



November 2002

**INITIAL ASSESSMENT OF
MODIFICATION PROPOSAL P110 -
Nullification of Volume Notifications where no Notification
Authorisations Are In Place**

Prepared By ELEXON Limited

Document Reference	P110IR
Version no.	1.0
Issue	FINAL
Date of Issue	8 November 2002
Reason for Issue	For Panel Decision
Author	ELEXON

I DOCUMENT CONTROL

a Authorities

Version	Date	Author	Signature	Change Reference
0.1	06/11/02	John Lucas		Initial draft
0.2	07/11/02	John Lucas		Incorporating review comments.
0.3	08/11/02	John Lucas		Incorporating additional review comments.
1.0	08/11/02	John Lucas		Incorporating additional review comments.

Version	Date	Reviewer	Signature	Responsibility
0.1	07/11/02	Joanne Ellis		Change Delivery
0.2	08/11/02	Chris Rowell		Change Delivery
0.3	08/11/02	Joanne Ellis		Change Delivery

b Distribution

Name	Organisation
Each BSC Party	Various
Each BSC Agent	Various
The Gas and Electricity Markets Authority	Ofgem
Each BSC Panel Member	Various
energywatch	energywatch
Core Industry Document Owners	Various

c Intellectual Property Rights and Copyright

This document contains materials the copyright and other intellectual property rights in which are vested in ELEXON Limited or which appear with the consent of the copyright owner. These materials are made available for you to review and to copy for the purposes of the establishment, operation or participation in electricity trading arrangements in Great Britain under the BSC. All other commercial use is prohibited. Unless you are a person having an interest in electricity trading in Great Britain under the BSC you are not permitted to view, download, modify, copy, distribute, transmit, store, reproduce or otherwise use, publish, licence, transfer, sell or create derivative works (in whatever format) from this document or any information obtained from this document otherwise than for personal academic or other non-commercial purposes. All copyright and other proprietary notices contained in the original material must be retained on any copy that you make. All other rights of the copyright owner not expressly dealt with above are reserved.

II CONTENTS TABLE

I	Document Control.....	2
a	Authorities.....	2
b	Distribution.....	2
c	Intellectual Property Rights and Copyright.....	2
II	Contents Table	3
1	Summary.....	4
2	Introduction	5
3	Description of the Modification Proposal.....	5
4	Impact on BSC Systems and Processes.....	6
5	Impact on Other Systems and Processes Used by Parties	6
6	Impact on Documentation.....	7
6.1	Impact on Balancing and Settlement Code.....	7
6.2	Impact on Code Subsidiary Documents.....	7
6.3	Impact on Core Industry Documents.....	7
7	Impact on Other Configurable Items	8
8	Impact on ELEXON.....	8
9	Impact on Financial Arrangements and Budget	8
10	Impact on BSC Agent Contractual Arrangements.....	8
11	Process and Timetable for Progressing the Proposal.....	9
12	Issues.....	9
	Annex 1 – Modification Proposal.....	10

1 SUMMARY

Modification Proposal P110 'Nullification of Volume Notifications where no Notification Authorisations Are In Place' (P110), included in Annex 1, was submitted on 4 November 2002 by AES Drax Power Limited, in accordance with Section F 2.1.1 of the Balancing and Settlement Code ('the Code').

P110 seeks to provide a mechanism for a BSC Party to nullify their Energy Contract Volume Notifications (ECVNs) with another BSC Party, for those Settlement Periods which have not yet passed Gate Closure, if the following conditions are met:

- All the Energy Contract Volume Notification Agent Authorisations (ECVNAA) with that Party have been terminated; and
- The two Parties cannot agree to establish a new ECVNAA.

Currently, the Code provides 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.

Initial assessment by ELEXON has indicated a number of issues with P110, which are described in section 12 of this document, and can be summarised as follows:

- Assessment is required of whether allowing a Party to nullify contract notifications in the absence of an Authorisation Notification would better facilitate the Applicable BSC Objectives. An alternative view might be that this issue is best addressed through the terms of the contract between the two Parties, rather than under the Code;
- Clarification of the processes for initiating and carrying out the nullification of contract volumes is required;
- Clarification of reporting requirements (i.e. the information to be provided to the two Parties) is required; and
- The Modification Group may also wish to consider whether the process should also apply to Metered Volume Reallocation Notifications.

Although some of these could be regarded as definitional issues, ELEXON believes that this Modification Proposal is reasonably well-defined, and that a Definition Procedure is not required. It is therefore proposed that P110 should be submitted to the Assessment Procedure.

On the basis of this Initial Written Assessment, the Panel is invited to:

- **NOTE the results of the Initial Written Assessment;**
- **DETERMINE that Modification Proposal P110 should be submitted to the Assessment Procedure in accordance with section F2.6 of the Code;**
- **AGREE the Assessment Procedure timetable such that an Assessment Report should be completed and submitted to the Panel for consideration at their meeting of 13 February 2003;**
- **DETERMINE that the Assessment Procedure should be undertaken by the Settlement Standing Modification Group with appropriate experts on contract notification; and**

- **AGREE any refinement to the Modification Group Terms of Reference.**

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 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

3 DESCRIPTION OF THE MODIFICATION PROPOSAL

A copy of P110, as submitted by the Proposer, can be found at Annex 1 to this report.

Description of the Proposed Modification

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

- All the ECVNAA with that Party have been terminated; and
- The two Parties cannot agree to establish new ECVNAA.

Currently, the Code provides no mechanism for amending the contract notifications under these circumstances.

Justification for the Proposed Modification

P110 would mitigate the risk to Parties of exposure to imbalance prices arising from contract notifications that cannot be amended, due to the termination of all ECVNA between the two Parties. The Proposer asserts that this would better facilitate the achievement of the Applicable BSC Objective (c), as set out in the Transmission Licence:

"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."

4 IMPACT ON BSC SYSTEMS AND PROCESSES

BSC System / Process	Potential Impact of Proposed Modification
Contract Notification	Amendments would be required to the processes of the Energy Contract Volume Aggregation Agent (ECVAA) in order to nullify contract volumes when the P110 process was initiated.
Reporting	Additional reporting may be required from the ECVAA. This will need to be clarified as part of the Assessment Procedure.
Dispute Resolution	The Assessment Procedure will need to clarify the extent to which the P110 contract nullification process is subject to dispute by BSC Parties.

5 IMPACT ON OTHER SYSTEMS AND PROCESSES USED BY PARTIES

System / Process	Potential Impact of Proposed Modification
BSC Parties	If P110 is approved, BSC Parties may need to change their own processes, both to invoke the P110 process under appropriate circumstances, and to respond to the situation in which the process is invoked by a counter-Party to one of their contracts. Changes could also be required to commercial contracts with counter-Parties.

6 IMPACT ON DOCUMENTATION

6.1 Impact on Balancing and Settlement Code

BSC Section	Potential Impact of Proposed Modification
P: Energy Contract Volumes and Metered Volume Reallocations	Section P describes the obligations with regards to the submission and processing of ECVNs. It would therefore require amendment to reflect the obligations and processes associated with nullification of energy contract volumes.
W: Trading Queries and Trading Disputes	Section W may require amendment to reflect the additional scope for Trading Disputes introduced by the process for nullification of energy contract volumes.
X: Definitions and Interpretation	New definitions and variables may be required to support the contract nullification process.
X: ANNEX X-1 General Glossary	
X: ANNEX X-2 Technical Glossary	

6.2 Impact on Code Subsidiary Documents

Code Subsidiary Document	Potential Impact of Proposed Modification
BSC Procedures	BSCP 71 'ECVNA and MVRNA Registration, Authorisation and Termination' may require amendment.
BSC Service Descriptions	The ECVAA Service Description will require amendment to reflect the obligations and processes required to support nullification of energy contract volumes.
Reporting Catalogue (and other Data Catalogues)	Any amendments to existing reports, or new reports required to support contract nullification will impact the Reporting Catalogue and the NETA Data File Catalogue (NDFC) (and the Interface Definition and Design (IDD) document, owned by the BSC Central Service Agent), by the requirement to reflect the amendments.

6.3 Impact on Core Industry Documents

No impact identified at this time.

7 IMPACT ON OTHER CONFIGURABLE ITEMS

Item	Potential Impact of Proposed Modification
BSC Central Service Agent ECVAA System Documentation	The BSC Central Service Agent owned ECVAA system documentation (User Requirements Specification, Design Specification, System Specification, Operational Service Manual, etc.) may require amendment.

8 IMPACT ON ELEXON

Area of Business	Potential Impact of Proposed Modification
ELEXON Procedures	Further clarification is required of the extent to which ELEXON will be involved in the contract nullification process.

9 IMPACT ON FINANCIAL ARRANGEMENTS AND BUDGET

No impact identified at this time.

10 IMPACT ON BSC AGENT CONTRACTUAL ARRANGEMENTS

No impact identified at this time.

11 PROCESS AND TIMETABLE FOR PROGRESSING THE PROPOSAL

ELEXON recommends that P110 be submitted for Assessment to the Settlement Standing Modification Group with appropriate experts on contract notification. The Settlement Standing Modification Group should be actioned to provide its report to the Panel by 13 February 2003.

It is estimated that the progression of P110 through the Modification Process will incur third party costs of £14,500 funded from the demand led budget in addition to core team staff costs. This estimate is based on current information and may be subject to change.

This recommendation is based on the perceived time required for consideration of the issues associated with P110, as set out in Section 12, and for completion of the assessment required under the Code, Section F 2.6.

12 ISSUES

The following issues should be addressed during the Assessment Procedure for P110:

1. Assessment is required of whether the Applicable BSC Objectives would be better facilitated by introducing a new mechanism to protect Parties from the risk of ECVNs being left on the ECVAA system after all Notification Authorisations have expired. An alternative view might be that this issue is best addressed through the terms of the contract between the two Parties, rather than under the Code;
2. If it is appropriate to address this issue under the Code, assessment is required of whether the mechanism proposed by P110 is the most appropriate one, or whether an alternative solution would better facilitate the Applicable BSC Objectives;
3. Clarification is required of the conditions under which the nullification process can be invoked. Is it sufficient that all Notification Authorisations between the two Parties have been terminated, or is it also necessary to show that "the Party and counter-Party cannot agree to establish new Authorisations"?
4. The Modification Proposal does not specify the process for initiating the nullification process. Clarification is required of this process e.g. the extent to which ELEXON involvement is required;
5. The Modification Proposal does not specify the mechanism to be used by the ECVAA in order to 'nullify' contract notifications. Clarification of this is required;
6. Clarification is also required of reporting requirements i.e. the information to be provided to the two Parties; and
7. The Modification Proposal mentions Energy Contract Volume Notifications specifically. However, the Modification Group may wish to consider whether it's appropriate to extend the process to Metered Volume Reallocation Notifications.

ANNEX 1 – MODIFICATION PROPOSAL

Modification Proposal	MP No: P110 <i>(mandatory by BSCCo)</i>
Title of Modification Proposal <i>(mandatory by proposer):</i> Nullification Of Volume Notifications Where No Notification Authorisations Are In Place	
Submission Date <i>(mandatory by proposer):</i> 04 November 2002	
Description of Proposed Modification <i>(mandatory by proposer):</i> The Modification Proposal suggests there are certain circumstances where: <ul style="list-style-type: none"> - a valid Volume Notification has been made; - the Volume Notification covers Settlement Periods for which Gate Closure has not yet occurred; - all Energy Contract Volume Notification Agent Authorisations between the two Parties have been terminated; and - the Party and counter-Party cannot agree to establish new Authorisations which could leave a Party exposed to the Energy Imbalance Prices without any way of altering their position. Under such circumstances it is proposed that the effect of such Volume Notifications for Settlement Periods for which Gate Closure has not yet occurred should be nullified on request from one of the two Parties.	
Description of Issue or Defect that Modification Proposal Seeks to Address <i>(mandatory by proposer):</i> Where all of the following circumstances prevail: <ul style="list-style-type: none"> - a valid Volume Notification has been made; - the Volume Notification covers Settlement Periods for which Gate Closure has not yet occurred; - all Energy Contract Volume Notification Agent Authorisations between the two Parties have been terminated; and - the Party and counter-Party cannot agree to establish new Authorisations there is potential for the Parties to be exposed to the consequences of Energy Imbalance Prices with no way of adjusting their position.	
Impact on Code <i>(optional by proposer):</i>	
Impact on Core Industry Documents <i>(optional by proposer):</i>	
Impact on BSC Systems and Other Relevant Systems and Processes Used by Parties <i>(optional by proposer):</i>	
Impact on other Configurable Items <i>(optional by proposer):</i>	

Modification Proposal	MP No: P110 <i>(mandatory by BSCCo)</i>
Justification for Proposed Modification with Reference to Applicable BSC Objectives <i>(mandatory by proposer):</i> It is suggested that the Modification Proposal better meets the following Applicable BSC Objective, as set out in Condition 3.3 of the Transmission Licence: <i>"(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"</i> by mitigating Parties' risk of exposure to Energy Imbalance Prices.	
Details of Proposer: Name: Ian Foy Organisation: AES Drax Power Limited Telephone Number: 01757 612344 Email Address: ian.foy@aes.com	
Details of Proposer's Representative: Name: Ian Foy Organisation: AES Drax Power Limited Telephone Number: 01757 612344 Email Address: ian.foy@aes.com	
Details of Representative's Alternate: Name: Melanie Wedgbury Organisation: AES Drax Power Limited Telephone Number: 020 8334 5303 Email Address: melanie.wedgbury@aes.com	
Attachments: NO If Yes, Title and No. of Pages of Each Attachment:	