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MODIFICATION REPORT
MODIFICATION PROPOSAL P110 -
Nullification of Volume Notifications
where no Authorisations are in place

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

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b Distribution

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Each BSC Panel Member	Various
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c References

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1	Modification Proposal		04/11/02	1.0
2	P110 Initial Written Assessment (P110IR)	ELEXON	08/11/02	1.0
3	Requirements Specification	ELEXON	15/01/03	2.0
4	Consultation Document	ELEXON	13/01/03	1.0
5	ELEXON Circular EL00299 'Provision of Extended Forward Contract Reports (ECVAA-1022)'	ELEXON	30/11/01	1.0
6	CP888 'ECVNA Authorisation Terminations Effective on Receipt'	ELEXON	15/11/02	1.0
7	P110 Assessment Report	ELEXON	07/02/03	1.0

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1 SUMMARY AND RECOMMENDATIONS

1.1 Recommendation

On the basis of the analysis, consultation and assessment undertaken in respect of this Modification Proposal during the Modification Procedure, and the resultant findings of this report, the Balancing and Settlement Code Panel recommends that:

Proposed Modification P110 should be made;

The Implementation Date should be:

- **5 November 2003 if a decision is received from the Authority prior to 24 April 2003; or**
- **25 February 2004 if a decision is received on or after 24 April 2003 and prior to 14 August 2003.**

1.2 Background

Modification Proposal P110 'Nullification of Volume Notifications where no Authorisations are in place' (P110) seeks to provide a mechanism for a BSC Party to nullify its Volume Notifications with another BSC Party, for those Settlement Periods that have not yet passed Gate Closure, if the following conditions are met:

- all the Notification Agent Authorisations (Energy Contract Volume Notification Agent Authorisations (ECVNAA) and Meter Volume Reallocation Notification Agent Authorisations (MVRNAA)) between the two Energy Accounts have been terminated; and
- the two Parties cannot agree to establish new Notification Agent Authorisations.

The Proposer suggests that as there is currently no mechanism for amending contract notifications under these circumstances, one of the two Parties (i.e. the one selling the electricity) would potentially be left with a settlement liability that did not reflect the reality of the contractual relationship between the two Parties. In the case of an 'evergreen' contract notification, which lasts indefinitely, this settlement liability would be potentially unlimited in magnitude.

1.3 Rationale for Recommendations

The majority of the Balancing and Settlement Code Panel ('the Panel') agreed with the recommendation of the Settlement Standing Modification Group (SSMG) that the Proposed Modification P110 better facilitates achievement of the Applicable Balancing and Settlement Code Objective (BSC Objective) (c), as it will promote competition in the generation and supply of electricity.

The rationale for this was that currently there is an unnecessary risk in the process of contract termination and it was agreed that implementing P110 would provide Parties with a means to limit their exposure to imbalance in situations where termination of Authorisations has taken place. Additionally they believed that P110 provides a method of dealing with counter-Party notifications during an event of default under a commercial bilateral contract, such as the GTMA.

The Panel noted the views expressed in the Assessment Consultation that some Parties believe the cost of implementation outweighs the benefits to be gained. The Panel agreed that BSCCo should implement the Modification using the most cost-effective method, as long as it is consistent with the legal drafting.

Eleven responses to the draft Modification Report consultation were received. Eight responses (41 Parties) supported the Panel's recommendations and one response (6 Parties) did not support the Panel's recommendations. No new issues were raised, however a number of minor clarifications to the legal text were agreed. A summary of the changes made to the legal text is given in section 6 and a summary of the responses received is given in section 8.

2 INTRODUCTION

This Report has been prepared by ELEXON Ltd., on behalf of the Balancing and Settlement Code Panel ('the Panel'), in accordance with the terms of the Balancing and Settlement Code ('the Code'). The Code is the legal document containing the rules of the balancing mechanism and imbalance settlement process and related governance provisions. ELEXON is the company that performs the role and functions of the BSCCo, as defined in the Code.

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

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

3 HISTORY OF PROPOSED MODIFICATION

AES Drax Power Limited submitted P110 on 4 November 2002 (Reference 1). P110 seeks to allow a BSC Party to nullify their Volume Notifications with another BSC Party, for those Settlement Periods which have not yet passed Gate Closure, in the event that all Volume Notification Agent Authorisations (ECVNAA and MVRNAA) with that counter-Party have been terminated. The Initial Written Assessment (Reference 2), was submitted to the Panel at their meeting on 14 November 2002, where it was agreed to submit P110 to the Assessment Procedure to be carried out by the Settlement Standing Modification Group.

The SSMG met twice during the Assessment Procedure of P110 and issued a high level impact assessment and a consultation to BSC Parties and BSC Agents, and a further detailed level impact assessment to BSC Agents. The change specific BSC Agent costs highlighted in the Assessment Report are approximately £88,000 and 66 BSCCo man-days for the development needed for the Proposed Modification plus additional time and material costs each time the nullification process is triggered. Further details of the costs and timescales for implementation are given in Annex 1.

The Assessment Report for P110 was submitted for consideration at the Panel meeting of 13 February 2003. The Panel agreed with the recommendations of the SSMG and agreed to submit P110 to the Report Phase. The Panel recommended that the Proposed Modification should be made. The Panel also agreed that in the event that the Authority determines that the Proposed Modification should be made, the Implementation Date should be:

- 5 November 2003 if a decision is received from the Authority prior to 24 April 2003; or
- 25 February 2004 if a decision is received on or after 24 April 2003 and prior to 14 August 2003;

The Panel supported the SSMG view that P110 better facilitates achievement of the following Applicable BSC Objective, set out in paragraph 3 of Condition C3 of the Transmission Licence:

- (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.

A draft Modification Report for P110 was issued for consultation on 21 February 2003. Eleven responses, representing 51 Parties, were received. *[Insert sentence to say if the Panel recommends or rejected the Modification on the basis of the consultation responses].*

The draft Modification Report was presented to the Panel meeting of 13 March 2003 and at this meeting the Panel agreed [insert details of any Panel decisions that take place at the Panel meeting].

4 DESCRIPTION OF THE MODIFICATION

P110 seeks to provide a mechanism for a BSC Party to nullify its Volume Notifications with another BSC Party, for those Settlement Periods that have not yet passed Gate Closure, if the following conditions are met:

- all the Notification Agent Authorisations (Energy Contract Volume Notification Agent Authorisations (ECVNAA) and Meter Volume Reallocation Notification Agent Authorisations (MVRNAA)) between the two Energy Accounts have been terminated; and
- the two Parties cannot agree to establish new Notification Agent Authorisations.

The Proposer suggests that as there is currently no mechanism for amending contract notifications under these circumstances, one of the two Parties (i.e. the one selling the electricity) would potentially be left with a settlement liability that did not reflect the reality of the contractual relationship between the two Parties. In the case of an 'evergreen' contract notification, which lasts indefinitely, this settlement liability would be potentially unlimited in magnitude.

5 RATIONALE FOR PANEL RECOMMENDATIONS

The majority of the Panel agreed with the recommendation of the SSMG and agreed that the Proposed Modification P110 better facilitates achievement of Applicable BSC Objective (c), as it will facilitate competition in the generation and supply of electricity. The rationale for this was that it would provide Parties with a means to limit their exposure to imbalance in situations where termination of Authorisations has taken place. Additionally, it provides a method of dealing with counter-Party notifications during an event of default under a commercial bilateral contract, such as the GTMA.

The Panel noted views expressed in the Assessment consultation that some Parties believe the cost of implementation outweighs the benefits to be gained. The Panel agreed that BSCCo should implement the Proposed Modification using the most cost-effective method, as long as it is within the scope of the legal drafting.

Several Panel Members believed that the issue described by the SSMG was a commercial one and outside the scope of the Code, and noted that the process could be triggered by a request from only one of the Parties involved. The Panel noted the SSMG view that if the relationship between two Parties breaks down, they may wish to clear out all outstanding notified volumes and would be unable to do so if Authorisations had been terminated. Furthermore, if one Party terminated an Authorisation, it could freeze the counter-Party's contracted position, as the Authorisation process is also unilateral. A Panel Member noted a previous incident where a Party had gone into Default and all notifications had been cleared. However, this was a different situation, because the BSC Party authorisation had been terminated in the BSC Systems and therefore the process was not limited to the relationship between specific two Parties but all Parties related to the defaulting Party. A comment was made that the situation P110 was trying to address would potentially not arise if Parties co-operated.

The Panel noted that the SSMG believed that most bilateral energy contracts (including GTMA contracts) included provisions for terminating the contract, any Authorisations associated with it, and

would disregard previously agreed contract volumes. However, the Code does not currently provide a robust or reliable method for notifying ECVAAs that this has occurred. Therefore the SSMG felt that there was currently an unnecessary risk in the process of contract termination and that P110 would provide Parties with a means to limit their exposure to imbalance and provide a method of dealing with counter-Party notifications during an event of default under a commercial bilateral contract. The Panel therefore believes that this would better facilitate competition in the generation and supply of electricity (Applicable BSC Objective (c)) and would not undermine the firmness of contracts between Parties.

At the Panel meeting on 13 February 2003 a Panel Member queried BSCCo's exposure to liability should P110 be implemented. It was confirmed that no special indemnity was required, as Section C5.1.2 of the Code provides sufficient cover.

6 LEGAL TEXT TO GIVE EFFECT TO THE MODIFICATION

Proposed Modification P110 requires changes to Sections P, V and X-1 of the Code. A summary of the changes is given below and a detailed red lined version of the legal text is included in Annex 3. During the consultation on the draft Modification Report a number of clarifications to the legal text were identified. These are detailed in section ~~1315~~:

- Section P (version 8.0): A section will be added detailing the process for requesting and validating requests to nullify volumes between two Energy Accounts.
- Section V (version 9.0) This section will be updated to give details of the new reports to be issued by ECVAAs.
- Section X-1 (version 11.0) This section will be updated to give details of the acronyms defined within the changes to Section P.

The legal drafting included with this report is drafted against the version of the Code current on the date of the Panel meeting (13 March 2003). The legal drafting was checked against all Modifications that had been approved by the Authority on the date of the Panel meeting, including those that have not yet been implemented. If the baseline of the Code changes prior to implementation of P110, or if other Modification Proposals are to be implemented at the same time as P110, the legal text may need to be amended.

7 ASSESSMENT

This section of the report summarises the assessment carried out by the SSMG during the 3-month Assessment Procedure. Full details are contained in the P110 Assessment Report, which can be found on the BSC Website at www.elexon.co.uk.

During the Assessment Procedure the SSMG considered the issues raised from the terms of reference. An impact assessment was issued with the requirements specification (Reference 4) to determine the cost and timescale for implementation of the Proposed Modification and included several implementation options. From this the SSMG determined the preferred implementation and issued a consultation document to seek BSC Party views on whether the Proposed Modification better facilitated the BSC Objectives. The majority of the consultation responses agreed with the majority of the SSMG that P110 Proposed Modification better facilitated the BSC Objectives. The responses to both the consultation and impact assessments can be found in the Assessment Report and the conclusions of the SSMG are detailed below.

7.1 Implementation Method

During the Assessment Procedure the SSMG agreed that the implementation method for the Proposed Modification could be broken down into two separate processes; requesting a nullification and carrying out the nullification of volumes in the ECVAA system. The SSMG agreed that these two processes could be either automated or manual and the implementation methods were independent of each other. This gave rise to five different implementation solutions, shown in the table below and detailed further in the requirements specification (Reference 3). It should be noted that the impact assessment responses indicated that there was no difference in the system and process changes required for the semi-automated and the automated implementation of the nullification in ECVAA systems and therefore options 4 and 5 were in fact the same solution.

	Nullification Request Processing		Nullification of Contract Volumes		
	Automated Method	Manual Method	Automated Method	Semi-Automated Method	Manual Method
Option 1	✓		✓		
Option 2	✓				✓
Option 3		✓			✓
Option 4		✓	✓		
Option 5		✓		✓	

The SSMG discussed these options in turn and agreed that option 5 should be the implementation method. A summary of the method is given below and further details can be found in the Assessment Report.

7.1.1 Nullification Request Process

The SSMG agreed that in order to minimise changes to BSC Party and BSC Agent systems the interface for requesting a nullification should be a manual interface (either a fax or email) and not an electronic data file.

Upon receipt of a nullification request the ECVAA will process the form and will:

- verify that **all** authorisations between the two Energy Accounts have been terminated;
- validate the information provided within the form; and
- calculate the first possible Settlement Period from which nullification can take place, if Gate Closure for the requested Settlement Period has been passed.

Once the ECVAA has validated data a feedback report will be issued to the originator of the request either confirming that the nullification process will take place or rejecting the request. If the nullification process is to take place, ECVAA will also issue the feedback report to the counter-Party. The feedback report will confirm the first Settlement Period from which the nullification will take effect.

The first Settlement Period from which the nullification can take place will be:

- either that specified in the Nullification Request; or
- if at the time the ECVAA sends the feedback report, Gate Closure for the Settlement Period requested has passed, it will be the next Settlement Period for which Gate Closure has not occurred.

The SSMG agreed that the first Settlement Period from which the nullification can take place, could fall outside of a normal Business Day¹.

The ECVAA must process and validate the requests and send a feedback report within 1 hour of receipt of the request within a normal Business Day to ensure that the BSC Party is aware of the feedback report. An example of how the first Settlement Period will be calculated is given below:

Time of receipt of Nullification Request by ECVAA	Time feedback issued	Requested first Settlement Period	Actual first Settlement Period after validation	Reasons
10:15 am	11:15 am	25 (12:00-12:30)	26 (12:30-13:00)	Requested Settlement Period has passed Gate Closure, therefore next Gate Closure is for 12:30-13:00
10:15 am	11:15 am	37 (18:00-18:30)	37 (18:00-18:30)	Requested Settlement Period has not passed Gate Closure, therefore it can be used.
4:50 pm	9:50 am next Business Day	1 (00:00-00:30)	23 (11:00-11:30)	Requested Settlement Period has passed Gate Closure, therefore next Gate Closure is for 11:00-11:30

It should be noted that should the ECVAA fail to process the request and issue a feedback report within the required timescale the Party would be able to raise a Trading Dispute or Trading Query.

The SSMG also agreed that once a Party had submitted a nullification request it could not be withdrawn. However, it will be possible for the Party to rectify any errors within the request, but only before the feedback report has been sent by the ECVAA.

7.1.2 Process for nullifying outstanding volumes

The SSMG agreed that due to the high risk involved in having the ECVAA manually change notified volumes in the systems, an automated process was preferred. The process will be triggered once the nullification request has been validated and a feedback report issued to both Parties involved. ECVAA will then automatically identify the volumes to be nullified and will set the volumes to zero in the system.

Once the ECVAA has completed the process of setting any outstanding volumes to zero, a report will be issued either by fax or email to both Parties to inform them that the process is complete. Parties will then be able to request a Forward Contract Report (ECVAA-I022 sub-flow 1) if they require confirmation of their position.

7.2 Issues Considered

7.2.1 Application of the Modification

The SSMG agreed that the Proposed Modification should apply to both Energy Contract Volume Notifications and Meter Volume Reallocation Notifications and that should a request be submitted, all outstanding volumes between the two Energy Accounts should be set to zero. The SSMG also agreed that in order to trigger the process all Authorisations between the two Energy Accounts should have been terminated.

It should be noted that the intent of P117 is not to nullify volumes on termination of an Authorisation but only at the request of one Party and then only when the validation rules have been satisfied. In

¹ The times to be used for a Business Day are defined within Section X2.3.2 of the Code as 9:00am to 5:00pm.

order to progress the request the process for changing the volumes in the ECVA system will be automated, in order to eliminate the risk involved with manual intervention.

The SSMG acknowledged that the process was a unilateral process but noted that it could only be used if all Authorisations had been terminated, which is also a unilateral process and therefore it was not appropriate to make it bilateral.

7.2.2 Availability of process

The SSMG noted concerns raised by some members and in some consultation responses that the Nullification Request process should be available 24 hours a day and seven days a week. The SSMG agreed that this would involve significant cost and also would require trained operators and signatories to be available at all times. The majority of the SSMG believed that the process was only likely to be triggered during a normal Business Day, and therefore the process should be available during a normal Business Day.

7.2.3 First Effective Settlement Period

The SSMG noted that although the request and feedback should be processed and issued during a Business Day, the first effective Settlement Period should be as soon as possible. The SSMG agreed that if Gate Closure for the Settlement Period requested in the Nullification Request had passed then the next Settlement Period for which Gate Closure had not passed would be used. If, however, Gate Closure for the requested Settlement Period had not passed, the requested Settlement Period would be used.

7.2.4 Security of the Process

The SSMG agreed that the process should use the same security levels as currently defined for the Authorisation and Termination of ECVNAA and MVRNAA. The SSMG agreed that this should apply whether the Nullification Requests were submitted electronically or via a form or fax.

7.2.5 Rectification of errors in Nullification Requests

The SSMG agreed that since the process should be used as a last resort it would not be appropriate to allow Parties to withdraw a request once the counter-Party had been notified of the intent to nullify outstanding volumes. The SSMG did acknowledge that a Party should be able to rectify any errors in a request should they be made aware of them prior to the feedback report being issued to the counter-Party.

7.2.6 Use of the Process

The SSMG agreed that although the Modification Proposal states that the process should be used when "the Party and counter-Party cannot agree to establish new Authorisations", this was very subjective and that it would not be appropriate to introduce it into the Code.

The SSMG also noted one consultation response that indicated that a validation review between the Parties involved and BSCCo was required, to ensure there was no opportunity for abuse. However, the SSMG was of the opinion that this was not necessary, as if the process were abused it would be treated as a mis-notification and could be progressed commercially.

The SSMG agreed that the issues raised by P110 should be addressed by a modification to the Code as most bilateral contracts currently include provisions for terminating the contract and disregarding previously agreed contract volumes. However, the Code does not provide a robust or reliable method for notifying ECVA that this has occurred. The result is to add unnecessary risk to the process of

contract termination and the majority of the SSMG agreed that removing this risk would better facilitate competition.

7.2.7 Implementation Date

The SSMG agreed that P110 should be implemented as part of the BSC System Release programme and that it should be included in the first possible release. This gave the following Implementation Date:

- 5 November 2003 if a decision is received from the Authority prior to 24 April 2003; or
- 25 February 2004 if a decision is received on or after 24 April 2003 and prior to 14 August 2003.

8 SUMMARY OF REPRESENTATIONS

The draft Modification Report was issued for consultation on 21 February 2003 with responses due back on 28 February 2003. 11 responses were received;

- 8 responses (41 BSC Parties) supported the recommendation that the Proposed Modification should be made;
- 1 response (6 BSC Parties) did not support the Panel recommendations as they believed that this issue can be dealt with through other processes;
- 8 responses (46 BSC Parties) supported the Legal Drafting, with some suggesting minor amendments;
- 8 responses (46 BSC Parties) supported the recommended Implementation Dates;
- 2 responses had no comment.

The views expressed in the responses are summarised below:

Respondent	No. BSC Parties	Agree with Recommendation (approve)	Agree with Legal Drafting	Agree with Implementation Date
SEEBBOARD	1	✓	✓	✓
Innogy	9	✓	✓	✓
LE Group	7	✓	✓	✓
Scottish and Southern Energy Plc	4	✓	✓	✓
British Gas Trading	1	✓	-	-
Scottish Power Group	6	X	✓	✓
National Grid	1	✓	✓	✓
AES Drax	1	✓	✓	✓
Aquila Networks Plc	1	N/C	N/C	N/C
British Energy	3	N/C	N/C	N/C
Powergen	17	✓	✓	✓
TOTAL	51	8 (41)	8 (45)	8 (45)

Annex 2 of this report contains a summary of the responses and copies of the actual responses received. A summary of the arguments raised in the responses is given below in sections 8.1 and 8.2. These arguments were all discussed by the SSMG during the Assessment Procedure and are summarised for completeness.

Several changes to the legal text were suggested in the consultation responses and these have been summarised in section 6 of this report.

8.1 Arguments Supporting the Panel Recommendations

The following arguments were raised in the consultation responses, in support of the Panel recommendation that the Proposed Modification be made. These arguments were all considered by the SSMG during the Assessment Procedure:

- Removing the defect will remove potential unjustified settlement liabilities occurring from the contract termination process and allows Parties to better control their Imbalance risk, therefore better facilitates Applicable BSC Objective (c);
- P110 addresses a defect that could lead to large costs being imposed on a Party through no fault of its own and over which it would not have any commercially-credible control.

8.2 Arguments Against the Panel Recommendations

The following arguments against the recommendations and implementation method were raised in the consultation responses. These arguments were all considered by the SSMG during the Assessment Procedure:

- The first period for effect should be 3 periods after a confirmation has been sent to the counter-Party and not the next Settlement Period not to have passed Gate Closure as currently specified in the legal drafting. The response also noted that these periods should fall within a business day and should not be allowed to fall outside of the Business Day. The reason given for this is so that small Parties who may not have “out of hours” operation should be aware of the request and have time (i.e. 3 periods) in which to trade out their position. The response suggested that this would mean that P110 is operated in a controlled way that is fair to both Parties involved, and that both Parties would then be able to manage the situation. This was discussed by the SSMG and details of the discussions can be found in section 7.2.
- One response in support of the P110 noted that a validation review should be carried out between the Parties involved and BSCCo. They noted that this should be used to ensure that there is no opportunity for abuse of the process. This was discussed by the SSMG during the Assessment Procedure and a summary of the discussions is in section 7.2.
- Several Parties supported a manual implementation of the nullification process in the ECVA systems. The SSMG considered this during the Assessment Procedure and agreed that an automated process was preferred. However, it should be noted that the implementation method will be considered further by BSCCo should P110 be approved.
- One response noted that they believed the process should be available on a 24/7 basis rather than on the recommended 09:00 – 17:00 basis, this would be consistent with the commercial contracts in place which allow termination on a 24 hour basis. The SSMG discussed this during the Assessment Procedure and a summary of the discussion is in section 7.2.
- One response noted that it should be possible to deal with the defect identified in P110 under the commercial contracts in place between the two Parties and that there was no need for the implementation of P110. This was discussed by the SSMG during the Assessment Procedure and the majority of the SSMG believed that the commercial contracts in place dealt with this situation differently to the Code and therefore a change to the Code was necessary.
- One response noted that they believe the implementation costs of the preferred solution outweigh the perceived benefits of implementing P110. This was noted by the SSMG during the Assessment Procedure.

- One response noted that they did not support the automated method of implementation as this would lead to extensive changes to Party processes to nullify volumes once an Authorisation is terminated. It should be noted that the intent of P117 is not to nullify volumes on termination of an Authorisation but only at the request of one Party, and then only when the validation rules have been satisfied. In order to progress the request the process for changing the volumes in the ECVAA system will be automated, in order to eliminate the risk involved with manual intervention.

8.3 Issues Raised Regarding Legal Text

During the consultation on the draft Modification Report a number of clarifications to the legal text were identified. The following minor changes have been made:

- Changes to the title in paragraph P4A.1 were made to remove the abbreviation of Volume Notification Nullification Request;
- The text relating to the different Accounts required for a Volume Notification Nullification Request has been clarified (paragraphs 4A.1.1 and 4A.1.2);
- Cross references in Annex X2 have been updated to ensure that they refer to Section P;
- Changes have been made to the paragraph numbering in paragraphs 1.1.1 and 4A.1.2; and
- The definitions of "Energy (To) Account" and "Energy (From) Account" have been clarified.

BSCCo believe that these do not alter the substance of the legal text and no further consultation is necessary.

8.4 Panel Discussion of Representations

At the Panel meeting of 13 March 2003, the arguments raised in the consultation responses were presented.

- *[Insert details of any Panel discussions relating to the consultation responses]*

ANNEX 1 COST SUMMARY

The implementation costs identified during the Assessment Procedure are summarised below for all implementation options assessed during the Assessment Procedure. Note that option 5 is the preferred option chosen by the SSMG.

A1.1 BSC Development Costs

The cost of development and implementation of the preferred option, option 5 (manual request processing and automated nullification in ECVAAs systems)

Name	Implementation Timescale	Change Specific Cost	Operational Cost	Annual Maintenance Cost
BSC Agent (ECVAA)	14 weeks	£88,000	T&M	£50,000
BSCCo	14 weeks	60 man-days		
BSC Party	1-3 months ave.			
Total BSC Costs/ Timescale	28 weeks	£88,000 + .60 BSCCo man-days		

This gives a total BSCCo development cost of £88,000 plus 60 BSCCo man-days and a total implementation timescale of 28 weeks.

A1.2 BSC Agent Cost Comparison

The costs identified during the Assessment Procedure by the BSC Agent for development of the different implementation options are given below. It should be noted that the Time and Material (T&M) costs quoted by the BSC Agent are based on the assumption that all Parties that are contracted with a particular counter-Party request the Nullification of Notified Volumes at the same time, this is a worse case scenario. They are not based on the case where only one Party with a particular counter-Party trigger the process.

	Change Specific Development Cost	Total Cost inc. Project Overhead ²	Operational Cost	Annual Maintenance ³	Implementation Timescale
Option 1	£108,864	£390,365	£0	£54,651	15 weeks
Option 2	£61,656	£259,829	T&M (estimated as £94,600 / event)	£36,376	10 weeks
Option 3	£50,142	£234,623	T&M (estimated as £96,320 / event)	£32,847	9 weeks
Option 4 / 5	£88,267	£359,514	T&M (estimated as £1,720/event)	£50,332	14 weeks

² This is the cost for implementing P110 as a stand-alone project. It is envisaged that P110 will be implemented as part of a BSC Release and therefore the project overhead will be calculated for the BSC Release as a whole.

³ The Annual Maintenance price is a percentage of the total cost for the change.

ANNEX 2 REPRESENTATIONS

A2.1 Summary of Representations

The draft Modification Report was sent out for consultation on 21 February 2003 with responses due back on 28 February 2003. The table below gives a summary of the responses and the actual responses received are attached below.

	Responses	BSC Parties
Support recommendations	8	41
Do not support recommendations	1	6
No Comment	2	4
Total	11	51

Representations were received from the following parties:

No	Company	File Number	No. BSC Parties Represented	Use of proforma
1.	SEEBOARD	P110_DR_001	1	
2.	Innogy	P110_DR_002	9	
3.	LE Group	P110_DR_003	7	
4.	Scottish and Southern Energy Plc	P110_DR_004	4	
5.	British Gas Trading	P110_DR_005	1	No ⁴
6.	Scottish Power Group	P110_DR_006	6	
7.	National Grid	P110_DR_007	1	
8.	AES Drax	P110_DR_008	1	
9.	Aquila Networks Plc	P110_DR_009	1	No ⁴
10.	British Energy	P110_DR_010	3	No ⁴
11.	Powergen	P110_DR_011	17	
	TOTAL		51	

⁴ Interpreted by ELEXON into the proforma so as to represent the respondent views to the Panel. This has been agreed with the respondent.

A2.2 Detailed Responses

P110_DR_001 – SEEBOARD

Respondent:	Dave Morton
No. of BSC Parties Represented	1
BSC Parties Represented	SEEBOARD Energy Limited
No. of Non BSC Parties Represented	0
Non BSC Parties Represented	
Role of Respondent and Parties Represented	Supplier

Q	Question	Response	Rationale
1	Do you agree with the Panel's views on P110 and the provisional recommendation to the Authority contained in the draft Modification Report that the Proposed Modification should be made? Please give rationale.	Yes	Removing this problem should assist Parties in supply of electricity by removing potential unjustified settlement liabilities. Therefore, BSC objective (c) should be better facilitated.
2	Do you agree with the Panel's view that the legal text provided in the draft Modification Report correctly addresses the defect or issue identified in the Modification Proposal? Please give rationale.	Yes	We do have three minor issues: 4A.1 title should read "Submission of a Volume Notification Nullification Request (VNNR) and bracket at end of paragraph amended to just read "a VNNR". 4A.1.2 (a) change "Account and the Lead" to Account and/or the Lead" to enable text to relate to situation where both types of accounts and, therefore, notifications do not exist. 4A.4.4 (b) format for (i) and (ii) to made consistent with that of (iii).
3	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P110? Please give rationale.	Yes	
4	Are there any further comments on P110 that you wish to make?	Yes	BSC Agent costs in section A1.2 of report are based on all Parties contracting with a counterparty request nullification at the same time. Does this relate to worst case scenario, as in operation it could be that only one Party requests nullification of volumes. If this not a worst case scenario further details of BSC Agent costs should be considered so Parties have all details.

P110_DR_002 – Innogy

Respondent:	Mark Thomas
No. of BSC Parties Represented	9
BSC Parties Represented	Innogy Group (Innogy plc, Innogy Cogen Limited, Innogy Cogen Trading Limited, Npower Limited, Npower Direct Limited, Npower Northern Limited, Npower Northern Supply Limited, Npower Yorkshire Limited and Npower Yorkshire Supply Limited)
No. of Non BSC Parties Represented	
Non BSC Parties Represented	
Role of Respondent and Parties Represented	Supplier / Generator / Trader

Q	Question	Response	Rationale
1	Do you agree with the Panel's views on P110 and the provisional recommendation to the Authority contained in the draft Modification Report that the Proposed Modification should be made? Please give rationale.	Yes	Agree it removes the unnecessary risk in the process of contract termination and therefore better facilitates BSC objective c promoting competition in the generation and supply of electricity.
2	Do you agree with the Panel's view that the legal text provided in the draft Modification Report correctly addresses the defect or issue identified in the Modification Proposal? Please give rationale.	Yes	Subject to minor amendment highlighted in the answer to Question 4 below.
3	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P110? Please give rationale.	Yes	
4	Are there any further comments on P110 that you wish to make?	Yes	Page 4 of Legal text new defined term VNNCR '...in accordance with 4A.4;' should read '...in accordance with P4A.4;'

P110_DR_003 – LE Group

Respondent:	PAUL MOTT
No. of BSC Parties Represented	7
BSC Parties Represented	LE Group (EPN Distribution Ltd, London Electricity plc, London Electricity Group plc, Jade Power Generation Ltd, London Power Networks plc, Sutton Bridge Power, West Burton Ltd)
No. of Non BSC Parties Represented	-
Non BSC Parties Represented	
Role of Respondent and Parties Represented	<i>Supplier / Generator</i>

Q	Question	Response	Rationale
1	Do you agree with the Panel's views on P110 and the provisional recommendation to the Authority contained in the draft Modification Report that the Proposed Modification should be made? Please give rationale.	Yes	
2	Do you agree with the Panel's view that the legal text provided in the draft Modification Report correctly addresses the defect or issue identified in the Modification Proposal? Please give rationale.	Yes	
3	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P110? Please give rationale.	Yes	
4	Are there any further comments on P110 that you wish to make?	Yes	<p>We believe, as we stated in our previous response and at the mods group, that the first period for effect should be 3 periods after a valid P110 cancellation notice.</p> <p>However, periods outside the business day should be counted, so that if the nullification request comes at 17:00, the nullification would not have effect until early the next business day. (Business day means 09:00 to 17:00 weekdays excluding bank holidays)</p> <p>We are sensitive to the need to ensure that small parties who may not have an out-of-hours operation are nonetheless able to become aware that their former counterparty has made a nullification request and have say 3 periods (90 minutes) notice to "trade out" of the impending effect of the nullification. This would ensure that P110 is operated in a controlled way that is fair on both former counter-parties so that everyone is left knowing their forthcoming position and able to manage the situation.</p>

P110_DR_004 – Scottish and Southern

Respondent:	Garth Graham, Scottish and Southern Energy
No. of BSC Parties Represented	4
BSC Parties Represented	Scottish and Southern Energy, Southern Electric, Keadby Generation Ltd. and SSE Energy Supply Ltd.
No. of Non BSC Parties Represented	
Non BSC Parties Represented	
Role of Respondent and Parties Represented	

Q	Question	Response	Rationale
1	Do you agree with the Panel's views on P110 and the provisional recommendation to the Authority contained in the draft Modification Report that the Proposed Modification should be made? Please give rationale.	Yes	As we have indicated previously, we believe that this Modification will better achieve the Applicable BSC Objective "(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". We note that this may potentially create the opportunity for inappropriate behaviour by a Party leaving another Party liable to settlement exposure. For the avoidance of doubt we believe that a validation review between the Parties and Elexon is required to ensure there is no opportunity for abuse to occur. In our view a manual approach is the preferred technical solution for the Nullification Request process.
2	Do you agree with the Panel's view that the legal text provided in the draft Modification Report correctly addresses the defect or issue identified in the Modification Proposal? Please give rationale.	Yes	
3	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P110? Please give rationale.	Yes	If the Modification Proposal P110 is approved, we agree with the proposed BSC Panel recommendation on the timing for the Implementation Date, as outlined in Section 1.1 of the Modification Report.
4	Are there any further comments on P110 that you wish to make?	No	We have no further comments to make.

P110_DR_005 – British Gas Trading

THE RESPONSE RECEIVED WAS NOT IN THE FORMAT OF THE PROFORMA THEREFORE THE FOLLOWING ASSUMPTIONS HAVE BEEN MADE AS TO HOW THE RESPONDENTS VIEWS SHOULD BE PRESENTED.

Respondent:	Mark Manley
No. of BSC Parties Represented	1
BSC Parties Represented	BGT

Q1 : YES

Q2 & Q3 : No views expressed

Q4 : See response received

THESE HAVE BEEN VERIFIED WITH THE RESPONDENT AND THEY HAVE INDICATED THAT THEY ARE HAPPY WITH THE INTERPRETATION.

THE ACTUAL RESPONSE RECEIVED IS GIVEN BELOW:

Thank you for the opportunity of responding to this draft modification report considering Modification Proposal P110. British Gas Trading (BGT) supports the Modification Proposal and believes this would better facilitate Applicable BSC Objectives (c). Within the BSC there is a defect that can leave a BSC Party with a stranded position with no method of amending their contract position. The ability to be able to negate that risk can be seen to promote effective competition in the generation and supply of electricity.

BGT note the recommendation of the Modification group to make the nullification request manual and the removal of the volumes semi-automated. BGT support this approach as it removes the requirement for system development by BSC Parties whilst reducing the risk of removing contract volumes. However BGT would prefer a process that is operational on a 24/7 basis rather than the recommended approach that only allows for nullification requests during a normal Business Day. BGT believe that the problem highlighted may occur at any time and, as such BGT believe there should be the ability to request nullification of contract volumes at any point in the operational day. This is because the contracts in place with our counterparties allows nullification 24/7 and thus it would be preferable for the BSC to reflect this.

Yours faithfully

Mark Manley
Contract Manager

P110_DR_006 – Scottish Power

Respondent:	John W Russell (SAIC Ltd)
No. of BSC Parties Represented	6
BSC Parties Represented	Scottish Power UK plc; ScottishPower Energy Trading Ltd.; Scottish Power Generation plc; ScottishPower Energy Retail Ltd.; SP Transmission plc; SP Manweb plc.
No. of Non BSC Parties Represented	
Non BSC Parties Represented	
Role of Respondent and Parties Represented	Supplier/Generator/ Trader / Consolidator / Exemptable Generator / Party Agent.

Q	Question	Response	Rationale
1	Do you agree with the Panel's views on P110 and the provisional recommendation to the Authority contained in the draft Modification Report that the Proposed Modification should be made? Please give rationale.	No	We would wish to reiterate the concerns expressed in our previous response on P110 that this proposal can be dealt with through other processes, for instance by Trading Parties through their GTMAs. In addition, the costs associated with the preferred solution outweigh any perceived benefits from having a contract nullification process in the BSC. We do not believe that P110 meets any of the Applicable BSC Objectives
2	Do you agree with the Panel's view that the legal text provided in the draft Modification Report correctly addresses the defect or issue identified in the Modification Proposal? Please give rationale.	Yes	The draft legal text broadly meets the requirements of P110, notwithstanding that we do not support this mod proposal. However, we would suggest the following changes to tidy up the drafting:- P1.1.1(b) - the final sub para is "(iv)" not "(vi)". P1.3.5(b) and (c) - we would suggest tidier wording, e.g. for (b) - "...are to be credited or from which Energy Contract Volume(s) are to be nullified". Similar for (c). P4A.1.2(a) - should be a ";" at the end of the sub para.
3	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P110? Please give rationale.	Yes	Although the implementation date is acceptable, in order to reduce the overall implementation costs associated with option 5, we would prefer that this Mod is implemented as part of a scheduled Systems Release.
	Are there any further comments on P110 that you wish to make?	No	No we do not have any further comments

P110_DR_007 – NGC

Respondent:	National Grid
No. of BSC Parties Represented	One
BSC Parties Represented	National Grid
No. of Non BSC Parties Represented	N/A
Non BSC Parties Represented	N/A
Role of Respondent and Parties Represented	BSC Party

Q	Question	Response	Rationale
1	Do you agree with the Panel's views on P110 and the provisional recommendation to the Authority contained in the draft Modification Report that the Proposed Modification should be made? Please give rationale.	Yes	We agree with the Panel that this modification will better facilitate BSC Objective (c) by mitigating Parties' risk to erroneous imbalance exposure.
2	Do you agree with the Panel's view that the legal text provided in the draft Modification Report correctly addresses the defect or issue identified in the Modification Proposal? Please give rationale.	Yes	We believe that implementing P110 as drafted would correctly address the defect and in addition would make the BSC complementary to the GTMA's termination arrangements.
3	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P110? Please give rationale.	Yes	The implementation date is consistent with the release strategy for non-urgent modifications.
4	Are there any further comments on P110 that you wish to make?	No	

P110_DR_008 – AES Drax

Respondent:	Ian Foy
No. of BSC Parties Represented	1
BSC Parties Represented	AESDRAX
No. of Non BSC Parties Represented	None
Non BSC Parties Represented	N/A
Role of Respondent and Parties Represented	Generator

Q	Question	Response	Rationale
1	Do you agree with the Panel's views on P110 and the provisional recommendation to the Authority contained in the draft Modification Report that the Proposed Modification should be made? Please give rationale.	Yes	We believe that this Modification allows for credible, contained, risk measures to be put in place and allows Parties to control their Imbalance Risk.
2	Do you agree with the Panel's view that the legal text provided in the draft Modification Report correctly addresses the defect or issue identified in the Modification Proposal? Please give rationale.	Yes	We believe the Legal Text correctly interprets the intent of the original Modification and the detailed work/changes that have been made during the progress of this Modification.
3	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P110? Please give rationale.	Yes	This would seem to be the earliest date given the requirement to include the Modification as part of a BSC Release in order to contain costs (with which we agree).
4	Are there any further comments on P110 that you wish to make?	No	We believe that this Modification addresses a defect in the BSC which could lead to large costs being imposed on a Party through no fault of its own and over which it would not have any commercially-credible control. On this basis we believe that the costs involved in making this Modification are justified.

P110_DR_009 – Aquila Networks

THE RESPONSE RECEIVED WAS NOT IN THIS FORMAT AND THEREFORE IT HAS BEEN INTERPRETED BY BSCCo. IT HAS BEEN VERIFIED WITH THE RESPONDENT AND THEY HAVE INDICATED THAT THEY ARE HAPPY WITH THE INTERPRETATION.

Respondent:	Jason Guest
No. of BSC Parties Represented	1
BSC Parties Represented	Aquila Networks
No. of Non BSC Parties Represented	
Non BSC Parties Represented	
Role of Respondent and Parties Represented	

Q	Question	Response	Rationale
1	Do you agree with the Panel's views on P110 and the provisional recommendation to the Authority contained in the draft Modification Report that the Proposed Modification should be made? Please give rationale.		No Comment
2	Do you agree with the Panel's view that the legal text provided in the draft Modification Report correctly addresses the defect or issue identified in the Modification Proposal? Please give rationale.		No Comment
3	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P110? Please give rationale.		No Comment
4	Are there any further comments on P110 that you wish to make?		No Comment

P110_DR_010 – British Energy

THE RESPONSE RECEIVED WAS NOT IN THIS FORMAT AND THEREFORE IT HAS BEEN INTERPRETED BY BSCCo. IT HAS BEEN VERIFIED WITH THE RESPONDENT AND THEY HAVE INDICATED THAT THEY ARE HAPPY WITH THE INTERPRETATION.

Respondent:	Rachel Lockley
No. of BSC Parties Represented	3
BSC Parties Represented	British Energy Power & Energy Trading Ltd, British Energy Generation Ltd, Eggborough Power Ltd
No. of Non BSC Parties Represented	
Non BSC Parties Represented	
Role of Respondent and Parties Represented	

Q	Question	Response	Rationale
1	Do you agree with the Panel's views on P110 and the provisional recommendation to the Authority contained in the draft Modification Report that the Proposed Modification should be made? Please give rationale.		No Comment
2	Do you agree with the Panel's view that the legal text provided in the draft Modification Report correctly addresses the defect or issue identified in the Modification Proposal? Please give rationale.		No Comment
3	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P110? Please give rationale.		No Comment
4	Are there any further comments on P110 that you wish to make?	Yes	British Energy would like to reiterate the arguments made previously, see below.

* British Energy acknowledges the bilateral risk presented by a counterparty failing to honour its obligations under a bilateral contract, and the need for a method to nullify notifications going forward where there is no reasonable expectation of satisfactory resolution by other means. For example, notifications for volumes with a party in financial difficulty, or seriously erroneous notifications by a notification agent, where BSC default has not actually occurred.

* We note that parties do have a method of limiting bilateral exposure in the normal course of events, which is to appoint an independent notification agent and notify only relatively short periods at a time.

* We also note that the events considered are very rare.

The consultation paper concentrates on methods of nullifying notifications and does not indicate what would initiate such a process.

We are not convinced that a business case exists to move to an arrangement where notification volumes are automatically removed where no authorisations exist. Although such an arrangement was considered and could have been developed prior to NETA go-live, we do not believe it would be cost-effective to implement now, noting that it could subtly change the balance of risk in existing bilateral contracts, could require changes to the terms required in bilateral contracts, and could require significant system changes for participants. ie. BSC efficiency objective not met.

Therefore such a process should not be available for parties simply to terminate notifications as an automatic consequence of there being no notification authorisation in place between two parties. It should be exercisable only in extreme circumstances where the BSC Panel has reasonable evidence that resolution by other means is not achievable. Because the process is expected to be used very infrequently, and possibly never, an appropriate implementation option should be selected to maximise the cost benefit. We suspect this will be the manual process described as option 3.

If a business case was made and such a process were to be implemented as an automatic method of removing notification volumes where no authorisation exists, considerable notice should be given (at least a year) to allow the change to be factored into external contracts such as the Grid Trade Master Agreement, and for participant systems to be modified.

P110_DR_011 – Powergen

Respondent:	Tim Johnson
No. of BSC Parties Represented	17
BSC Parties Represented	*Powergen UK plc, Powergen Retail Limited, Diamond Power Generation Limited, Cottam Development Centre Limited, TXU Europe Drakelow Limited, TXU Europe Ironbridge Limited, TXU Europe High Marnham Limited, Midlands Gas Limited, Western Gas Limited, TXU Europe (AHG) Limited, TXU Europe (AH Online) Limited, Citigen (London) Limited, Severn Trent Energy Limited (known as TXU Europe (AHST) Limited), TXU Europe (AHGD) Limited and Ownlabel Energy Limited.
No. of Non BSC Parties Represented	0
Non BSC Parties Represented	
Role of Respondent and Parties Represented	Supplier / Generator / Trader / Consolidator / Exemptable Generator / Party Agent

Q	Question	Response	Rationale
1	Do you agree with the Panel's views on P110 and the provisional recommendation to the Authority contained in the draft Modification Report that the Proposed Modification should be made? Please give rationale.	Yes	This is a pragmatic solution to a problem that is not solved by having a contract with a partner. It will bring more certainty to default situations, thereby increasing party confidence.
2	Do you agree with the Panel's view that the legal text provided in the draft Modification Report correctly addresses the defect or issue identified in the Modification Proposal? Please give rationale.	Yes	
3	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P110? Please give rationale.	Yes	
4	Are there any further comments on P110 that you wish to make?	No	

ANNEX 3 LEGAL TEXT

See attached document (P110 Legal drafting v5.0).