

Attachment 5b - P227 Second Assessment Consultation Responses

Consultation Issued on 4 February 2009

Representations were received from the following parties

No	Company	File number	No BSC Parties Represented	No Non-Parties Represented
1.	International Power	P227_AR_01	5	0
2.	Centrica	P227_AR_02	10	0
3.	APX Commodities	P227_AR_03	1	1
4.	SAIC Ltd. (for and on behalf of ScottishPower)	P227_AR_04	7	0
5.	RWE Trading	P227_AR_05	10	0
6.	British Energy	P227_AR_06	4	0
7.	E.ON UK	P227_AR_07	7	0

Question 1: The Group concluded that there would always be a central element of communication services, hence P227 is required.

Summary

Yes	No	Neutral/Other
7	-	-

Responses

Respondent	Response	Rationale
International Power	Yes	International Power agrees that there would always be a 'central element' to the communications model so P227 would be an improvement to the current arrangements. Should the communications model change P227 would remain applicable.
Centrica	Yes	<p>The analysis of the various communications models highlights that regardless of which model is in place, there is still some element of the communications network (outside of the current ECVAAs systems failure definition) that would need to be centrally provided.</p> <p>As Ofgem noted in their P1 decision letter, the risks of communication failure between a party and central systems should be efficiently allocated. A party is currently unable to resubmit contract notifications in the event of a failure of the centrally provided communications service.</p>

Respondent	Response	Rationale
		For it to be efficient for parties to bear the risk of central communications service failure they must be able to mitigate against it. But as the analysis shows, some form of central service provision will always be required with no means for Parties to procure alternative services for those elements. Therefore, it is not efficient for a party to bear this risk as they have no means for mitigating against it. Hence Centrica strongly agrees that P227 would be required regardless of the communications model in place.
APX Commodities	Yes	The Independent report by Analysis Mason confirms this position.
SAIC Ltd. (for and on behalf of ScottishPower)	Yes	ScottishPower agree with the group that, with current technology there will always be a centrally provided element of the communications network that is not covered by the current definition of the ECVA system boundary. This is a necessary feature of current telecommunications – even in a multi-vendor environment there needs to be somewhere for those vendors to hook into, and it is clearly the responsibility of the BSC (via ELEXON and their service providers) to provide that telecoms “socket”. The only way to avoid this would be to cover the central comms elements under the ECVA system definition (which would have the same effect as this Modification). We therefore conclude that the defect identified in Modification P227 would still stand, irrespective of the delivery model adopted.
RWE Trading	Yes	For the reasons set out in the consultation document.
British Energy	Yes	The communications components at the central agent location are necessarily part of the overall communication infrastructure.
E.ON UK	Yes	-

Question 2: The Group believed that the ability to revise the definition of the boundary for the centrally provided communication services negates any perceived need for a Sunset Clause.

Do you agree?

Summary

Yes	No	Neutral/Other
6		1

Responses

Respondent	Response	Rationale
International Power	Yes	-
Centrica	Yes	<p>Including a sunset clause would result in an inferior solution. There is currently no other communication model that can be envisaged where it would be appropriate to remove the P227 provisions. A sunset clause would require industry resource to review this at sunset, and provides no additional benefit.</p> <p>The P227 solution is robust given that any communications model that results in an alternatively defined boundary would not require a modification to the BSC to accommodate this.</p>
APX Commodities	Yes	<p>Should a differing communications solution ever be implemented, (e.g. along the lines of the 'stock exchange' model in the Analysys Mason report), then the flexibility to re-draw the boundary of responsibility to still only contain the centrally provided systems, would ensure that the risks associated with a communications failure would be allocated appropriately.</p>
SAIC Ltd. (for and on behalf of ScottishPower)	Yes	<p>ScottishPower agree that the revised central system boundary definition negates the perceived need for a sunset clause. As stated in 1, the defect identified in the Mod would still exist regardless of the delivery model and would still require a P227 solution. By placing the definition of the central boundary in the CRD, changes can be made without recourse to a Modification. The solution as delivered is therefore robust to any future change in the delivery model of the communications network. The Modification does not centre (or touch upon) that delivery model and introducing change into that model (by effectively end-dating it) should not be part of the solution.</p> <p>If there was in the future, a compelling case for introducing a different model then that could be achieved (with this solution in place) by contractual changes between ELEXON and its service partners and a change proposal to change the boundary definition.</p> <p>This seems a more efficient solution than introducing uncertainty by placing a fixed end date to the current arrangements when there is no compelling economic argument for doing so.</p>
RWE Trading	Yes	For the reasons set out in the consultation document.
British Energy	-	<p>We see no justification either for a sunset clause or for moving the boundary definition out of the BSC into the Communications Requirements Document. Any party can raise a modification to make changes to the BSC with reasonable expectation of changes being accepted if BSC objectives are clearly better met. Any party concerned about lack of competition in communications services can raise a relevant modification proposal. We consider the boundary definition to be a significant and fundamental definition and would prefer it to sit in the BSC</p>

Respondent	Response	Rationale
		itself, as in the original proposal, rather than buried in a subsidiary document.
E.ON UK	Yes	And as the group stated and the independent investigation supported, inclusion of a sunset clause would not negate the need for P227 as it addresses a separate issue. It is hard to envisage what change in circumstance between now and the end of the current Logica contract would make an end date sensible – or what provisions should be put in after. Furthermore E.ON UK agrees with the Group’s conclusions from examining possible alternatives that the expansion of competition seems unlikely to be beneficial for Parties, rather introducing more risks. Should any Party disagree with this they could raise the issue separately, it should not delay implementation of this modification.

Question 3: Do you agree with the Group’s original views that P227 better meets the Applicable BSC Objectives?

Summary

Yes	No	Neutral/Other
7	-	-

Responses

Respondent	Response	Rationale
International Power	Yes	<p>Better meets applicable BSC objectives b & c.</p> <p>Currently, where there is a failure of the centrally provided communications network, Parties would be unable to submit contract notifications and would have no recourse to resubmit contracts as they could in the event of an ECVA System failure, nor can Parties influence the duration of the communications failure (other than reporting the problem). So, the communications failure can therefore prevent a Party from balancing its position through trading, effectively passing the balancing responsibility onto the System Operator. This could be a substantial imbalance where for example plant loss coincided with the communications failure. International Power concurs with the Group that in enabling Parties to resubmit contracts in the event of Notification System Incident (NSI) P227 would lead to more efficient operation of the transmission system (b).</p> <p>Imbalance is perceived as one of the most significant risks for Parties, <i>particularly smaller participants</i>, and as P227 would help to lessen imbalance risk (in allowing Parties to effectively trade out of imbalances during NSIs) International Power also agrees with the Group that P227</p>

Respondent	Response	Rationale
		would better facilitate new entry and competition (c)
Centrica	Yes	<p>Centrica supports the views of the Group</p> <p>The analysis undertaken by the Group highlights the potential cost implications for parties of not being able to submit contract notifications. P227 addresses situations which could occur where parties cannot submit contract notifications through no fault of their own. P227 better aligns party risk with the elements they control resulting in arrangements that are fairer and as such, would provide increased market confidence. This promotes competition amongst existing parties and is more likely to facilitate entry than the existing baseline (Objective (c)).</p> <p>Centrica also believes that the analysis provided by National Grid supports the Group's conclusion that P227 would facilitate the efficient operation of the Transmission System (Objective (b)).</p> <p>Centrica continues to believe that there would be likely to be a small detrimental impact on the administration of the arrangements for Elexon (and its agents) in order to identify, investigate and process communication failures. However this small detrimental impact on Objective (d) would be far outweighed by the improvements to competition and the efficient operation of the Transmission System noted above.</p> <p>In addition, Centrica notes that there is no cost socialisation or detrimental impact to any other Party (BSC Party or other) from P227 being implemented. P227 would enable a party to resubmit the contract notifications it could not submit due to a failure of the centrally provided communication services. This fairly prevents the party from facing imbalance costs (in such situations) but does not impose any costs on the rest of the Market</p>
APX Commodities	Yes	The original reasons remain valid, and the future-proofing of the solution only add to its merit.
SAIC Ltd. (for and on behalf of ScottishPower)	Yes	<p>As expressed in the original Assessment Consultation response, ScottishPower agree with the Modification Groups views of the Proposed against the following Applicable Objectives:</p> <p>Objective a) Neutral</p> <p>Objective b) There would appear to be an overall benefit. We agree that this Modification will lead to Parties being able to manage their imbalance better in the wake of a Notification System Incident, in turn leading to a marginal reduction in central balancing costs. In addition, the analysis carried out by National Grid indicate cost savings associated with this change.</p> <p>Objective c) This is where we feel the majority of the benefits will be felt. We agree with the supposition that allowing Parties to cover any imbalance occurring during a Notification System Incident (e.g. plant trip) will reduce individual balancing costs and lead to a reduction in customer bills over the long term. The operational costs of extending the current process to cover these occurrences also appears to be minimal, further reinforcing the cost benefit. Overall, we feel there is a good benefit under this Objective.</p>

Respondent	Response	Rationale
		<p>Objective d) There would appear to be a relatively small overall increase in the central costs to provide the low grade monitoring and the manual costs of arbitrating the requests and manually entering the resubmissions. There would therefore be a minor dis-benefit under this Objective.</p> <p>On balance, we feel that the benefits outweigh the costs and that the Modification better facilitates the BSC Objectives.</p>
RWE Trading	Yes	For the reasons set out in the consultation document.
British Energy	Yes	We consider that removing the boundary definition from the Code reduces clarity and transparency and better meets BSC objectives less well than the original proposal.
E.ON UK	Yes	Enabling resubmission of notifications should reduce potential exposure to imbalance charges, removing a disincentive to contract forward and consequent likelihood of more balancing actions required by the SO. Thus supporting BSC objective b) and c).

Question 4: Do you believe that the Legal Text delivers the solution?

Summary

Yes	No	Neutral/Other
5	1	1

Responses

Respondent	Response	Rationale
International Power	Yes	-
Centrica	Yes	
APX Commodities	Yes	
SAIC Ltd. (for and on behalf of ScottishPower)	No	<p>Section 5.1.1 h) has been miss-drafted. It currently reads:</p> <p>"...for the avoidance of doubt, a failure or breakdown of any Party System not forming part of the Notification System shall be counted as a Notification System Incident"</p> <p>where it should read:</p> <p>"...for the avoidance of doubt, no failure or breakdown of any Party System not forming part of the Notification System shall be counted as a Notification System Incident"</p>

Respondent	Response	Rationale
RWE Trading	Yes	-
British Energy	-	Not checked in detail. Suggest 'ECVAA Notification System' rather than just 'Notification System' to avoid any possible confusion with National Grid systems for Physical Notification.
E.ON UK	Yes	It appears appropriate.

Question 5: Are there any further comments on P227 that you wish to make?

Responses

Respondent	Response	Rationale
International Power	No	
Centrica	Yes	<p>Centrica appreciates the additional work undertaken by the Group to fulfil its modified terms of reference. This is of general interest and complimentary to the Group's assessment prior to the extension given by the Panel (following Ofgem's letter suggesting additional work). Centrica understands the benefits of thorough assessment of BSC modifications. However, this additional work would appear excessive for the simplistic nature of the proposal.</p> <p>The external analysis commissioned by the Group highlighted that the model of communications services currently in place compares favourably with other markets. However, this analysis cannot be directly applied to evaluating P227. Any perceived defect in relation to the model adopted by the market should be considered separately to P227, noting that P227 would actually compliment any potential move to any other model. It is not currently Centrica's view that there is a defect with the model in use.</p> <p>Centrica believes that approval of P227 would be consistent with Ofgem's decision for P1. In its decision letter Ofgem stated that "Ofgem and the DTI believed that it is appropriate that the risks associated with notification agent failure should be borne by the Contract Notification Agents themselves rather than being catered for within the BSC."</p> <p>P227 would maintain the risk of notification agent failure being borne by the Contract Notification agents, but would remove the risk of the failure of centrally provided services being borne by the Contract Notification Agents (and therefore the Party).</p> <p>It would need to be a considerable leap of faith to expect that parties bearing the risk of central communication failures would provide the tipping point to shift to an alternative, more competitive, communications model (and thus provide an argument for rejecting P227). This is especially the case as the current communications model</p>

Respondent	Response	Rationale
		has not changed since NETA go live with this risk incentive (that cannot be mitigated) on parties in place. Additionally, the test for rejecting P227 would have to be that maintaining this incentive would be to first, tip the market to a new communications model, and second, the new model would need to engender competition in excess of the current competitive tender exercise that occurred as part of the recent BSC agent procurement (Project Isis).
SAIC Ltd. (for and on behalf of ScottishPower)	No	-
RWE Trading	No	-
British Energy	Yes	<p>Our concerns in the early days of NETA about lack of competition in communications have lessened. Then, we considered parties should take individual responsibility for the resilience of communications to central systems. Although in principle this is still the case, now that communications costs have reduced, the administered network has proved reliable, and participants have a choice of different levels of resilience at different prices, we are much less concerned about the lack of communications competition than we were. With current prices and reliability levels we see no benefit in introducing competition, as the administrative costs would be high, and better reliability than the more robust options from the existing service provider may be hard to find.</p> <p>Most of the reasons for allowing parties to submit contracts after gate closure apply also to planned ECVAA outages, where changes in circumstances during an outage result in market and system operation inefficiencies. We think the benefits of maintaining market continuity outweigh the administrative cost and possible risk of participants submitting notifications for trades made post gate closure, a risk which exists for unplanned outages currently and potentially for communications outages if P227 is approved. It is disappointing that the modification group could not consider this within their scope.</p> <p>A technical solution to notification issues is possible in the form of a centrally provided 'black box recorder', possibly as a pair with uninterruptible power supply. This could buffer notifications at all times and send them after a communications or central systems failure or outage. Such an arrangement would require a BSC modification but would remove outage concerns.</p> <p>See detailed comments below on the consultation document.</p>
E.ON UK	No	-

Further Comments on the Consultation document from British Energy

A "Notification System Incident" could affect one, several or all participants, and it should be made clear that notifications can only be made retrospectively if a party is directly affected by an incident.

2nd Consultation document says "The solution of P227 **has not been changed** since the [first industry consultation](#)." This is not true, because the definition of the boundary has been moved to a Code Subsidiary Document. References to draft legal text as v0.1 and v0.10 (original and revised, which are different) could create confusion.

Appendix 6 (System Operator considerations) refers to SO materiality £51k PER SETTLEMENT PERIOD for a specific event. Generator failures co-incident with ECVAAs systems outage on 5 January resulted in SO costs and party imbalances of order several £millions, which might have been avoided if normal trading could have taken place.

Proposal (deliberately) does not address planned outages. Analogies with stock and some other non-24/7 trading systems do not consider the fact that those systems can undertake maintenance and upgrade outside hours of active usage.

Page 27 of the 2nd consultation document referring to incentives on participants says:

"a) Current arrangements (no ability to resubmit notifications)

The Party is unable to notify and thus incurs imbalance charges, system balancing costs will be unaffected and all Parties will receive a windfall gain through Residual Cashflow Reallocation Cashflow (RCRC). There is therefore an incentive for the Party to deviate from their FPN, to avoid imbalance. As a result the Party's credit position with central systems will not reflect their actual traded position."

We consider this statement to be incorrect, though this does not alter our view on the merits of the modification.

1. If a party is prevented from contracting bilaterally to balance, then the SO will have to procure the necessary action, which may be a different action over different timescales at a different price. BSUoS will be different, cashflow reallocation will be different, and imbalance/bilateral balancing/bid-offer payment costs will be different from normal market operation. For example, if a generator trips and the generator cannot contract long term low cost replacement energy to fulfil sales commitments, and the SO takes expensive short term energy offers instead, then the tripped generator will be exposed to the expensive accepted offers (and all will receive corresponding cashflow reallocation), the SO will pay higher than necessary balancing costs (recovered in BSUoS), and the provider of expensive short term energy will benefit instead of the potential provider of cheaper long term energy. Only if it is assumed the SO can predict a party's balancing requirements as well (or better than) it can would the balancing costs be the same.

2. In general, deviating from FPN to avoid imbalance is likely to exacerbate SO balancing costs and imbalance prices, as the SO may take actions which turn out not to be necessary and require 'undoing'. But ECVAAs communications failure does not affect submission of Physical Notifications and does not prevent a party altering its FPN, and therefore it is not obvious why there should be additional incentive to deviate from FPN, or why a Party's credit position with central systems would not reflect their actual traded position. A portfolio participant can shift generation from one location to another to maintain balance against a 'frozen' contract position or participants may make 'unnotified' trades, but this does not involve deviation from FPN or notified contract position. Inability to trade to suit individual and market conditions is the main issue.