

May 2002

MODIFICATION REPORT
MODIFICATION PROPOSAL P61 –
Ad Hoc Adjustments to Settlement
involving material errors without
resorting to Ad Hoc Settlement
Runs

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

Document Reference	MR 44/004
Version no.	2.0
Issue	Final
Date of Issue	17 May 2002
Reason for Issue	Authority Decision
Author	ELEXON

I DOCUMENT CONTROL

a Authorities

Version	Date	Author	Signature	Change Reference

Version	Date	Reviewer	Signature	Responsibility
0.1	22/04/02	P61 Modification Group	N/A	<i>Overall clarity and accurate reflection of the members views</i>
0.1	22/04/02	Ceri Hughes	ELEXON Trading Development	<i>Accuracy of impact on relevant CIs</i>
	22/04/02	Robin Eccles	ELEXON Design Authority	<i>Accuracy of impact on relevant CIs</i>
0.1	22/04/02	Cathy Woods	ELEXON Legal	<i>Accuracy of Legal section</i>
0.1	22/04/02	Alex Grieve	BSC Systems Delivery Programme	<i>Accuracy of Project Brief</i>
0.1	22/04/02	Christina Kennedy	ELEXON Disputes	<i>Accuracy of relevant impact statement</i>
0.1	22/04/02	Richard Humphreys	ELEXON Finance	<i>Accuracy of relevant impact statement</i>
0.1	22/04/02	Peter Wibberly	ELEXON Trading Operations	<i>Accuracy of relevant impact statement</i>
0.1	22/04/02	Graham Webb	ELEXON Contracts	<i>Accuracy of service contract statements</i>
0.1	22/04/02	Catherine Forrester	ELEXON Performance Assurance	<i>Overall clarity</i>
0.1	22/04/02	Dorcas Batstone	ELEXON Modifications	<i>Overall clarity & suitability of modified structure to accommodate comparison with CP517</i>
1.1	10/05/02	BSC Panel		

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

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d Related Documentation

Reference	Document
Reference 1	Modification Proposal P61 'Ad Hoc Adjustments to Settlement involving material errors without resorting to Ad Hoc Settlement Runs'
Reference 2	Initial Assessment of Modification P61 (IWA061)
Reference 3	Modification P61 Assessment Consultation V1.0
Reference 4	Modification P61 Requirements Specification V1.0
Reference 5	Change Proposal 517 'Multiple Occurrences of Disputes Pre and Post-Final Settlement Runs
Reference 6	BSC Business Process Model V4.0
Reference 7	Assessment Report of Modification P61 V1.1

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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 Assessment Phase, and the resultant findings of this report, the BSC Panel recommends that:

a) The Proposed Modification, as set out in Section 5 of this Modification Report is approved.

b) The Modification is implemented on a 'calendar day' basis effective from the release date of the BSC Systems Delivery Programme on the 12 August 2002, following an Authority decision by 20 May 2002 to approve Modification Proposal P61. A later decision (by 10 September 2002) will effect a release date of 10 December 2002.

1.2 Background

Modification Proposal P61 was submitted on 31st December 2001 by ScottishPower Energy Trading Ltd. The Modification Proposal seeks to address the compliance issue of Ad Hoc Settlement Runs by an alternative means and remove Ad Hoc Settlement Runs as the means to effect agreed adjustments, with the exception of a single Disputes Final Run.

The inability to perform multiple Disputes Pre- and Post-Final Settlement Runs (i.e. Ad-Hoc Settlement Runs) is a non-compliance with the BSC addressed via Change Proposal 517. This issue has been presented to the Panel (paper33/022), indicating a severe impact on participant systems and processes if CP517 is implemented.

Modification P61 proposes an alternative solution to CP 517, that is a more cost effective, and practical, standard methodology for adjustment of a material error in Settlement. It involves using timetabled settlement runs, or if required, calculating a manual interim adjustment between settlement runs.

The Assessment Report for Modification Proposal P61 (Reference 7) was submitted for consideration at the Panel meeting of 18 April 2002. The Panel endorsed the recommendations of the Modification Group and agreed to submit Modification Proposal P61 to the Report Procedure, with a recommendation that the proposed modification be approved with a 'calendar day' implementation. The Modification would be effective from the release date for the BSC Systems Delivery Programme which first occurs not less than 3 months after the date of the Authority's determination.

The Panel decided that Modification Proposal P61 should proceed to the Report Phase in accordance with section F2.7 of the Balancing and Settlement Code (the Code) for presentation to the Panel meeting on 16 May 2002.

1.3 Rationale for Recommendations

Modification P61 proposes an alternative solution to CP517, that aligns the code with the current capability of BSC Systems (Central as well as Participant Systems) with regard to Volume Allocation and Settlement Runs.

The Modification has only a minor impact on BSC Systems and it was the clear opinion of the Modification Group that this proposal was a cost and resource effective solution to the compliance issue.

In particular, it is the consensus of opinion in consultation responses that the Modification Proposal will meet applicable objective C3(3) (d) to promote efficiency in the implementation and administration of the balancing and settlement arrangements.

The Panel supported this rationale by endorsing the Assessment Report recommendations.

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 ('BSC'). The BSC 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 BSC.

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 PURPOSE AND SCOPE OF THE REPORT

BSC Section F sets out the procedures for progressing proposals to amend the BSC (known as 'Modification Proposals'). These include procedures for proposing, consulting on, developing, evaluating and reporting to the Authority on potential modifications. This report has been drafted in accordance with the obligations set out in Section F of the Code.

The BSC Panel is charged with supervising and implementing the modification procedures. ELEXON provides the secretariat and other advice, support and resource required by the Panel for this purpose. In addition, if a modification to the Code is approved or directed by the Authority, ELEXON is responsible for overseeing the implementation of that amendment (including any consequential changes to systems, procedures and documentation).

A Modification Report must be prepared and submitted to the Authority in respect of each proposed modification and must contain:

- (a) The recommendation of the Panel as to whether or not the Proposed Modification or any Alternative Modification should be made;
- (b) The proposed Implementation Date for implementation of the Proposed Modification or any Alternative Modification;
- (c) The matters set out in Annex F-1 of the BSC. This will usually be in the form of the relevant Assessment Report where the Proposal has been submitted to a Modification Group prior to the Report Phase;
- (d) An explanation of the Panel's rationale should the Panel form a different view of any matters contained in the Modification Group Report; and
- (e) A summary of the representations made by Parties and interested third parties during the consultation undertaken in respect of the Proposed Modification and any Alternative Modification.

4 HISTORY OF PROPOSED MODIFICATION

The inability to perform multiple Disputes Pre- and Post-Final Settlement Runs (i.e. Ad-Hoc Settlement Runs) is a non-compliance with the BSC addressed via Change Proposal 517. This issue has been presented to the Panel (paper33/022), indicating a severe impact on participant systems and processes if CP517 is implemented.

CP517 seeks to deliver the requirement of section W of the BSC for the settlement of Disputes through multiple Ad-Hoc Settlement Runs, for any given Settlement Date, both within the fourteen month period (pre-final Settlement) and beyond that up to a cut off point of three years (post-final Settlement).

Modification Proposal P61 was submitted on 31st December 2001 by ScottishPower Energy Trading Ltd. The Modification Proposal seeks to address the same compliance issue by an alternative means and remove the requirement for Ad Hoc Settlement Runs as the means to effect agreed adjustments, with the exception of a single Disputes Final Run.

A Disputes Final Run is an extra Settlement Run outside of the timetabled Settlement Runs, and is performed after the final Settlement Run. The Dispute Final Run would take place within a window of twenty to twenty four months after the Settlement Day in question. This would allow the raising of any Post-Final Disputes in accordance with BSCP 11.

The modification proposes that a more cost effective, and practical, standard methodology for adjustment of a material error in Settlement is to use timetabled settlement runs or if required calculate a manual Interim Adjustment between settlement runs.

The Modification has only a minor impact on BSC Systems, as effectively it aligns the Code with the current capability of BSC Systems (Central as well as Participant Systems) with regard to Volume Allocation and Settlement Runs.

There is an option to automatically carry out the calculation of the Interim Adjustment levels but due to the expense and the low expected frequency the Modification Group and Industry felt that the purely manual option was preferred.

5 DESCRIPTION OF PROPOSED MODIFICATION

Modification Proposal P61 removes Ad-Hoc Settlement Runs from the Code and proposes that Trading Disputes are settled by:

- Applying the correction at the next convenient Timetabled Reconciliation Settlement Run; or
- Using a single Dispute Final Run post the Timetabled Final Reconciliation Run; or
- Using an interim adjustment between settlement runs.

The single Dispute Final Run would not be a timetabled Reconciliation Run but would be run at the discretion of the Panel/Trading Disputes Committee (TDC).

The concept of 'Interim Adjustment' being where there is an urgent requirement to make an adjustment, say for cashflow reasons, then a simple and approximate manual calculation of the error, carried out by ELEXON on behalf of the TDC and agreed by the BSC Panel, outside the timetabled Reconciliation Settlement Runs, would be put into effect. The process would effect an instruction to the FAA to recover monies from a specific number of advantaged Parties payable to the disadvantaged Party. The appropriate Parties would be decided upon by ELEXON and approved by the TDC on a case by case basis. The legal term for Interim Adjustment, as used in the legal text for BSC inclusion, is Extra Settlement Determination.

A second instruction is then issued to the FAA by ELEXON prior to the date of the next timetabled Reconciliation Run (including the case where this is a Disputes Final Run). This second instruction effectively reverses the interim amounts but includes an interest element, due from the point of the initial payments up to the point of their repayment. The disadvantaged Party would be liable to pay the appropriate interest to each of the other Parties involved in the interim adjustment. This is intended to ensure that the interim adjustment process is transparent (auditable) and equitable and reflects the transactions of monies within the settlement boundaries.

6 RATIONALE FOR PANEL RECOMMENDATIONS

At its meeting on 16 May 2002 the Panel agreed with the Modification Group's view that this Modification better facilitated the Applicable BSC Objective of promoting efficiency in the implementation and administration of the balancing and settlement arrangements. The modification achieves this by removing an inconsistency in the code, in a simpler, more efficient and hence more cost-effective process than that proposed by Change Proposal 517.

In accordance with Section F 2.7.5 of the BSC, the Panel:

- NOTED the responses received to the consultation on the draft Modification Report;
- CONFIRMED the recommendation to the Authority that P61 should be approved;
- CONFIRMED a Calendar day implementation;
- CONFIRMED the Implementation Date of 12 August 2002 subject to an Authority determination by 20 May 2002.
- APPROVED the proposed text for modifying the Code in order to give effect to the Proposed Modification;
- APPROVED the draft Modification Report

The reasoning behind the recommended rationale is detailed in the Assessment Report, as is the Modification Group's discussions, Impact Assessment and Assessment consultation details. For ease of reference the reasoning behind the Calendar day implementation decision is reproduced here:

The unanimous opinion of the Modification Group is that a Calendar Day implementation is the preferred option, for the following reasons:

- It would enable a quick and immediate implementation to take place.
- It would provide the greatest flexibility to the TDC, Panel etc. to utilise the new functionality.
- It would remove any confusion as to whether a historical Settlement Date is 'in' or 'out'.

Any retrospective impact on settlement periods prior to the Calendar Day on which the modification is implemented is purely process-related. This modification is not proposing a change to the market rules as to how BM Unit Trading Charges are calculated. It is seeking to correct an error in central arrangements (no process for Ad Hoc Settlement Runs) in a cost-effective manner and (through Calendar Day implementation) at the earliest opportunity possible. In this way, it provides a greater degree of flexibility to the Panel and its committees (i.e. the TDC) in how settlement of the affected Settlement Days is administered.

The Modification Group recognises that there is an Ofgem preference for Settlement day implementation to avoid retrospection. However, a Settlement day implementation would leave a period, between Go Live and the Implementation date, with the current non-compliance to the code and no definitive rules in place. This raises the possibility of a (P45 style) Modification being raised to cope with the intervening period. A complication would also occur where a dispute period spans the Settlement day implementation date, with different rules applying each side of implementation date.

It is not believed that this Modification sets any precedent for retrospection or will cause any change in participant behaviour because of its introduction.

7 LEGAL TEXT TO GIVE EFFECT TO THE PROPOSED MODIFICATION

7.1 Conformed Version

The red lined version of amended BSC text is at Annex 2.

7.2 Clean Version

The clean version of amended BSC text is at Annex 3.

8 ASSESSMENT

The impact of Modification Proposal P61 can be found in section 6 of the Assessment Report. The key points are:

- The main changes to the code are to Sections U and W.
- BSC Agent Service Descriptions and Service Lines are impacted, to remove the requirement for Ad Hoc Settlement Runs and to clarify the requirement for Dispute Final Runs. The same is required for Party Service Lines.
- Four BSCPs are affected; replacing the terminology of Ad Hoc Settlement Runs. For BSCP 11 there is an additional need to describe the process for 'Extra Settlement Determination'.
- The only impact on BSC IT Systems is for the FAA to include the process for Interim Adjustment payments and invoices.
- Parties and Party Agents indicate no or minimal impact to their systems.

9 SUMMARY OF REPRESENTATIONS

The responses received to the draft Modification Report issued for consultation on 3 May 2002 are attached as Annex 1. Ten responses, representing a total of 28 Parties, were received.

Seven responses, representing 22 Parties supported the Modification. A single response, representing 4 Parties, did not support the Modification. One response, representing 1 Party, made no comment as to whether or not the respondent supported or rejected the Modification. One response, representing 1 Party, gave a conditional response.

The majority of those supporting the Modification indicated that they did so on the basis that its implementation offered a simpler, more efficient and hence more cost-effective process than that proposed by Change Proposal 517. The intention of which was to remove an inconsistency in the code and hence better facilitating the Applicable BSC Objective of promoting efficiency in the implementation and administration of the balancing and settlement arrangements.

Support was also expressed for the proposed 'calendar day' implementation, on the basis that, as this proposal is only concerned with Ad Hoc Adjustments to Settlement, which ultimately would be corrected through the normal run timetable, no BSC Party affected by this will be any better or worse off irrespective of the method of implementation.

No new substantive arguments were raised.

The respondent that did not support the Modification Proposal indicated that they did so on the basis of the arguments that they put forward during the Assessment Procedure. During the Assessment Procedure, they had argued that, the BSC was written with the expectation of being able to use software to perform "settlement between or after normal runs" in special circumstances, they see no good reason to remove this objective.

The respondent that gave a conditional response indicated that they considered the Modification feasible but wanted assurance of its effect on them. This was based on a misunderstanding of the process and how it may effect them.

A summary and copies of the original representations received and considered by the Modification Group under the initial consultation on this proposal can be found in the Assessment Report on this proposal. This Modification Report should be read in conjunction with that Assessment Report.

ANNEX 1 – REPRESENTATIONS

Representations were received from the following parties:

No	Company	File Number	No. Parties Represented
1.	Logica	P61_MR_001	1
2.	London Electricity	P61_MR_002	6
3.	Powergen	P61_MR_003	3
4.	TXU	P61_MR_004	1
5.	SEEBOARD Energy Limited	P61_MR_005	1
6.	Aquila Network	P61_MR_006	1
7.	British Energy	P61_MR_007	4
8.	Scottish Power	P61_MR_008	6
9.	Scottish and Southern	P61_MR_009	4
10.	British Gas Trading Ltd	P61_MR_010	1
11.			
12.			
13.			
14.			

Copies of representations on Draft Modification Report

P61_MR_001 – Logica

T 5.3.1.b

U 2.1.1.b

U 2.2.4

U 2.2.5

in each case, the text has changed from "an Ad Hoc" to "an Post-Final" it should be "a Post-Final"

U 2.2.3 (g)

the 'Sigma' character has become a square in the pdf file

David Hicks

Logica

Design Authority

NETA Central Systems

P61_MR_002 – London Electricity

I am writing on behalf of:

London Electricity Group Plc
London Electricity Plc
Sutton Bridge Power
West Burton Power
Jade Power Generation
London Power Networks Plc

We support the modification as drafted.

Harish Mistry

Settlements Manager

P61_MR_003 – Powergen

Modification Proposal P61 – Ad Hoc Adjustments to Settlement involving material errors without resorting to Ad Hoc Settlement Runs

Powergen UK plc welcomes the opportunity to make comments on the draft Modification Report detailed above, and provides this response on behalf of itself and the following BSC Parties: Powergen Retail Limited, Diamond Power Generation Limited, and Cottam Development Centre Limited.

Powergen UK plc supports the above Modification Proposal, particularly as it proposes a simpler, more efficient and hence more cost-effective process than that proposed by Change Proposal 517.

Powergen also supports the proposed 'calendar day' implementation, on the basis that, as this proposal is only concerned with Ad Hoc Adjustments to Settlement, which ultimately would be corrected through the normal run timetable, no BSC Party affected by this will be any better or worse off irrespective of the method of implementation.

Should you want any further information, or wish to discuss any of the issues raised further, please do not hesitate to contact me.

Yours sincerely,

Geoff Allen
Head of Balancing Mechanism Settlement
Powergen UK plc.

P61_MR_004 – TXU

We confirm that we support the recommendation and conclusion contained in the draft report.

P61_MR_005 – SEEBOARD

P61 Report Comments

With respect to this proposal, we support recommendations within section 1.1 of draft modification report dated 3rd May 2002.

Dave Morton
SEEBOARD Energy Limited

P61_MR_006 – Aquila Networks

Aquila Networks response to P61 Consultation on Draft Modification Report

Hello,

Please find below Aquila's response to the three elements in modification proposal P61.

1. Applying the correction at the next timetabled reconciliation.
2. Receiving DF flows within 20 months - 24 months of the settlement day

Both of these elements would continue to be acceptable.

3. Using an interim adjustment between settlement runs.

Aquila Network feel that the third element of this proposal is feasible provided, it functions manually and completely outside of the normal settlement timetable process, with no impact on Aquila's UoS system. Before giving it our support, Aquila Networks would need to understand how the amounts to be paid to any disadvantaged parties would be calculated, i.e. unit volumes, unit rates.

regards
Rachael Gardener

Deregulation Control Group &
Distribution Support Office
AQUILA NETWORKS

P61_MR_007 – British Energy

P61 Report Comments

British Energy has no further comments from those sent on 11th March 2002.

Regards

Rachel Ace

on behalf of

British Energy Generation
British Energy Power and Energy Trading
Eggborough Power Ltd

P61_MR_008 – Scottish Power

P61 Draft Modification Report Comments

We welcome this further opportunity to comment on Modification P61.

We would reiterate our support for this proposal and endorse the recommendation of the Panel. We believe that P61 represents both a practical and cost effective approach to the rectification of material errors in Settlement for reasons contained in the proposal and in our previous response. We would continue to emphasise the need for Calendar Day implementation as the best way to ensure that the P61 solution is available as a standard methodology to the TDC and the Panel at the earliest possible opportunity.

We note that Elexon has requested that a decision from the Authority should be forthcoming by 20 May in order to ensure that the P61 solution can be incorporated into the August BSC Release. As the Modification Report for P61 is not due before the Panel until 16 May, we hope that the notice provided to the Authority regarding the need for an early decision, should the Panel endorse its previous recommendation, will be of help. As indicated above, it is our view that early implementation of P61 would be of benefit to both the TDC and the Panel.

We have considered the legal drafting provided and agree that it is appropriate. In particular, sufficient flexibility is provided to the TDC and the Panel to determine how many Parties should be affected by the Extra Settlement Determination. This should allow the TDC and the Panel to consider, in all the circumstances of a particular case, whether the inclusion of some Parties is appropriate or not.

We also note that the following minor typos require correction in the drafting:

Section T 5.3.1(b) - replace "an" with "a" before "Post-Final Settlement Run".
Section U 2.1.1(b) - replace "an" with "a" before "Post-Final Settlement Run".
Section U 2.2.5 - replace "an" with "a" before "Post-Final Settlement Run".

I trust that you will find these comments helpful. Nonetheless, should you require further clarification of any of the above, please do not hesitate to contact me.

Yours Sincerely,

Man Kwong Liu
Calanais Ltd.

For and on behalf of: - *Scottish Power UK Plc.; SP Manweb Plc; ScottishPower Energy Trading Ltd.; Scottish Power Generation Ltd.; Scottish Power Energy Retail Ltd.; SP Transmission Ltd.*

P61_MR_009 – Scottish and Southern

P61 Report Comments

Dear Sirs,

This response is sent on behalf of Scottish and Southern Energy, Southern Electric, Keadby Generation Ltd. and SSE Energy Supply Ltd.

Further to your note of 3rd May 2002, and the associated Modification Report for P61, we agree with the proposed BSC Panel recommendation to the Authority that this Modification Proposal P61 be approved.

Regards

Garth Graham
Scottish & Southern Energy plc

P61_MR_010 – British Gas Trading Ltd

Dear Sir

Modification Proposal 61: Ad Hoc Adjustments to Settlement Involving Material Errors Without Resorting to Ad Hoc Settlement Runs

Thank you for the opportunity of responding to this consultation. This response is on behalf of British Gas Trading Ltd.

We support this modification proposal as better facilitating the Applicable BSC Objective of promoting efficiency in the implementation and administration of the balancing and settlement arrangements. We agree with the assertion in the modification report that this is a more cost effective and practical, standard method for adjustment of Settlement over the solution presented in CP517.

We support the proposed calendar day implementation date of 12 August 2002.

Yours faithfully

Danielle Lane
Transportation Analyst