cases has allowed Parties to benefit from the effort of others in getting their systems right;
- The GTMA supports provisions for one counterparty to cease notifying or amend existing notifications. However, the behaviour of defaulting counterparties cannot be guaranteed and the implementation of dual notification allow limitation of liability for future notifications, due to the knowledge of the extent of imbalance;
- Checking of notification systems and reports should mitigate a significant amount of the risk;
- The risk is significant, however, appropriate contractual and credit terms can be used to manage it, as there are third party notification services available to manage such risk;
- The risks identified are small particularly as the existing systems have coped with Party default satisfactorily;
- The risk could be considered to be materially apparent in the event of a counterparty default, where the defaulting Party fails to act in accordance with the GTMA (either maliciously, or in error). However, many of the uncertainties surrounding the handling of notifications under a counterparty default could be reduced by other mechanisms both inside and outside the scope of the Code; and
- There is a higher risk of errors from operating two notification processes, and this is likely to act as an inhibitor for new market entrants.

**Q2. In your opinion, will the implementation of dual notification make it easier under contracts to clarify, legally, responsibility for incorrect notifications?**

- Seven responses (12 Parties) indicated that they believe that dual notification will enable easier clarification of responsibility for incorrect notifications;
- Eleven responses (45 Parties) indicated that they do not believe that dual notification will enable easier clarification of responsibility for incorrect notifications; and
- One response (3 Parties) indicated that they believe that dual notification will enable easier clarification of responsibility for incorrect notifications where one Party was incorrect, but not where both Parties notified incorrectly.

**Comments made in respect of Q2:**

- Responsibility for contract failure is defined in the GTMA and participants are familiar with this process;
- Under single notification the notification agent has the responsibility to notify correctly and the non-notifier has responsibility to check against the reports, this makes it difficult to unambiguously identify the Party at fault, and the counterparties typically agree to share liability for the error;
- Dual notification means that it is more easy to prove who was at fault;
- Dual notification will make the split in risk between counterparties more equitable, as currently the notifier takes a much greater share of the risk;
- As dual notification requires that both Parties submit the same thing, then it should be relatively simple to determine whether one or both Parties were at fault. This should bring legal clarity to the responsibility for incorrect notifications;
- Dual notification will avoid the unnecessary costs associated with 24 hour scrutiny of notifications by allowing market participants to be confident in the trades that have already be confirmed. This may have the effect of ensuring that notification systems are sufficiently robust for notification and checking purposes, it may have the effect of reducing the cost associated with notification and thus remove a significant barrier to entry; and
- It Is acknowledged that there are known problems with the existing GTMA conditions in terms of their clarity. Should a dual notification system be introduced, even on a voluntary basis, all the current GTMA documents would need to be re-drafted, which is a major undertaking. A preferable approach may be to address the known issues with the current GTMA, and it is believed that this would introduce the required level of clarity without ‘starting again from scratch’.

**What effect do you think this will have on incentives for notifiers and on the robustness of Party notification systems?**

- Robustness of each parties notification systems will be raised as a greater issue, simply because dual notification requires both parties notification systems to be operational at the same time;
- Parties may well improve the resilience of their notification systems as both Parties would have to be able to notify the trades. A back up system would be essential in the event that main Parties notification systems were unavailable;
- The incentives on Parties to check notification reports / trades may be diminished and the robustness of systems decreased;
- Notification agents will continue to operate their existing systems to the best of their abilities. The implementation of web based reporting and notification systems will have a beneficial effect in reducing the risks associated with notification;
- Introducing a web based notification entry system would reduce the need for Parties to have robust systems as there would be a convenient fall back, albeit relying on manual entry and an un-guaranteed internet connection;

- Problems with notification are almost always dealt with before legal proceedings are started and hence this is not expected to influence incentives for notifiers or effect the robustness of Party notification systems; and
- Parties are not incentivised at present. Small Parties coming into the market often need others to notify for them. If dual notification becomes the norm, then it could potentially create a barrier to market entry.

**Q3. In your opinion, considering the issues set out in this consultation document, do you consider the implementation of dual notification to be cost beneficial? If so why? If not, why not?**

- Seven responses (11 Parties) indicated that they believe that dual notification to be cost beneficial. It should be noted that two of these responses (6 Parties) caveated this response by indicating that they believe dual notification to be cost beneficial only in the long term;
- Twelve responses (49 Parties) indicated that they do not believe dual notification to be cost beneficial.

**Comments made in respect of Q3:**

**YES – Implementation of dual notification is cost beneficial**

- The potential liability a Party can incur is a much greater magnitude than the smearing costs of the BSC Central Services cost;
- While the costs of implementation could seem excessive, it is likely that the market will benefit from a much more efficient notification process, which over the long term, will outweigh the costs;
- Only over the very long term and only if compulsory. To introduce dual notification now will require considerable spend on system revisions, developing new business processes and re-training staff, but will substantially reduce the instances and costs of notification errors. These costs MAY be recouped quickly if dual notification prevents mis-notification of a large volume on a day with a large spread between the Energy Imbalance Prices;
- Although the costs associated with the implementation of dual notification seem relatively high, they will be heavily outweighed by the associated benefits, such as removal of unlimited liability and the systemic risk of system wide collapse, removal of the barrier to entry that unlimited liability and the requirement for 24 hour cover represents, promotion of market liquidity due to reduced notification risk and reducing the costs associated with resolving disputed or erroneous notifications; and

The central system costs of dual notification would represent less than 0.05% of physical wholesale market turnover. This can be seen as a minor 'insurance premium' to protect the industry against the negative effects of single notification and is completely outweighed by the benefits.

**NO – Implementation of dual notification is NOT cost beneficial**

- Once a trade has been agreed under single notification and there is a counterparty default, the non-defaulting Party cannot reverse the position. Dual notification does not resolve this problem;

- In addition to the development of central systems, each BSC Party would incur significant legal resource renegotiating and redrafting GTMAs in addition to the IT and operational expense of modifying internal notification systems;
- Our cost of notification errors under NETA to date is far less than our share of the cost of implementation of dual notification. It could be argued that the largest scope for errors was during the initial period following go live, and so the cost outweighs the benefit;
- Costs could be applied only to those that would use dual notification. It would then be up to users to determine whether they wish to proceed with the Modification;
- The existing arrangements have coped well with several industry failures without significant problems. The success of the present arrangements plus the high costs of the scheme make it non-economic at present particularly given the marginal benefits;
- The implementation costs, coupled with the increased risk associated with operating in potentially three different environments (single, dual and both) are not outweighed by the (small) benefits; and
- A more cost reflective option to assist in the prevention of notification errors would be to implement a real time web based system that would permit Parties to validate the notifications made with respect to Parties trading accounts at any time within day.

**Additional Response made in respect of this Question:**

At the start of this section it was noted that one Party responded to only one question, and it was indicated that the response would be summarised against the relevant question. The response (P98\_ASS\_012) received from Automated Power Exchange, was made against Q3, in respect of dual notification being cost beneficial.

The response indicated that dual notification would be cost beneficial only where the costs of implementation were minimal and the incremental operational costs are borne by the users of the service (who will only use it if it is cost beneficial to them).

The response further indicated that it would be possible for ELEXON to competitively procure one or more dual notification service(s) which would substantially reduce the implementation costs, whilst providing the aspects of the service identified by the requirements specification, to much reduced timescales over those the BSC Central Service Agent has identified.

The SSMG considered the competitive procurement of dual notification service(s) and the SSMG deliberations in this respect are set out in section 5.1.11 of this Assessment Report.

**Q4(a) In your opinion, will the implementation of dual notification mean the adoption of different approach to trading, for example, trade by trade notifications, or a move away from Parties notifying contracts in a batch at the end of the working day? If so, how?**

- Four responses (11 Parties) indicated that they believe that dual notification could mean the adoption of a different approach to trading;
- Seven responses (14 Parties) either did not respond, or provided a 'depends', 'maybe' or 'possibly' response as to whether they believe that dual notification could mean the adoption of a different approach to trading; and

- Eight responses (35 Parties) indicated that they do not believe dual notification will have any influence on the adoption of a different approach to trading.

**Do you anticipate the changes you describe as being implemented by your own organisation and / or the market as a whole?**

**Comments made in respect of Q4(a):**

- Most systems are already built and processes in place, therefore there is likely to be a reluctance to change;
- It depends upon how the processes are legally drafted between the counterparties. It is believed that forward trades down to day ahead would continue to be sent as a batch, however, much more careful monitoring of notification systems within day would be necessary to ensure counterparty positions are posted and matched correctly;
- Note that most dual notification systems in use for European gas / power trading rely on day ahead matching and some European market operators are allowing single notification for short term timescales;
- Most Parties notify throughout the day by exception, and it is not expected that this will change;
- Parties may move to notifying trade by trade rather than in batches. The ability to notify and watch the trade clear would bring the operational arrangements far more in line with the gas market, where trading is also more liquid out of hours, with risks of trading lower;
- Parties may feel happier about trading closer to real time. This would increase within day liquidity and benefit smaller players, notably smaller generators, who would be able to fine tune their position closer to Gate Closure;
- The volume of day ahead trades now happens even earlier in the morning than it did at the start of NETA, which implies that either Parties are unhappy with the current situation, or there are other forces (European trading for example) which could have a greater impact on trading practice;
- It would be sensible to move to trade by trade notifications as any liability would only apply to the difference and not to the whole notification. This would provide an incentive to adopt additive notifications rather than overwrite notifications;
- The introduction of the enhanced ECVAAs reporting, which offers many of the same benefits as dual notification, has not resulted significant changes to trading patterns; and
- In terms of notifying frequency, it is proposed that notification when the deal has been agreed rather than part of a batch of submissions is preferable, as it gives each Party more time to correct notification errors prior to Gate Closure. This approach is applicable to single and dual notification.

It should be noted that one respondent (P98\_ASS2\_002) proposed an amended mechanism for the dual notification matching process. The SSMG reviewed the proposed mechanism and noted that there would be issues with the mechanism that would need to be addressed. However, the SSMG agreed that it would not be appropriate to take this proposal forward at this time.

**Q4(b) Will dual notification lead to changes in market liquidity? For example, will the potential reduction in notification risk lead to any change in the liquidity of short-term trading?**

- Eight responses (17 Parties) indicated that they believe that dual notification could lead to changes in market liquidity; and
- Ten responses (40 Parties) indicated that they do not believe that dual notification will lead to changes in market liquidity; and
- One response (3 Parties) made no comment.

**Comments made in respect of Q4(b):**

- Liquidity may increase as a consequence of there being less notification risk;
- The increased liquidity (from reduced notification risk) may also encourage the development of trading in other products, such as smaller amounts of power, to meet the needs of smaller players;
- Removing notification risk may remove a barrier to entry, which may encourage new participants to enter the market, in turn increasing liquidity;
- Market efficiency is unlikely to be improved close to real time, and may be reduced due to delays in the matching process, which could result in no notification being submitted to settlement;
- The risk of trading close to Gate Closure will increase if one of the Parties submits an incorrect notification (where there will be little time for correction), or if one of the Party's notification systems fails;
- Use of two notification processes may have the effect of splitting liquidity in the market and reducing liquidity for Parties depending upon their notification system; and
- It is already possible to trade close to Gate Closure on the power exchanges. Their charges are not so high as to be a major disincentive, so it is unlikely that notification systems issues are a key factor in Party decisions regarding short term trading.

**Q5. Do you think, in principle, that a new entrant would choose to use dual notification or single notification (i.e. disregarding the system incumbent Parties are using)?**

- Seven responses (29 Parties) indicated that they believe that new entrants to the market would choose to use single notification; and
- Nine responses (17 Parties) indicated that they believe that new entrants to the market would choose to use dual notification; and
- Three response (14 Parties) indicated that it would be dependent upon a number of factors, including the strategy of the new entrant.

**Comments made in respect of Q5:**

- The decision cannot be made irrespective of incumbents systems. Any new entrant make a decision based on the existing market, their strategy and the costs of market entry;
- Dual, as it reduces notification and operational risk;
- Dual, as it was the industry's preferred option pre NETA go live;
- Dual, if unconstrained by existing systems, for the reasons set out above, and because participants would be able to enter the market without the requirement for 24 hour cover to monitor and detect incorrect notifications against them;

- One response (P98\_ASS2\_020, Conoco Phillips) was received from a new participant (pending commencing to trade) and the respondent indicated that dual notification would be their system of choice, as a new entrant has a greater probability of incurring notification errors in comparison to an established counterparty. The dual notification mechanism provides security through ensuring only matched notifications are accepted; and
- Single, as the advantages of using a tried and tested system, which could be further enhanced through the use of real time web based contract monitoring system, far outweigh the risks of a new, untried system that may not be cost-effective.

**Q6. CP755 Enhanced ECVAAs Reporting (implementation of the Acceptance Feedback Report) has been operational since 8 October 2002. In light of operational experience, does the requirement for dual notification remain?**

- Seven responses (13 Parties) indicated that they believe that the requirement for dual notification remains; and
- Ten responses (45 Parties) indicated that they do not believe that the requirement for dual notification remains; and
- Two responses (2 Parties) made no comment.

**Comments made in respect of Q6:**

**YES – the requirement for dual notification remains:**

- Acceptance Feedback Reports do not stop erroneous and / or malicious notifications and the associated risk of exposure to unlimited settlement liability;
- Enhanced reporting does nothing to address the legal issues associated with the risk allocation under a single notification system; and
- AFRs also do not stop notifications against Parties when they are not in the office.

**NO – the requirement for dual notification is removed by enhanced ECVAAs Reporting:**

- The new Acceptance Feedback Reports will assist checking, so dual notification is an unnecessary change; and
- Acceptance Feedback Reports (AFRs) reduce the risk of short term single party volume notifications, as errors can be detected at an earlier stage. Using the AFRs, a counterparty can determine in close to real time what its notified positions are with each counterparty, significantly reducing any benefits of the optional dual matching process.

**Q7. Given the solution to dual notification set out in the attached requirements specification, do you support the implementation of a voluntary dual notification process?**

- Eight responses (17 Parties) indicated that they support the implementation of a voluntary dual notification service, with one response (one Party) caveating their response to supporting implementation only if the service is charged for appropriately (i.e. paid for by users of the service); and
- Eleven responses (43 Parties) indicated that they do not support the implementation of a voluntary dual notification service.

**Comments made in respect of Q7:**

- Voluntary dual notification will unnecessarily complicate the trading function (with counterparties forcing small players to adopt single and dual notification with different counterparties) and will require significant investment in systems and resources from participants;
- There are concerns that some Parties will refuse to deal with single notifiers;
- Implementation of a dual notification system along side the single notification system is a recipe for confusion. If dual notification is to be implemented, it should be compulsory;
- As the GTMA is renegotiated, it is believed that the legal advisors will push market participants to a dual notification system. The economic benefits of better managed liabilities will persuade parties to invest in new systems or alter their existing systems;
- The cost of dual notification is too great and should be borne by those parties using dual notification;
- Voluntary dual notification allows market participants to choose how they want to manage their notifications and the associated risk. There should be no additional risks imposed as a result of having both dual and single notification; and
- The proposed method of implementation by which dual and single notification can co-exist is ingenious and will not introduce significant disruption to existing single notification processes. On this basis, this option should be provided to BSC Parties that wish to adopt it. The additional reporting facilities (web based reporting and notification) will provide real benefits to all BSC Parties.

**Would you use the dual notification process were it to be implemented (please indicate whether this would be either as an organisational initiative, or whether the move would be as a consequence of pressure from your counterparties)?**

- Only if forced to by counterparties;
- As an organisation we would attempt to persuade others to use a dual notification system;
- The costs of changing (internal) systems would be substantial, and dual notification would not be used unless placed under significant pressure from counterparties;
- Dual notification would be used as an organisation initiative, whilst retaining responsiveness to counterparties needs; and
- Dual notification would not be implemented initially, as the expectation is that most industry participants would wish to see the fully implemented systems, and take a judgement on the benefits of moving to dual notification after these had been in operation for a few months.

**Has your response changed since the initial consultation?**

Only one respondent (P98\_ASS2\_016, Magnox Electric plc) indicated that they had changed their response since the first assessment consultation on P98. The rationale for amending their response is “the method of implementation of dual notification would not disrupt single party notification processes” and “the requirements specification identifies reporting and notification facilities that would be of significant benefit to all Parties.”.

**Q8. In your opinion, does dual notification better facilitate achievement of the Applicable BSC Objectives than the current baseline?**

- Nine responses (14 Parties) indicated that they believe that dual notification better facilitates achievement of the Applicable Objectives. However two of these responses (3 Parties) indicated that although they believe that dual notification better facilitates achievement of the Applicable BSC Objectives, that they believe it should have been implemented before go live and therefore it is too late now. One response (4 Parties) indicated that they believe that dual notification would better facilitate achievement of the Applicable BSC Objectives only if it were compulsory; and
- Ten responses (46 Parties) indicated that they do not believe that dual notification better facilitates achievement of the Applicable Objectives.

**Comments made in respect of Q8:**

**YES - dual notification does better facilitate achievement of the Applicable BSC Objectives:**

- Dual notification would have been the best approach if adopted from the outset of NETA, though given that the current system seems to be working satisfactorily, it is felt that the extra investment required to move to dual is unwarranted;
- Dual notification reduces notification risk and removes a barrier to entry, thus increasing competition in the future; and
- Dual notification removes the discrimination in the operation of RCRC (Residual Cashflow Reallocation Cashflow) which redistributes payments made for notification errors from non physical to physical parties.

**NO – dual notification does NOT better facilitate achievement of the Applicable BSC Objectives:**

- There is no benefit from an optional dual contract notification system under normal trading, where sufficient contractual arrangements are already in place to legally cover incorrect notifications, malicious or otherwise. Therefore the modification fails to improve the efficiency of the market, fails to facilitate trading close to real time, and may reduce liquidity by splitting liquidity between the two processes; and
- The improvement to the efficiency of the market is outweighed by the cost of the modification.

The SSMG considered the responses to the second assessment consultation. The main points raised by the consultation responses are explored further in section 5. However, the SSMG noted that the consultation responses made in respect of the second assessment consultation raised no new, substantive arguments.

## **13 SUMMARY OF TRANSMISSION COMPANY ANALYSIS**

### **13.1 Response to First Request for Analysis**

The Transmission Company was provided with the same first assessment consultation document (Reference 6) as BSC Parties to the same timescales for response, as there are no Transmission

Company specific issues for consideration. The response made by the Transmission Company in respect of the first assessment consultation is provided in full as follows:

Question	Response
<p><b>Q1.</b> Do you support the principle of P98, namely to introduce a voluntary dual notification system within the BSC systems?</p>	<p><b>NO</b></p> <p>We believe that if dual notification were to be introduced it should be made compulsory, else each Trading Party would end up supporting a number of processes.</p>
<p><b>Q2.</b> P98 proposes that the dual notification system is voluntary, and Parties would still be able to use the single notification system. Should P98 be introduced, would you use the dual notification system?</p>	<p><b>NO</b></p> <p>We would not seek to promote the use of a dual notification system at this time, however, as with most Trading Parties we would be driven by market liquidity ie. if a sufficient number of significant Trading Parties proceeded on a dual notification only basis then we would introduce it.</p>
<p><b>Q3.</b> With the currently available information, do you believe that P98 will increase the efficiency of the market by reducing the risks associated with trading?</p>	<p><b>NO</b></p> <p>With the implementation of CP755 (Enhanced Reporting) the risk only remains with out of office hours notifications. We do not believe this is a material risk and there could be alternative solutions to mitigate this concern ie. contractual solutions or a temporary suspension of overnight notifications to certain accounts.</p>
<p><b>Q4.</b> If you answered yes to Question 2, would you still deal with Parties preferring single notification?</p>	<p><b>YES / NO</b></p> <p>N/A</p>
<p><b>Q5.</b> Is the dual notification mechanism relevant to Metered Volume Reallocation Notifications (MVRNs)? If so, why? If not, why not?</p>	<p><b>YES</b></p> <p>The MVRN process is essentially the same with a less critical timescales. However, the same arguments also apply, please see answer to Q1.</p>
<p><b>Q6.</b> In your opinion, is there any potential risk in having two differing mechanisms for notifying contract volumes, i.e. both single and dual notification?</p>	<p><b>YES</b></p> <p>By having more than one process to achieve the same outcome it is more likely to cause confusion and potentially more errors than under the existing baseline.</p>

Question	Response
<b>Q7.</b> Dual notification is available commercially in the market. Do you use these services? If so, why? If not, why not?	<b>NO</b> As stated in answer to Q2 we are driven by market liquidity and there is a lack of interest in the mechanism. We believe that most trading parties have invested in systems to support the current notification process.
<b>Q8.</b> What is your perception of the risk levels associated with erroneous notification, and the potential for erroneous notifications to be made against you?	See separate section.
<b>Q9.</b> In the last six months, how many erroneous notifications have been made, where you have been a counterparty to the notification?	See separate section.
<b>Q10.</b> How much, approximately, has this cost?	See separate section.
<b>Q11.</b> Do you think that dual notification would mitigate, or assist in mitigating, the effects of BSC Party failure?	In the final run down to BSC Party failure there are two main risks: one of existing notifications being honoured and the other is future erroneous notifications. The former risk is the same either under a dual or a single notification process, whereas the latter, may be helped by dual notification. However, an alternative solution could be to cancel the relevant BSC Party's Notifier status.
<b>Q12.</b> Would the implementation of enhanced ECVAAs reporting (CP755 - the Acceptance Feedback Report) have changed your response to any of the above questions?	No, CP755 is in the current baseline and we note that it will be implemented on 8 October 2002. We have answered the consultation on this basis.

### 13.2 Response to Second Request for Analysis

The Transmission Company was provided with the same second assessment consultation document (Reference 9) as BSC Parties to the same timescales for response, as there are no Transmission Company specific issues for consideration. The response made by the Transmission Company in respect of the second assessment consultation is provided in full as follows:

Question	Response
<b>Q1.</b> What significance do you attach to the risk of unlimited (settlement) liability from erroneous or malicious notifications made against you?	<b>LITTLE SIGNIFICANCE</b>  <b>Rationale: The residual risk of not 'controlling access' to our accounts is low. Erroneous notification would need to be coincident with</b>

Question	Response
	<p>a party having financial difficulties (we would be unlikely to be trading with them) and malicious intent.</p>
<p><b>Q2.</b> In your opinion, will the implementation of dual notification make it easier under contracts to clarify, legally, responsibility for incorrect notifications?</p> <p>What effect do you think this will have on incentives for notifiers and on the robustness of Party notification systems?</p>	<p><b>NO</b></p> <p><b>Rationale: The process is clear at the moment. We do not see any advantages over single notification in this respect.</b></p> <p><b>Rationale: Reduction in incentive to check would mean the reconciliation and checking processes would not need to be as robust as reliance could be placed on central systems and counter party systems. However, all other aspects (comms etc) would need to be similarly robust.</b></p>
<p><b>Q3.</b> In your opinion, considering the issues set out in this consultation document, do you consider the implementation of dual notification to be cost beneficial?</p> <p>If so why? If not, why not?</p>	<p><b>NO</b></p> <p><b>Rationale: We perceive the residual risk of not controlling access to own account to be low. By the time this could be implemented, the processes around the current mechanism and CP755 will have been tightened further.</b></p>
<p><b>Q4 (a).</b> In your opinion, will the implementation of dual notification mean the adoption of different approach to trading, for example, trade by trade notifications, or a move away from Parties notifying contracts in a batch at the end of the working day? If so, how?</p> <p>Do you anticipate the changes you describe as being implemented by your own organisation and / or the market as a whole?</p>	<p><b>NO</b></p> <p><b>Rationale: We believe that there will be no change to the approach to trading as the 'liquidity makers' have indicated that they are unlikely to adopt the dual notification process.</b></p> <p><b>However, given a clean slate, there may be a tendency for parties to move to an additive (trade by trade) notification process, from the present overwrite method.</b></p>
<p><b>Q4 (b).</b> Will dual notification lead to changes in market liquidity? For example, will the potential reduction in notification risk lead to any change in the liquidity of short-term trading?</p> <p>Please provide rationale for your response.</p>	<p><b>NO</b></p> <p><b>Rationale: By introducing dual notification on top of the existing single notification process could have the detrimental effect of splitting the market liquidity.</b></p> <p><b>(The answers to Q4 (a) &amp; (b) above assume dual notification is voluntary and answers are based on our perception that the likely take up of Dual Notification will be low.)</b></p>

Question	Response
<p><b>Q5.</b> Do you think, in principle, that a new entrant would choose to use dual notification or single notification (i.e. disregarding the system incumbent Parties are using)?</p>	<p><b>DUAL</b></p> <p><b>Rationale:</b> In principle based on complete freedom (i.e. no consideration of liquidity) then a new entrant would choose dual notification. However, in practice any new entrant would wish to access the liquid markets and would therefore choose single notification.</p>
<p><b>Q6.</b> CP755 Enhanced ECVAAs Reporting (implementation of the Acceptance Feedback Report) has been operational since 8 October 2002. In light of operational experience, does the requirement for dual notification remain?</p>	<p><b>NO</b></p> <p><b>Rationale:</b> With one exception, all the benefits of the dual notification process are met with the improved reporting offered by CP755. We believe the residual risk of erroneous (high volume) or malicious notifications is low.</p>
<p><b>Q7.</b> Given the solution to dual notification set out in the attached requirements specification, do you support the implementation of a voluntary dual notification process?</p> <p>Would you use the dual notification process were it to be implemented (please indicate whether this would be either as an organisational initiative, or whether the move would be as a consequence of pressure from your counterparties)?</p> <p>Has your response changed since the initial consultation</p>	<p><b>NO</b></p> <p><b>Rationale:</b> If it were to be introduced it should be compulsory or not at all.</p> <p><b>NO, given a free choice</b></p> <p><b>Rationale:</b> Our systems are set up for single notification and we believe our risks are managed to an acceptable level. However, if 'liquidity' were to move to the dual notification process, we would be forced to adopt it.</p> <p><b>NO</b></p> <p><b>Rationale:</b> No new arguments or considerations raised.</p>
<p><b>Q8.</b> In your opinion, does dual notification better facilitate achievement of the Applicable BSC Objectives than the current baseline?</p>	<p><b>NO</b></p> <p><b>Rationale:</b> The residual concern of notification does not warrant further expenditure on systems, contractual changes and administration in setting up new counter party relationships.</p> <p>Therefore, it does not better facilitate BSC Objective (d) on effecting the BSC economically and efficiently as is reasonably practicable.</p>

## **ANNEX 1 – PROPOSED TEXT TO MODIFY THE BSC**

### **a Proposed Modification P98**

*It should be noted that this proposed text is in draft format for this Assessment Report, and is provided as an indication of the potential amendments required. This text will be finalised prior to being issued as a final draft in the Modification Report.*

*Pending receipt.*

## ANNEX 2 – BSC PARTY CONSULTATION RESPONSES

### a First Consultation Responses

See attached document 'MAR098\_Annex 2a' for the responses in full.

Representations were received from the following parties:

No	Company	File Number	No. Parties Represented
1.	Entergy-Koch Trading Ltd	P98_ASS_001	1
2.	RWE Trading Direct Limited	P98_ASS_002	1
3.	LE Group	P98_ASS_003	7
4.	SEEBOARD Energy	P98_ASS_004	1
5.	TXU Europe	P98_ASS_005	21
6.	NGC	P98_ASS_006	1
7.	British Gas Trading	P98_ASS_007	1
8.	Aquila Networks	P98_ASS_008	1
9.	Immingham CHP LLP	P98_ASS_009	1
10.	Scottish and Southern	P98_ASS_010	4
11.	Innogy	P98_ASS_011	7
12.	Edison Mission Energy	P98_ASS_012	2
13.	J. Aron & Company	P98_ASS_013	2
14.	British Energy	P98_ASS_014	3
15.	Scottish Power	P98_ASS_015	5
16.	Powergen	P98_ASS_016	3
17.	Barclays Capital	P98_ASS_017	1
18.	EdF Trading	P98_ASS_018	2
19.	Magnox Electric plc	P98_ASS_019	1
20.	BP Gas Marketing Limited	P98_ASS_020	1
21.	TotalFinaElf Gas and Power	P98_ASS_021	1
22.	Dynegy	P98_ASS_022	1

## b High Level Impact Assessment Responses

Organisation	Comments
<p><b>Edward Coleman</b> TXU</p>	<p>Please accept any response from Powergen as my return on this modification proposal.</p>
<p><b>Ian Dunn</b> London Electricity Group (London Electricity plc, Jade Power Generation Ltd, Sutton Bridge Power &amp; West Burton Ltd)</p>	<p><b>If you would use the proposed enhancements to the single notification process, what are the potential costs and timescales for making the amendments to (only) the current (single) notification process, as set out in the Requirements Specification ?</b></p> <p>- If we were to use the proposed enhancements to the single notification process, the potential costs and timescales for making the amendments to only our current single notification process, as set out in the Requirements Specification would be £20,000 with three months notice from a firm decision to implement required.</p> <p><b>What are the potential costs and timescales for making the amendments required to support the dual notification process, as set out in the Requirements Specification ?</b></p> <p>- The potential cost at LE for making the amendments required to support the dual notification process would be £50,000, six months notice from a firm decision to implement being required by LE. We would not make use of dual notification unless there was a pronounced take-up amongst our counter-parties.</p> <p><b>Any other Comments</b></p> <p>Our main comment on this proposed modification is that given the vital importance of the Contract Notification process to all BSC Parties, it is essential that it should be stable, with changes carefully assessed on the basis of experience and only made where there is clear business benefit from implementation. Given that the Contract Notification process has only just been enhanced with the provision of the Acceptance Feedback Report, we do not believe that it is sensible or prudent to consider introducing optional dual Contract Notification at present. We believe that the market needs at least six months experience in operating the current (with AFR) Contract Notification process before considering any changes of this significance.</p> <p>Our current view on having a Contract Notification process which permits both single and dual notifications is that it will add unnecessary complexity and risk to the systems supporting the process, increasing the potential for error both centrally and for participants. For this reason, we do not support Modification P98.</p> <p>We would not make use of dual notification unless there was a pronounced take-up amongst our counter-parties</p>
<p><b>Clare Talbot</b> NGC</p>	<p><b>If you would use the proposed enhancements to the single notification process, what are the potential costs and timescales for making the amendments to (only) the current (single) notification process, as set out in the Requirements Specification?</b></p> <p>We are able to implement the single notification enhancement via a manual process and we are currently implementing an automatic process as part of a forthcoming software release. On this basis the incremental costs of the single notification enhancement are low.</p> <p><b>What are the potential costs and timescales for making the amendments required to support the dual notification process, as set out in the</b></p>

	<p><b>Requirements Specification?</b></p> <p>If we were to introduce dual notification we could implement this manually however, this is not our preferred approach. Any development will have the commensurate overhead of software change and we estimate our costs would be in the region of £100k. Given our IS priorities, we would require 6 months notice from the date of approval by the Authority to implement these changes.</p>
<p><b>Rachael Gardener</b> Aquila Networks</p>	<p>Please find that Aquila Networks Plc response to MC00022: HLIA of P98 is 'No Comment'.</p>
<p><b>Sue Macklin</b> Scottish and Southern</p>	<p><b>If you would use the proposed enhancements to the single notification process, what are the potential costs and timescales for making the amendments to (only) the current (single) notification process, as set out in the Requirements Specification?</b> We would require 3 months for implementation</p> <p><b>What are the potential costs and timescales for making the amendments required to support the dual notification process, as set out in the Requirements Specification?</b> This would be a substantial change, costs would be in six figures. We would need 6 months for implementation.</p> <p><b>Comments:</b></p> <p>SSE would only use the enhancements to the single notification method if they were cost effective. It is extremely unlikely that SSE would use the proposed dual notification facilities as we believe they introduce additional risk and complexity to contract notification especially close to gate closure.</p>
<p><b>Dave Morton</b> SEEBOARD</p>	<p><b>If you would use the proposed enhancements to the single notification process, what are the potential costs and timescales for making the amendments to (only) the current (single) notification process, as set out in the Requirements Specification?</b></p> <p><b>What are the potential costs and timescales for making the amendments required to support the dual notification process, as set out in the Requirements Specification?</b> 9-12 months</p> <p><b>Comments:</b></p> <p>We do not feel that a change to current single notification is required as we feel this change will potentially increase risks due to its significant nature. Changes to be introduced in December for P4 should also improve this situation. Therefore, further changes should not be considered until impact of that change is understood and assessed by industry as a whole. Only after those changes for P4 have been understood can industry take a realistic view on what further changes might be required in this area. We have, therefore, only received a ballpark estimate for point 2 in terms of timescales required to implement.</p>
<p><b>Marie Branch</b> International Power</p>	<p><b>If you would use the proposed enhancements to the single notification process, what are the potential costs and timescales for making the amendments to (only) the current (single) notification process, as set out in the Requirements Specification?</b></p> <p>We are content with the current system. The web system is a "nice to have". Unfortunately we have been unable to obtain any estimates of additional costs from our system provider at the present time.</p>

	<p><b>What are the potential costs and timescales for making the amendments required to support the dual notification process, as set out in the Requirements Specification?</b></p> <p>We are not in favour of dual notification, therefore we did not investigate any additional costs of implementation on our current systems.</p> <p><b>Comments:</b></p> <p>Under dual notification if contracts do not match at gate closure, does zero go through into settlements? and hence both parties are then subject to imbalance charges for the period? Would both parties then have to argue amongst themselves how to compensate each other for the disagreement?</p>
<p><b>Man-Kwong Liu</b> Scottish Power</p>	<p><b>If you would use the proposed enhancements to the single notification process, what are the potential costs and timescales for making the amendments to (only) the current (single) notification process, as set out in the Requirements Specification?</b></p> <p>We support the concept of Elexon's investigation into dual notification and can see some advantages to enhanced single notification. For example, validation at the Settlement Period and Date level would allow notifications, which are currently rejected in their entirety to be partially accepted. However, there are some more marginal benefits, which would only make sense if we fully intended to move to a method of dual notification. The potential changes described for Single Notification appear to be there primarily to smooth the path to dual notification. In that sense, the decision of whether to use dual notification (assuming P98 is endorsed) is not really optional.</p> <p>Section 2.1.2 of the Requirements Specification outlines the potential amendments to the Single Notification Process. To implement these changes would involve changes to internal systems and processes for us, especially if the Web-based view and entry of contract positions is implemented. The Central Systems cost would have to be factored in as well, and this is currently under consideration by Logica. We estimate that the total cost would be approximately £80K-£150K and would take 6 to 9 months to implement following the analysis phase and acceptance of formal specifications for the work.</p> <p><b>What are the potential costs and timescales for making the amendments required supporting the dual notification process, as set out in the Requirements Specification?</b></p> <p>The dual notification process will involve more significant changes to our systems and processes, including changes to flow definitions and interpretation, changes to manual procedures and also the writing off of some of the development costs of existing in-house systems for contract notification checking. There are also some areas of concern about trading between counterparties where one party uses trade-by-trade (additive) or net (overwrite) notification: not all parties' systems will handle both methods of contract notification. We may incur significant systems cost in order to comply with the proposed specification for dual notification, but the scale of these can only be roughly estimated at present.</p> <p>On this basis, we estimate that the cost of moving to a dual notification system, including implementation of Web-based services for viewing and amending contract volumes, would be between £250K and £600K, and take 12-15 months to fully implement, from the point at which an Authority decision to proceed is made. If there are any major incompatibilities between the proposed new system and our</p>

existing trading systems, the cost could be significantly higher.

**Comments:**

We have raised the following comments on the Requirements Specification.

Cost Issues

- a) The use of a single ECVN Reference Code may cause a problem with parties that use Trade-by-Trade (Additive) or Net (Overwrite) notification. For example if the party that normally uses Net notification uses their ECVN Reference Code, which may be a trading date, then the counterparty will be expected to enter this reference code into their trading systems, which may not be able to cope with multiple notifications sharing the same reference code.
- b) The changes required to implement the matching at Central Systems have yet to be costed but are not expected to be cheap.
- c) The Requirements Specification puts forward a proposed new flow definition for the Acceptance Feedback Report (I028) and therefore, parties' existing systems would need to change in order to recognise and process the flow. Parties have recently invested in new systems to handle version 1 of the flow.
- d) The Web-based solution is a departure from expectations for this mod, which was based on P4. A web-based solution, which provides the functionality to override the automatic notification process by letting parties alter their notified contract position over the Internet, raises a number of security and procedural issues. For example, a bilateral agreement between counterparties would have to be in place before any adjustments were made. Also, web-based services are not considered 100% secure. The web-based system may also be too expensive to justify, even as a contingency solution.
- e) The number of reports received look likely to increase: a feedback report on receipt of the notification at ECVAA, a matched feedback report after the trades have been matched, and 'no match' AFRs after the first of two ECVNs is received, which may mean that parties are inundated with flows. The AFRs arriving under CP755 are already numerous, so any plan to further increase the number of reports would need to be looked at in terms of the effort to process them, and any consequential systems impact.
- f) Single Notification enhancements: The web-based view of contract positions hasn't been costed, would provide information that is currently available, and raises security and procedural issues for the Party.
- g) Since dual notification would be optional under P98, the existing Central Systems functionality would have to be maintained in addition to the new functionality for the benefit of those parties content to continue with Single Notification. This may increase costs to the parties for supporting Central Systems. Similarly, a party who does not want to adopt dual notification may incur a percentage of the cost of upgrading Central Systems to cope with it.

Other Issues

- h) In order to work, dual notification requires parties to use the same ECVN Reference Code in their notifications so that the ECVAA system can match the trades together. This is an additional process and it is not clear which party's reference code takes precedence; for example, does the "single" notification ECVNA's Reference Code get used for both?
- i) The matching functionality that is planned to be built into the ECVAA system duplicates processes already put in place by parties' own systems.
- j) The 72 period window associated with AFRs has not been discussed and therefore it is unknown what reporting period is planned to be covered by this flow.
- k) The Forward Contract Report would only contain matched items and therefore parties' existing systems would need to be remodelled in order to

	<p>process the flow, even if the format of it remains unchanged.</p> <ul style="list-style-type: none"> <li>l) Under the dual notification system, the Party will need to provide constant attention to its systems or implement a system of alerts to show which contract volumes remain unmatched. There are no reports issued at a specified period before Gate Closure to indicate this. The original Modification Proposal states that the current system discriminates against those parties that don't operate a 24x7 desk, although the proposed new system does not address this either.</li> <li>m) Logica have commented on potential performance problems with ECVAA by introducing the matching process, which may compromise the 15 minute delivery time for AFRs.</li> <li>n) Existing problems with file sequencing, alluded to in the Requirements Specification, would not be tackled by the proposed changes under P98, but may worsen if there are an increased number of reports being sent back.</li> <li>o) Methods of notifying trades may differ between parties, depending on the way their systems work. For example, Party A may notify a trade in five one-day notifications, whilst Party B may notify the entire trade in one notification. When considering Trade-by-Trade (TBT) or Net notification, the notification schedule typically differs so that a Net notifier would notify at 30, 7, 2 and 1 days before the deals were live, whereas the TBT notifier would notify the whole trade in one go, which may consist of hundreds of separate notifications. This seems to force both parties entering into a dual notification agreement to use one or the other system, which may not be supported by a given party's systems. The changes at Central Systems would also have to take this into account.</li> <li>p) For Single Notification enhancements - currently, AFRs do not come through for the ECVNA and the BSC Party if the party acts as the ECVNA. Therefore the first advantage does not appear to apply.</li> <li>q) For Single Notification enhancements: By performing validation at the Settlement Period level rather than the notification level, the current methods of handling FCRs and AFRs would have to change. This would bring no real benefit, as it is still Single Notification. This point refers to the arrival of the I009 Rejection Feedback Report (RFR), which are produced in response to very few notifications. One potential benefit of this system would be to allow a notification spanning more than one day to be accepted in part (e.g. all but the first five gate closed periods), whereas now the entire notification would be rejected.</li> <li>r) Extra sets of contract appointments would need to be set up for dual notifications so that ECVAA was able to identify notifications as being part of a dual notification process.</li> </ul>
<p><b>Rachel Ace</b> British Energy</p>	<p>If you would use the proposed enhancements to the single notification process, what are the potential costs and timescales for making the amendments to (only) the current (single) notification process, as set out in the Requirements Specification? <b>6 months</b></p> <p>What are the potential costs and timescales for making the amendments required to support the dual notification process, as set out in the Requirements Specification? <b>6 months</b></p> <p>Comments:</p>
<p><b>Jonathan Burgess</b> Duke Energy Intl Trading &amp; Marketing (UK) Ltd</p>	<p><b>If you would use the proposed enhancements to the single notification process, what are the potential costs and timescales for making the amendments to (only) the current (single) notification process, as set out in the Requirements Specification?</b></p> <p>No change to current systems.</p> <p><b>What are the potential costs and timescales for making the amendments</b></p>

	<p><b>required to support the dual notification process, as set out in the Requirements Specification?</b></p> <p>2 Months, £5,000</p> <p><b>Comments:</b> The requirements state that no change would be required for the 7-Day reporting under dual notification. In the current 7-Day report there is a field called ECVNA Id. Under the dual system there are two ECVNA's, therefore which ECVNA ID would be referenced here? If it was always your own Agent ID then this can cause system and operational issues for counterparties that systems use the ECVNA ID as a means of filtering and highlighting notification mismatches.</p> <p>Dual notification requires the Reference code in the flow I-004 to be identical for both submitting parties. From our experience the reference code used under single notification is dependent upon the type of system used by each counter party. Standardisation of the reference code may lead to some benefits but, if for example, the reference code was simply a date format then it may remove the ability for some counter parties to easily view which notification related to which counter party.</p>
<p><b>Mark Thomas</b> Innogy</p>	<p><b>If you would use the proposed enhancements to the single notification process, what are the potential costs and timescales for making the amendments to (only) the current (single) notification process, as set out in the Requirements Specification ?</b></p> <p>If we were to implement the proposed enhancements to the single notification process as set out in the Requirements Specification the potential costs and timescales would be in the region of £25,000 and 40 mandays assuming no complications are encountered.</p> <p><b>What are the potential costs and timescales for making the amendments required to support the dual notification process, as set out in the Requirements Specification ?</b></p> <p>Potential cost for making amendments to support dual notification process would be in the region of £25,000 with an anticipated period of three months to implement.</p> <p><b>Any other Comments</b></p> <p>Whilst we do see there are advantages to Dual Notification it is unlikely that we would utilise it unless there was a major takeup by the industry</p> <p>Acceptance Feedback Reports have recently been introduced and we feel that the market should wait an agreed period of time to assess the impact of these before making any large scale changes.</p>

### c Second Consultation Responses

See attached document 'MAR098 Annex 2c' for the responses in full.

Representations were received from the following parties:

No	Company	File Number	No. Parties Represented
1.	EECL	P98_ASS2_001	
2.	Duke Energy	P98_ASS2_002	
3.	International Power	P98_ASS2_003	2
4.	NGC	P98_ASS2_004	1
5.	J.Aron & Company and the European Power Source Company (U.K.) Ltd	P98_ASS2_005	2
6.	Entergy-Koch	P98_ASS2_006	2
7.	CECL, IETS, RPCL and SPAL	P98_ASS2_007	4
8.	Dynegy	P98_ASS2_008	1
9.	British Gas Trading	P98_ASS2_009	1
10.	Edison Mission Energy	P98_ASS2_010	3
11.	British Energy	P98_ASS2_011	3
12.	Automated Power Exchange (UK) Ltd	P98_ASS2_012	1
13.	Scottish and Southern	P98_ASS2_013	4
14.	EdF Trading & Electricite de France	P98_ASS2_014	2
15.	Barclays Capital	P98_ASS2_015	1
16.	Magnox Electric	P98_ASS2_016	1
17.	Powergen	P98_ASS2_017	15
18.	Scottish Power	P98_ASS2_018	6
19.	Teeside Power	P98_ASS2_019	1
20.	ConocoPhillips	P98_ASS2_020	1
21.	Innogy	P98_ASS2_021	9

### ANNEX 3 – BSC AGENT IMPACT ASSESSMENTS

See attached document:

MAR098 Annex 3

## ANNEX 4 – BSCCO IMPACT ASSESSMENTS

<b>Mod No.</b>	P98	<b>Title:</b>	Dual Notification of Contract Positions		
<b>Assessor Name</b>	Phil Clinch	<b>Assessor Team</b>	CVA Programme	<b>Date</b>	27 <sup>th</sup> November 2002
<b>Modification Summary:</b> see modification and P4 documentation and the document 'Modification P98 Dual Notification of Contract Positions' Requirements Specification P098AS Version 1.0, 1 <sup>st</sup> November 2002.					
<p><b>Summary of solution(s):</b>  <b>INTERNAL ASSESSMENT:</b> This assessment is based upon the P98 Modification Proposal and the Requirements Specification document referred to above (P098AS). P98 is a resubmission of the original P4 Modification entitled 'Dual Energy Contract Notification'. The reporting component of P4 was delivered in Release 2 as Change Proposal CP755 (enhanced reporting)</p> <p>Modification P98 raises again the dual notification of contracts. Unlike P4, the dual notification is described as voluntary. A number of options for P98 are proposed that deliver various levels of functionality. The most complex of these involves a Web based reporting facility. This would be from a secure area only accessible to the Authorised Parties. The facility would allow queries to be run and the results of such queries down loaded.</p> <p>P98 would have a major impact on the CVA Programme as it requires software changes to the Central Services Systems of CRA and ECVA and the introduction of a new software system to carry out contract matching as a Contract Matching Process (CPM). Changes to the IDD and reporting systems would be required (although CP755 has delivered the main reports detailing a Party's contractual position). Documentation changes relating to the software changes would be required. Service Descriptions would be impacted. The BSC and subsidiary documentation would be affected.</p> <p>In the option to deliver a Web based reporting facility, a new Central Services system would be required. This would be provided with a security checking facility to maintain the privacy of the data to the authorised Parties. Such a new system would represent a significant addition to the current Central Services systems and would require appropriate documentation, software and testing to be developed from scratch.</p> <p>The work would be High Risk, High Impact, High Cost and Medium Complexity. Participant and ECVNA and MVRNA systems would be impacted. Since the Modification proposes that Dual Notification should be voluntary, the Central Services systems would also have to support the existing single notification service. Extensive testing would be required and several participants would be required to be involved to ensure full coverage of the dual and single notification systems. Development of the Web based reporting option would in itself be a major piece of work.</p>					
<b>Product Affected Reference</b>				<b>Target Issue</b>	
<p>This should include:</p> <ul style="list-style-type: none"> <li>• Impact on NETA Services Software; (testing) <ul style="list-style-type: none"> <li>• CRA</li> <li>• ECVA</li> <li>• new system, Contract Matching Process (CMP)</li> </ul> </li> </ul>				<p><b>Decision + 4 weeks + Logica dev timescale + 14 weeks min</b></p>	

<ul style="list-style-type: none"> <li>• IDD</li> <li>• Reporting</li> <li>• Impact on NETA Central Services Documentation (review)</li> <li>• Code and Code Subsidiary Documents <ul style="list-style-type: none"> <li>• BSC Section P</li> <li>• BSC Section V</li> <li>• CRA and ECVAA Service Descriptions</li> <li>• New CMP Service Description</li> <li>• REP Cat</li> <li>• BSCP71</li> </ul> </li> <li>• Business definition documents (review) <ul style="list-style-type: none"> <li>• BPM</li> </ul> </li> <li>• Impact on flows <ul style="list-style-type: none"> <li>• new flow to detail notification errors</li> </ul> </li> <li>• Other <ul style="list-style-type: none"> <li>• Regression testing</li> <li>• Participant testing</li> </ul> </li> </ul>		
<p>Additional Project documentation</p> <ul style="list-style-type: none"> <li>• Release plan (assume part of planned release)</li> <li>• Test Strategy (assume part of planned release)</li> <li>• Business Requirements Solution</li> <li>• Participant Test Specification</li> <li>• Participant Test report</li> <li>• Deployment Plans (part of planned release)</li> </ul>		
<p>Web based Reporting option</p> <ul style="list-style-type: none"> <li>• Central Services systems <ul style="list-style-type: none"> <li>• a new User Requirements Specification</li> <li>• security arrangements</li> <li>• new software</li> <li>• system documentation</li> <li>• new OSM</li> <li>• new Service Description</li> </ul> </li> <li>• Other impacts <ul style="list-style-type: none"> <li>• Reporting Catalogue</li> <li>• Business Requirements Specification</li> <li>• Business Process Model</li> </ul> </li> </ul>		

Additional Audit activities (PwC)?		
<b>Impact on other Systems –</b> ECVNA and MVRNA agent systems New systems for Participants for interfacing with the Web based option		
<b>Assumptions –</b>  1. Assumed part of a planned release but does require a separate BRS, Test Strategy, Plan and deployment plan; 2. Some additional analysis required once Mod approved for a period of one month prior to start of Logica development.		
<b>Issues and Risks –</b> 1. High Business Risk – this mod falls within the scope of the operational audit and within the materiality criteria. It is therefore high business risk. It is of medium complexity and high scope and impact		
<b>Related CPs<sup>1</sup></b>		
<b>Comments<sup>1</sup></b>  Assume that the Dual Notification Requirements are as defined in the Requirements Specification  <b>TIMESCALE –</b> <b>Decision plus 4 weeks plus the Logica development timescale plus 14 weeks Min</b>		

<b>Product type</b>	<b>Impacted</b>	
		<b>P98</b>
BSC	Section P	X
BSC	Section V	X
BSC Procedure	BSCP71	
Service Descriptions	ECVAA	X
Service Descriptions	CRA	X
Service Descriptions	CMP new system	X
Service Descriptions	Web based reporting system	X
Business Definition Documents	NETA Data File Catalogue	X
Business Definition Documents	Interface Design Document - Logica - Part 1	X
Business Definition Documents	Interface Design Document - Logica - Part 2	X
Business Definition Documents	Reporting Catalogue	X
URs	ECVAA	X
URs	CRA	X
URs	CMP new system	X
URs	Web based reporting system	X
Software	ECVAA	X
Software	CRA	X
Software	CMP new system	X
Software	Web based reporting system	X
Other Docs	ECVAA Operating Procedures	X
Other Docs	CRA Operating Procedures	X

Other Docs	CMP new system	X
Communication Req Document	Communication Req Document	X
Business Process Model	Business Process Model	X
System Specification	ECVAA	X
System Specification	CRA	X
System Specification	CMP new system	X
System Specification	Web based reporting system	X
Design Specification	ECVAA	X
Design Specification	CRA	X
Design Specification	CMP new system	X
Design Specification	Web based reporting system	X
Requirements Catalogue	TOMAS	
Design Documents	TOMAS	
Software	TOMAS	
LWI	TOMAS	
Process/Pages	ELEXON Website	?
URS	ELEXON Website	?
Data/Content	ELEXON Website	?
Configuration	Gatekeeper	
IT Operations Guide	IT Operations Guide	
Software	MDM	
Logica Testing Contract	Logica Testing Contract	
Logica Test Scripts	Logica Test Scripts	
BSCCo manual procedures	LWIs	
External Dependency	NGC	
Business Definition Documents	BMRA SAA Interface Specifications	
Business Definition Documents	NGC ELEXON Interface Specification	
	Count of Possible impact	
	Count of X	31

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**Internal impact assessment for P98 in relation to the Disputes team and processes.**

The earlier initial Impact Assessment from the Assurance Department. noted potential impacts on Accreditation and Technical Assurance for Notification Agents. However, this Requirements Specification makes this much less likely as it retains the additional functionality in Central Services. The impact on the Disputes section is likely to be modest (lead time of at most 1 month) as the Code and BSCP 11 deal with Settlement Error, rather than specific cases, and it is assumed that erroneous matching etc will fall into the normal Pre-final or Post Final Query category. Need to take care that this does not lead to an unexpected rise in Trading Queries which would be an additional operational cost.

There is a possibility, which has been noted in the requirements specification, section 2.4, that the dual notification process could give rise to Trading Queries of the types listed therein. There may, conversely, be the benefit of a reduction in other types of Trading Query due to the dual notification process adding an extra check into the ECVAA system.

Section 2.5 of the requirements specification also addresses an area where there may be Queries/Disputes raised by Parties, and even discounting the likelihood of them being upheld, there will still be some analyst time needed in their processing. However, overall it is unlikely that there will

be any significant increase in workload for the Disputes team as a result of this Modification, assuming that the new systems and processes designed to cope with dual notifications are sufficiently robust and we do not have a deluge of problems. Current procedures and processes are likely to be easily adaptable to the new types of Trading Query, should they arise. There may be a need to present an Information Paper to the Trading Disputes Committee in order to inform them of potential problems, and possibly a training or internal briefing session for analysts, but these should not have any significant timescale or cost implications.

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#### **Service Delivery Impact from Implementation of Modification Proposal P98:**

Service Delivery is not directly involved in any of the ECVAA interfaces. As such the impact of P98, 'Dual Notification of Contract Positions', should not impact directly on Service Delivery. The possible exception to this is that the ECVAA-I014 and ECVAA-I022 reports are used by Market Monitoring. However, providing the formats of these reports are not changed - and the Requirements Specification suggests that this is the case - then there should still be no impact.

In respect of Section P of the BSC, Service Delivery is involved in the determination of ECVAA system failure times and resubmission deadlines, and in notifying ECVAA System Failures to Contract Trading Parties and Volume Notification Agents. Ex-post submission of Volume Notifications is done straight to the ECVAA, again not involving Service Delivery.

There is likely to be an impact on Service Delivery to the extent merely that this is a significant change in a critical area, and is likely to give rise to a large number of queries.

#### **Other Issues:**

The provisions of P5.2.3 will have to be considered, where an ECVAA System Failure affects the ability only of some ECVNAs to submit Volume Notifications. It could be that, under P98, only one of the two ECVNAs required to match Energy Contract Volumes (or Metered Volume Fixed or Percentage Reallocations) is affected, and it will have to be clear whether or not only the one, or both, ECVNAs will be able to resubmit up to the resubmission deadline.

The provisions for "successor" authorisation may need to be considered.

## **ANNEX 5 – DESCRIPTION OF THE MODIFICATION PROPOSAL**

See attached document 'MAR098 Annex 5'