

Modification Proposal – BSCP40/06	MP No: 210 (mandatory by BSCCo)
Title of Modification Proposal <i>(mandatory by originator)</i> : Revisions to the Text in Section P related to Single Notifications of Energy Contract Volumes and Metered Volume Reallocations.	
Submission Date <i>(mandatory by originator)</i> : 5 February 2007	
<p>Description of Proposed Modification <i>(mandatory by originator)</i>:</p> <p>Under Section C3.8.8 of the Balancing and Settlement Code (the 'Code'), BSCCo shall keep under review whether any possible modification of the Code from time to time would better facilitate Applicable BSC Objective (d) "Promoting efficiency in the implementation and administration of the Balancing and Settlement arrangements". BSCCo has been made aware by the Trading Disputes Committee¹ that specific paragraphs in Section P 'Energy Contract Volumes and Metered Volume Reallocations' of the Code might be said to be ambiguous and has, upon further investigation, identified other related provisions of Section P that would benefit from revision. Section F2.1.1(d)(i) of the Code provides for the Panel to raise a Modification on the recommendation of BSCCo.</p> <p>This Proposal seeks to revise or clarify the Code text in relation to the process of single notification² for the purposes of removing the potential for misinterpretation and to ensure that established conventions and practices (and the efficiencies associated with those) are maintained. The Proposal would ensure that the text relating to the notifications processes in Section P of the Code is unambiguous and in accordance with existing conventions, general understanding, industry practice and the Energy Contract Volume Allocation Agent (ECVAA) Service Description.</p> <p>There are five areas relating to Energy Contract Volume and Metered Volume Reallocation processes in Section P which have been identified as requiring revision or clarification, or are currently open to potential misinterpretation, that this Proposal seeks to rectify. These are:</p> <ol style="list-style-type: none"> 1. Effect of an overwrite notification on Settlement Days beyond its Effective To Date; 2. Part day overwrites of notifications; 3. Business validation of notifications; 4. Request from Parties and Agents not to receive notification of validation failures; and 5. Refusal and rejection of notifications for credit reasons. <p>In relation to the first two areas, under the ECVAA Service Description a replacement Energy Contract Volume Notification (ECVN) or Metered Volume Reallocation Notification (MVRN) will terminate the effect of the first ECVN or MVRN for all Settlement Periods on all Settlement Days from the Effective From Date of the new notification, including those days after the Effective To Date of the second notification (if specified) in accordance with P2.3.5 and P3.3.5. Additionally, the ECVAA Service Description states that any omitted Settlement Periods in a notification will constitute an Energy Contract Volume value of zero. It is proposed that the Code is modified to ensure that, in the case of the process of single notification, these established industry practices are accurately reflected in the Code and cannot be misinterpreted.</p> <p>In relation to the third area, business validation of ECVNs and MVRNs should also be revised to ensure that inefficiencies (including costs) are not created or borne by the industry by moving away from existing conventions and current practices, or there being doubt in relation to them. It is proposed that the current practice of rejecting an entire notification if any single Settlement Period fails validation is made unambiguous in the Code such that there is no scope for misinterpretation.</p> <p>The fourth area identified as potentially open to possible misinterpretation and therefore requiring revision or clarification relates to P2.3.8 and P3.3.8. It is proposed that it is made clear in the Code that there should be no</p>	

¹ Trading Disputes Committee Meeting (TDC92) - Minutes – 21 September 2006 & Panel Paper 119/01 (d) – 12 October 2006.

² Single Notification is the process in which a single Agent provides notification of Energy Contract Volumes or Metered Volume Reallocations on behalf of two Parties.

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obligation on the ECVAAs to send 'Notification Feedback' reports if a Notification Agent or BSC Party has opted out of receiving them.

The final area relates to P2.5 and P3.5 and when a notification is treated as refused or rejected for credit reasons. It is proposed that it is made clear that a notification will be refused in its entirety if any one of the Settlement Period values within it has the effect of increasing the indebtedness of the Party in Level 2 Credit Default. For rejection, in contrast, it is proposed that it is made clear that only individual Settlement Periods are rejected if that Settlement Period value would have the effect of increasing the indebtedness of the Party in Level 2 Credit Default. Any Settlement period that does not increase the indebtedness should be accepted. In the case of both notification refusals and rejections, it is proposed that it is made clear that a zero value (or Settlement Period with neutral effect on indebtedness) should not count as increasing indebtedness.

The Proposal does not recommend an Implementation Date as the Modification Group may wish to consider whether the Modification should be retrospective to have effect from the date the Modification Proposal is raised.

The draft legal text provided also corrects an existing erroneous cross-reference in Paragraph P3.3.2.

Description of Issue or Defect that Modification Proposal Seeks to Address *(mandatory by originator)*

The first area identified above as open to potential misinterpretation is related to changes introduced under P98 'Dual Notification of Contract Positions' (implemented 8 November 2004) where increased use of the terms 'Settlement Period' and 'in force' were introduced to Section P. It might be said that this could give rise to two possible interpretations in relation to the overwriting of notifications in which a Settlement Period may mean:

1. A particular Settlement Period on a particular Settlement Day – thus presenting 960 Settlement Periods over a 20 day period; or
2. One of the 48 Settlement Periods in a day (e.g. Settlement Period 10) – thus representing just 48 Settlement Periods repeated over a 20 day period

BSCCo believes the intent was for overwrite notifications to apply to all Settlement Periods on all subsequent Settlement Days from the Effective From Date of the new notification and this has been reflected in existing conventions and practice. Clarification to reflect existing practice would make it clear that an overwrite notification applies to all Settlement Periods on all subsequent Settlement Days from the Effective From Date of the new notification rather than only for the effective dates specified in the new notification. It is proposed that the clarification is made as this would ensure the potential for misinterpretation of the original intent is removed.

The second area identified as open to potential misinterpretation relates to when notifications are made for only part of the day. For example if periods 1-21 are updated by a replacing notification then periods 22-48 might be able to be said to be interpreted as either :

1. Remaining as submitted in the notification(s) immediately prior to the replacing notification; or
2. Assumed to be withdrawn and a value of zero entered.

The second situation is consistent with the behaviour of the ECVAAs systems and industry understanding and practice since NETA Go-Live.

The third area identified as benefiting from revision or clarification of the Code to ensure that inefficiencies and uncertainties are not created and costs are not borne by the industry by moving away from existing conventions and current practices is in relation to business validation of notifications. The current Code may be said to be able to be interpreted as requiring notifications to be validated on a Settlement Period basis. That is, if a single Settlement Period fails business validation, this would not exclude the remaining Settlement Periods of the notification from being validated. However, under current practice and conventions, the systems will reject an entire notification if one Settlement Period fails validation and it is believed that it would be inefficient, costly and disruptive to current industry practice to move away from this convention.

The fourth area identified as benefiting from revision or clarification relates to P2.3.8 and P3.3.8. These

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<p>provisions allow for an ECVNA/MVRNA to resubmit a notification after Gate Closure if it failed validation and they weren't notified within 20 minutes. However, under P98, BSCP71 'ECVNA and MVRNA Registration, Authorisation and Termination' was adjusted to allow an ECVNA/MVRNA to opt out of receiving Notification Feedback. Thus if an ECVNA or MVRNA has opted out of receiving Notification Feedback, the ECVAAs should not be required to provide information on validation.</p>	
<p>The final area identified as requiring revision is in relation to rejection and refusal of notifications for credit reasons. Under current practice the systems will only reject individual Settlement Periods of a notification if that Settlement Period value would have the effect of increasing the indebtedness of the Party in Level 2 Credit Default. This allows for individual Settlement Periods in a notification which do not increase indebtedness to be accepted. However, the current wording of P2.5 and P3.5 could be said to be able to be interpreted as rejecting an entire notification if one Settlement Period has the effect of increasing indebtedness. With regards to refusal, in contrast, the current practice is that the entire notification will be refused if one Settlement Period has the effect of increasing indebtedness. However, the current wording of P2.5 and P3.5 could be said to be able to be interpreted as refusing notifications on a Settlement Period basis. Also, a notification may be refused or rejected if one Settlement Period does not decrease indebtedness. This means that if one Settlement Period has a neutral effect on indebtedness, the Code could be said to be interpreted as requiring the whole notification to be refused or rejected.</p>	
<p>Therefore it is proposed that the Code should be modified in relation to the above five areas so that the potential for misinterpretation, inefficiency or uncertainty is removed and unnecessary costs are not borne by the industry by moving away from existing conventions and current practices. A copy of the draft legal text for Section P is included as Attachment A to this Modification Proposal.</p>	
<p>Impact on Code <i>(optional by originator)</i></p> <p>The Code will need to be modified as suggested in the draft legal text in Attachment A.</p>	
<p>Impact on Core Industry Documents or System Operator-Transmission Owner Code <i>(optional by originator)</i></p> <p>None Identified.</p>	
<p>Impact on BSC Systems and Other Relevant Systems and Processes Used by Parties <i>(optional by originator)</i></p> <p>The Proposed Modification would have no impact on BSC systems as it will remove the potential for misinterpretation from the Code. Current industry practice and established conventions will not change. If this Proposed Modification is not implemented established industry practice and the ECVAAs system may have to be adjusted to be able to accommodate this.</p>	
<p>Impact on other Configurable Items <i>(optional by originator)</i></p> <p>Further information related to the processing of notifications can be found in the in the ECVAAs Service Description. However, this does not relate specifically to the submission of notifications and H1.2.8 of the Code states that the requirement for Parties and BSC Agents to comply with Code Subsidiary Documents does not apply to BSC Service Descriptions. It is suggested that additions are made to BSCP71 'ECVNA and MVRNA Registration, Authorisation and Termination' to reflect the processes as revised within Section P. BSCP71 will also need to be appropriately renamed. It is proposed that the BSCP changes can be made after the Modification is progressed.</p>	

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<p>Justification for Proposed Modification with Reference to Applicable BSC Objectives <i>(mandatory by originator)</i></p>	
<p>Potential uncertainty or variances in the interpretation of the Code create inefficiency and uncertainty in the settlement and administration of the settlement arrangements. The proposed changes would reinforce existing rules, conventions and practice and therefore will provide certainty and avoid inefficiency and costs. This will benefit competition and therefore better facilitate Applicable 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".</p> <p>Potential lack of clarity in the Code and therefore uncertainty in relation to existing conventions and industry practice adversely affects efficiency in implementation and administration of Settlement. Thus the Proposal will also better facilitate Applicable Objective (d) "Promoting efficiency in the implementation and administration of the Balancing and Settlement arrangements".</p>	
<p><u>Urgency Recommended:</u> Yes – please see draft letter to the Panel Chairman outlining the reason for urgency, included as Attachment B.</p>	
<p><u>Justification for Urgency Recommendation</u> <i>(mandatory by originator if recommending progression as an Urgent Modification Proposal)</i></p>	
<p>The possibility of misinterpretation of the Code surrounding the notification processes in Section P introduces an element of risk to the Trading Arrangements. As the ECVNs and MVRNs are used to produce a BSC Party's final contract position upon which Settlement is based, uncertainty, ambiguity or misinterpretation could result in significant commercial impact on BSC Parties. Any error in the contract positions notified by Parties has a potentially very large impact on their Trading Charges. It is therefore important that Parties should have absolute confidence that notifications which are submitted by their Agents will be interpreted in Settlement in a manner consistent with the Service Description and the practices and conventions described above. In addition, if this is not the case this may also cause problems for the counter party. It may also cause problems to the System Operator when trying to balance the system.</p> <p>All the issues outlined in the Proposal represent sources of uncertainty in the area of notifications. These matters have not previously come to the attention of BSCCo or industry as being matters requiring attention or of concern because the systems have functioned as Parties expected and in accordance with practice and conventions. Nonetheless, doubt in relation to these matters, or any change in current conventions, interpretation and practice could undermine confidence in the notification mechanism and create uncertainty.</p> <p>Inevitably, raising this Modification Proposal may focus attention on these areas of uncertainty, and hence increase the risk of a situation arising in which uncertainty over the notification mechanism has a material impact on Parties. While we believe that the chance of such an event occurring will still be low, we recognise that the commercial impact on Parties if such an event were to occur could be extremely large. For this reason, we believe that Urgency is justified, in order to minimise the period of time in which industry is exposed to this increased risk and uncertainty.</p>	

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Details of Proposer:	
<i>Name</i>	
<i>Organisation</i> BSC Panel	
<i>Telephone Number</i>	
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Details of Proposer's Representative:	
<i>Name</i> Modification Secretary	
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Attachments: two	
If Yes, Title and No. of Pages of Each Attachment:	
Attachment A: Draft Legal Text - 18 pages	
Attachment B: Letter to Panel Chairman recommending a request for Urgency	