



4 December 2001

URGENT MODIFICATION REPORT
Modification Proposal P058: Disapplication
of Volume Notifications Relating to a
Defaulting Party

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

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I DOCUMENT CONTROL

a Authorities

Version	Date	Author	Signature	Change Reference
1.0	04/12/01	ELEXON		Final Version for Authority

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

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1 DESCRIPTION OF PROPOSED MODIFICATION

Section H paragraph 3 of the Balancing and Settlement Code (BSC) describes Events of Default under the BSC and further sets out the actions that the BSC Panel (the "Panel") may take with respect to Defaulting Parties under the BSC.

Modification Proposal P058 allows the Panel to determine that following an Event of Default by a Party to the BSC, Notifications (both Energy Contract Volume Notifications and Metered Volume Reallocations Notifications) relating to the Defaulting Party can be disapplied from any time (except to the extent that they relate to Settlement Periods for which Gate Closure has occurred prior to the time when the Panel notifies the Parties of such disapplication)

It is proposed to amend Section H paragraph 3.2 to give effect to this Modification Proposal.

2 RECOMMENDATION

The BSC Panel recommends to the Authority that:

The Proposed Modification, as set out in Section 7 of this report be approved and implemented with immediate effect.

3 RATIONALE FOR RECOMMENDATIONS

The current rules, as stated within Section H3.2.2, sets out the actions that the Panel may take in relation to a Defaulting Party following that Party's Default. The BSC recognises that the Panel may take one or more of the steps outlined in Section H3.2.2 at such time as it sees fit (Eg. this allows deferring decisions on further steps whilst any necessary information is obtained and analysed in order to make a more informed decision.

The current drafting of the BSC allows for disapplication (for the purposes of Settlement) of any such notifications as have been submitted prior to the time when the Panel notifies the Defaulting Party of its Default. In practise should the Panel exercise this clause after notifying the Default any notifications made after notifying the Default and prior to suspending the right to submit is inviolate. Such notifications could not be disapplied. Thus where a Party had entered an equal and opposite trade to flatten its position against the Defaulting Party, the original trade would be disapplied, whilst the "correcting" trade would remain. Thus the desired effect of flattening the trade cannot be achieved.

The Panel viewed that such an outcome is contrary to the intent of the BSC and that the Modification would better facilitate the relevant BSC Objectives. In particular:

(d) Implementation and Administration – by allowing trades to be flattened in a final but controlled manner this will allow the suspension of nugatory processing and reporting by the Central Service Provider which otherwise would continue for the duration of the contract notification.

(c) Promoting Competition – by closing the position of a Defaulting Party and thereby reducing exposure and hence risk to all Trading Parties.

4 STATEMENT OF URGENCY

The Proposer of P058 requested (in submitting the Modification Proposal to ELEXON) that that it be treated as an Urgent Modification. After seeking the views of BSC Panel Members on 03 December 2001, the Panel Chairman consulted the Authority on the urgency of the proposal. The Authority consented to the urgent treatment of the proposal.

5 PROCEDURE AND TIMETABLE

The Proposal was raised on 3 December 2001 by Dynegy UK Limited. The proposal was discussed at the Panel meeting of 3 December 2001 and a timetable agreed with the Authority that included an accelerated consultation. Notification was sent to BSC Parties on 3 December 2001 informing them that it was possible that a consultation would take place overnight on 3 December 2001.

A consultation document was issued at 18:26 on 3 December 2001 seeking views by 0900hrs on 4 December 2001. The responses to this consultation were considered by the Panel at their meeting at 0930hrs on 4 December 2001. The Panel agreed to recommend the Modification Proposal to the Authority for implementation with immediate effect.

6 SUMMARY OF CONSULTATION RESPONSES

Eight responses representing 23 Parties were received to the consultation and are included in Attachment 1 to this report.

Each of the questions asked in the consultation is set out below.

Please indicate whether you support the Modification Proposal P058.

Seven respondents representing nineteen Parties supported the Modification Proposal

Please indicate whether you believe P058 better facilitates the Applicable BSC Objectives.

Four respondents representing fourteen Parties agreed that the Modification Better Facilitates the Applicable BSC Objectives.

Please indicate whether the accompanying legal text gives full and correct effect to the Modification Proposal

Five respondents representing Eighteen Parties believed that the attached legal text gave full and correct effect to the Modification Proposal.

It should be noted that not all respondents answered every question within the consultation and copies of the responses can be found at Annex 2 to this report.

The Panel considered these responses at their meeting of 4 December 2001, and concluded that no new issues had been raised. The Panel further noted the additional comments raised by two respondents and the possibility of further Modification Proposals being raised to address these concerns.

7 LEGAL TEXT TO GIVE EFFECT TO THE PROPOSED MODIFICATION

Section H3.2.2 of the Code will need to be amended as follows:

- 3.2.2 The rights and steps referred to in paragraph 3.2.1(b) are:
- (a) in relation to Energy Contract Volume Notifications (or, in the case of a Default of the type referred to in paragraph 3.1.1(a) or (b), relevant Energy Contract Volume Notifications, as defined in Section P2.4.3):
 - (i) the right to submit such Energy Contract Volume Notifications under Section P; and/or
 - (ii) the disapplication (for the purposes of Settlement) of any such Energy Contract Volume Notifications as have already been submitted at any time (except to the extent that they relate to Settlement Periods for which Gate Closure has occurred prior to the time when the Panel notifies the Parties of such disapplication) prior to the time when the Panel notifies the Defaulting Party of its Default (other than ones relating to Settlement Periods for which Gate Closure has occurred prior to such time);
 - (b) in relation to Metered Volume Reallocation Notifications (or, in the case of a Default of the type referred to in paragraph 3.1.1(a) or (b), relevant Metered Volume Reallocation Notifications, as defined in Section P3.4.3):
 - (i) the right to submit such Metered Volume Reallocation Notifications under Section P; and/or
 - (ii) the disapplication (for the purposes of Settlement) of any such Metered Volume Reallocation Notifications as have already been submitted at any time (except to the extent that they relate to Settlement Periods for which Gate Closure has occurred prior to the time when the Panel notifies the Parties of such disapplication); ~~prior to the time when the Panel notifies the Defaulting Party of its Default (other than ones relating to Settlement Periods for which Gate Closure has occurred prior to such time)~~
 - (c) where the Defaulting Party is an Interconnector User, the rights of such Party to be allocated BM Unit Metered Volumes (of such kinds as the Panel may specify) in respect of its Interconnector BM Units;
 - (d) following consultation with the Transmission Company, the right to submit Bid-Offer Pairs under Section Q;
 - (e) with the prior approval of the Authority, the right to register further Metering Systems and BM Units;
 - (f) the rights to receive reports and data under Section V;
 - (g) the right to vote pursuant to Annex B-2.

ANNEX 1 – COPY OF MODIFICATION PROPOSAL

Modification Proposal	MP No: P58 <i>(mandatory by BSCCo)</i>
Title of Modification Proposal <i>(mandatory by proposer):</i> Disapplication Of Volume Notifications Relating To A Defaulting Party	
Submission Date <i>(mandatory by proposer):</i> 03 December 2001	
Description of Proposed Modification <i>(mandatory by proposer):</i> This Modification Proposal is being raised to allow the Panel to determine that when a Default has occurred in accordance with Section H of the Code, Volume Notifications can be disappplied from such time (not to be effective in respect of Settlement Periods for which Gate Closure has taken place prior to the notice of disapplication) as the Panel so determines, on or after the Default occurring.	
Description of Issue or Defect that Modification Proposal Seeks to Address <i>(mandatory by proposer):</i> Sections H3.2.2 (a) and (b) allow the BSC Panel, on the occurrence of a Default, to disapply Energy Contract Volume Notifications or Metered Volume Reallocation Notifications that were submitted prior to the time that the Panel notified the Defaulting Party of its Default. However in certain circumstances there may be a time delay between the Panel notifying the Defaulting Party of the Default and the determination being made that this clause should be implemented. For example on 30 November 2001, the Panel gave notification that ECTRL and EGPTL were in Default under Section H3.1.1 (iv) of the Code. At a later meeting on Sunday 2nd December the Panel produced a resolution that Energy Contract Volume Notifications and Metered Volume Reallocation Notification submitted prior to the Panel notification of the 30th November, would be disappplied from 15:00 hours on Tuesday 4th December. This resolution meant that Volume Notifications submitted between 16:00 on Friday 30th November and 15:00 on Tuesday 4 th December 2001 would not be disappplied. At the same time new Volume Notifications relating to the Defaulting Party could not be submitted for Settlement Periods after 15:00 on Tuesday 4th December 2001. Therefore Trading Parties could be left with Volume Notifications that could not be disappplied. In addition, because two different times were referred to in the notice, the resolution was unclear as to whether the disapplication would be retrospective in respect of Settlement Periods for which Gate Closure has taken place between the time of the Default notice and the time of the notice of disapplication and for which Metered Volume Reallocation Notifications were submitted prior to the time of the default notice. Implementation of this Modification Proposal would resolve the issues detailed above.	
Impact on Code <i>(optional by proposer):</i> This Proposal will require changes to be made to Section H3.2.2 (a) and (b) of the Code relate to Default	
Impact on Core Industry Documents <i>(optional by proposer):</i> N/A	
Impact on BSC Systems and Other Relevant Systems and Processes Used by Parties <i>(optional by proposer):</i>	

Modification Proposal	MP No: P58 <i>(mandatory by BSCCo)</i>
Impact on other Configurable Items <i>(optional by proposer):</i>	
Justification for Proposed Modification with Reference to Applicable BSC Objectives <i>(mandatory by proposer):</i> <p>This Modification Proposal would better facilitate the objective in Condition 7A (3) (d) of the Transmission Licence, promoting efficiency in the implementation and administration of the balancing and settlement arrangements.</p> <p>The proposal will promote efficiency by allowing Trading Parties to better manage their imbalance volumes and to prevent Volume Notifications relating to the Defaulting Party being left permanently in the Central Systems.</p>	
Details of Proposer: <p style="padding-left: 40px;">Name: David Keane Organisation: Dynegy UK Limited Telephone Number: 020 8334 7266 Email Address: david.keane@dynegy.co.uk</p>	
Details of Proposer's Representative: <p style="padding-left: 40px;">Name: Rekha Patel Organisation: Dynegy UK Limited Telephone Number: 020 8334 7267 Email Address: rekha.patel@dynegy.co.uk</p>	
Details of Representative's Alternate: <p style="padding-left: 40px;">Name: Organisation: Telephone Number: Email Address:</p>	
Attachments: NO If Yes, Title and No. of Pages of Each Attachment:	