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**INITIAL ASSESSMENT OF
MODIFICATION PROPOSAL P35 -
Qualified ECVNAs**

Prepared by ELEXON Limited

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Each BSC Agent	Various
The Gas and Electricity Markets Authority	Ofgem
Each BSC Panel Member	Various
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1 SUMMARY

Modification Proposal P35 'Qualified ECVNAs' was submitted on 5th September 2001 by Automated Power Exchange (APX). The Modification Proposal seeks to introduce the concept of ECVNAs who, once they have met defined standards of independence, performance and auditability, are granted 'Qualified' status. The intent of such qualification is to enable notifications received by the 'Qualified' ECVNA by Gate Closure to be considered firm for settlement purposes, thus enabling BSC Parties to submit notifications to the 'Qualified' ECVNA up to Gate Closure, thus extending their trading window. The Modification Proposal also requires that 'Qualified' ECVNAs be subject to performance monitoring, with appropriate penalties, including removal of 'Qualified' status, levied for non-performance.

An initial assessment of Modification Proposal P35 has identified the following potential areas of impact and issues to be considered and these are expanded further in Sections 5 to 13:

Issues:

- Definition of the exact nature and scope of the qualification process – this should / could include definition of the nature of the process, the scope and governance of the qualification (i.e. systems / communications within the 'Qualified' ECVNA falling within the provisions of the Code);
- Definition of the exact nature and scope of the performance monitoring and performance criteria, including non-performance standards and associated penalties is required;
- Definition of any additional audit requirements falling under the provisions of the Balancing and Settlement Code, both with regards to audit of the 'Qualified' ECVNA, and with regards to additional requirements on ELEXON in the provision, maintenance and removal of qualification;
- Definition of the full extent of the qualification process under the provisions of the Code, for example - Trading Disputes / Queries supported for 'Qualified' ECVNA data and the grounds for raising such queries / disputes, extension of the scope of ECVAA failure to include 'Qualified' ECVNA systems; and
- As the Modification proposes that the provisions of the Code be extended to allow notifications that are received by the 'Qualified' ECVNA by Gate Closure to be considered firm for settlement purposes, a method of monitoring and ensuring accuracy and verification of notification receipt times within the 'Qualified' ECVNA needs to be identified.

Areas of Impact:

- The Modification has significant impact on ELEXON procedures, in order to support the implementation and operation of the qualification processes;
- The Modification has material impact on a number of sections of the Balancing and Settlement Code and Code Subsidiary documents, with the most significant impact attributable to Section J: Party Agents, in order to define the qualification process, performance criteria and associated other amendments required to support the implementation of this Modification; and
- The Modification Proposal states that the 'proposal is envisaged to be simply a change to administrative controls, and should not require central systems changes.' However, a

review of the requirements of the Modification indicates that some, potentially material, amendments to the NETA Central Service Agent systems (namely CRA and ECVAA) would be required in order to support the registration, maintenance and reporting out of the qualification status for ECVNAs by CRA, as well as amendments to the ECVAA system in order to differentiate, in terms of receipt and processing, between notifications received from 'Qualified' ECVNAs and ECVNAs without 'Qualified' status, necessitated by the 'Qualified' ECVNAs being enabled to receive notifications to Gate Closure.

It is recommended that the Modification Proposal is progressed as follows:

- Modification Proposal P35 should be submitted to the Definition Procedure in accordance with Section F 2.5 of the Balancing and Settlement Code, in order to enable a Modification Group to consider and define further the Modification Proposal, and any Alternative Modification that might achieve the aims of the Modification more effectively and economically.
- The Definition Report for Modification Proposal P35 should be submitted to the BSC Panel for the meeting of the 13th December 2001. ELEXON recognise that this represents an extension to the timetable defined in the Balancing and Settlement Code, Section F 2.2.9 which defines the timetable for the Definition Procedure as 'no longer than two months'. However, ELEXON believe that the particular circumstances of the Modification, namely the complexity of the requirements of the definition, as identified through Sections 5 to 13, and summarised above, justify such extension, and therefore ELEXON request that, in the absence of any contrary direction from the Authority, the Panel agree with the recommendation that the Modification be submitted to a three month Definition Procedure.

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.

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

Section F of the BSC 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.

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).

When a new proposal to modify the BSC is made, it is the responsibility of the Panel to determine how it should be progressed. Options include submitting the proposal to a Definition Procedure¹, submitting it to an Assessment Procedure², amalgamating the proposal with another proposal³, or proceeding directly to the Report Phase⁴. With a view to assisting the Panel in taking this decision, ELEXON prepares this initial written assessment of the implications of the Modification Proposal as soon as reasonably practicable after the proposal is made⁵. ELEXON endeavours to complete this initial assessment such that it can be reviewed by the Panel at the Panel meeting at which the relevant Modification Proposal is first to be considered.

This initial assessment provides a preliminary view on the following:

- the potential impact of the proposed modification on BSC systems and processes;
- the potential impact of the proposed modification on other systems and processes used by Parties;
- the potential impact of the proposed modification on the BSC, Code Subsidiary Documents and Core Industry Documents;
- the potential impact of the proposed modification on ELEXON;
- the potential impact of the proposed modification on BSC financial arrangements and budget;
- the potential impact of the proposed modification on BSC Agent contractual arrangements;
- The process and timetable that should be adopted for the progression of the Modification Proposal, in light of its complexity, importance and urgency; and
- Issues that will need to be considered and addressed in progressing the Modification Proposal (including the potential need for impact assessments, consultation and analyses).

It should be noted that, as this document only represents a preliminary assessment of the Modification Proposal, the information contained herein will, in most cases, be superseded by the subsequent analysis and reports produced by the Modification Group to which the Panel assigns the proposal for consideration.

1.1.1.1

¹ see BSC F2.5

² see BSC F2.6

³ see BSC F2.3

⁴ see BSC F2.7

⁵ see BSC F2.1.8

4 DESCRIPTION OF THE MODIFICATION PROPOSAL

Modification Proposal P35 seeks to introduce the concept of a 'Qualified' ECVNA. Such 'Qualified' ECVNAs would be required to meet defined standards of performance and auditability, in return for which, the 'Qualified' ECVNA (rather than just ECVAA, as currently defined) would be able to receive notifications up to Gate Closure, with such notifications being considered to be firm for settlement purposes. The Modification proposes that the performance of the ECVNAs with 'Qualified' status is monitored, and penalties applied for non-performance, including removal of the 'Qualified' status.

The Modification Proposal also requires that 'Qualified' ECVNAs be additional to, not a replacement for, the existing arrangements with regard to Notification Agents.

The Modification Proposal states that the introduction of the concept of 'Qualified' ECVNAs is attempting to address the issues that have led to a lack of liquidity in the short term markets. The Proposal states that the reasons behind this lack of liquidity include inadequate reporting of notified contracts from the NETA Central Service Agent, the length of Gate Closure and the inability to undertake dual notification. Therefore the Modification targets these issues by proposing that notifications received by the 'Qualified' ECVNA by Gate Closure be considered as firm for settlement purposes.

The Modification Proposal states, in support of the above, that exchanges and third party ECVNAs currently 'close' their service 30 minutes prior to Gate Closure in order to provide sufficient contingency for notifying the positions onto the ECVAA. This has the effect of restricting BSC Parties from contract trading for four hours prior to the associated Settlement Period. Therefore, if a 'Qualified' ECVNA is able to receive notifications up to Gate Closure, this extends the trading window for Parties.

The Modification Proposal indicates that if the 'Qualified' ECVNA is holding data that can be considered to be firm for settlement purposes, that this enables the 'Qualified' ECVNA to develop and offer higher value services to participants, including enhanced reporting of contract positions and Dual Notification.

The Modification Proposal also asserts that if a number of 'Qualified' Notifications Agents are aggregating contract notifications, this may have the effect of improving performance of the ECVAA system, as the overall number of submissions into ECVAA is reduced by such aggregation.

A copy of the Modification Proposal, as submitted by its proposer, can be found at Annex 1 to this report.

5 IMPACT ON BSC SYSTEMS AND PROCESSES

BSC System / Process	Potential Impact of Proposed Modification
<p>Registration</p>	<p>The Modification has implications on the registration processes and systems in order to recognise and maintain the 'Qualified' status of particular ECVNAs. It is envisaged that this will require significant amendments to the registration processes and some amendment to the associated systems, in order that CRA register, maintain and report on the 'Qualified' status , including reporting the status to ECVAA.</p> <p>The registration processes may have to be extended to include the 'qualification' of such Notification Agents, and it is envisaged that this will require significant amendment to existing processes and systems to define, maintain and apply the 'qualification' process, including the operational implications of monitoring 'Qualified' ECVNA performance and identifying situations where such 'qualification' should be revoked.</p>
<p>Contract Notification</p>	<p>The Modification has implications on the contract notification processes and systems, in that enabling volume notifications received by Notification Agents up to Gate Closure (rather than the current definition, which is limited to volume notifications received by ECVAA by Gate Closure) to be guaranteed for settlement, means that ECVAA has to extend the timescales for receipt and processing of volume notifications for 'Qualified' ECVNAs only, whilst retaining the existing timescales for receipt and processing of volume notifications from Notification Agents without 'Qualified' status. This will require amendment to associated service levels, and to the ECVAA system in order to be able to differentiate volume notification processing depending upon source.</p> <p>The Modification Proposal indicates an expectation that it would be a rare event for 'Qualified' ECVNAs to submit volume notifications to ECVAA after Gate Closure. However, this statement is questionable given the context of the description of the Modification, as if the 'Qualified' Notification Agent is enabled to receive volume notifications to Gate Closure and for those to be considered firm with regards to settlement, then it is expected that Parties, as a benefit of utilising such 'Qualified' Notification Agents, would continue to trade close to Gate Closure, therefore meaning that such volume notifications will arrive with ECVAA post Gate Closure. It is expected that instances of trading close to Gate Closure will increase under the amendments proposed for Modifications P4 and P17, which have the intent of</p>

BSC System / Process	Potential Impact of Proposed Modification
	<p>increasing liquidity in the contract market.</p> <p>There are associated implications regarding validation of volume notifications. The Modification proposes that any contract notifications held by 'Qualified' ECVNAs at Gate Closure are considered to be firm for settlement purposes. This has ramifications regarding validation of the volume notifications, especially if the Notification Agent, as implied by the Modification Proposal, is aggregating volume notifications and notifying to ECVAAs, potentially too late for subsequent rejections from ECVAAs validation failure to be rectified by the originating Counterparties and / or ECVNA. Therefore the 'Qualified' ECVNA may have to develop validation criteria which requires registration data for all aspects of validation to be considered, or ECVAAs systems and processes may have to be amended to account for this nuance of the Modification.</p>
Credit Checking	<p>The Modification has implications on credit checking in that current services levels indicate a requirement for completion of the credit check within fifteen minutes of Gate Closure. This may be impacted by the requirement to wait for volume notifications received by Gate Closure by the 'Qualified' ECVNA to be received and processed by ECVAAs prior to Credit Checking.</p> <p>Another implication is again the supposition in the Modification Proposal that any contract notifications held by 'Qualified' ECVNAs at Gate Closure are considered to be firm for settlement purposes. This has ramifications regarding volume notification rejections resulting from Credit Checking failures, in that they cannot be considered to be firm for settlement purposes if there is a potential for rejection within ECVAAs.</p>
Balancing Mechanism Activities	No impact identified at this time.
Collection and Aggregation of Metered Data	No impact identified at this time.
Supplier Volume Allocation	No impact identified at this time.
Settlement	No impact identified at this time.
Clearing, Invoicing and Payment	No impact identified at this time.
Reporting	The Modification has implications on reporting requirements, as they may require amendment to support reporting out to Parties on the 'Qualified' status of Notification Agents, including amendments to

BSC System / Process	Potential Impact of Proposed Modification
	<p>the 'Qualified' status. Reporting service levels for ECVAA reports may be impacted by the implications to the contract notification functionality, in that service levels may be extended to cater for the delay in certain processing required under this Modification Proposal.</p> <p>ECVAA may be required to report on the performance of 'Qualified' ECVNAs in order to support the Performance monitoring aspects of this Modification.</p>
Contingencies	No impact identified at this time.
Dispute Resolution	The Modification has implications on the disputes processes and systems in that the criteria for raising disputes could potentially be extended to cover disputes with data supplied by the 'Qualified' ECVNAs.

6 IMPACT ON OTHER SYSTEMS AND PROCESSES USED BY PARTIES

System / Process	Potential Impact of Proposed Modification
No impact identified at this time.	

7 IMPACT ON DOCUMENTATION

7.1 Impact on Balancing and Settlement Code

BSC Section	Potential Impact of Proposed Modification
A: Parties and Participation	The Modification may require amendment to this section of the BSC to support the registration of a Party intending to become a 'Qualified' ECVNA and to reflect any specific Party / Participation registration requirements in this area. However, it is envisaged that the impact on this section would be minimal.
B: The Panel	No impact identified at this time.
C: BSCCo and its Subsidiaries	No impact identified at this time.
D: BSC Cost Recovery and Participation Charges	No impact identified at this time.
E: BSC Agents	No impact identified at this time, but depending upon the implications of the Modification, this section may require amendment to reflect any extension of scope of the ECVAA BSC Agent responsibilities / obligations to include specific aspects of the 'Qualified' ECVNA systems and services which may be required to come under the Balancing and Settlement Code.
F: Modification Procedures	No impact identified at this time.
G: Contingencies	No impact identified at this time.
H: General	This Modification may require amendment to this section of the BSC to support any additional audit requirements for the 'Qualified' ECVNAs and for ELEXON with regards to the operational aspects associated with the 'Qualified' status provision, maintenance and removal.
I: Not Used	No impact identified at this time.

BSC Section	Potential Impact of Proposed Modification
J: Party Agents	<p>The Modification has significant impact on this section of the BSC in order to reflect the requirements of the implementation of a 'Qualified' ECVNA. This section would be required to reflect:</p> <ul style="list-style-type: none"> ▪ The criteria for qualifying ECVNAs; ▪ The audit requirements on 'Qualified' ECVNAs; ▪ The actual mechanism for qualifying ECVNAs; ▪ The mechanism for monitoring performance of 'Qualified' ECVNAs; ▪ The criteria and mechanism for applying poor performance penalties to 'Qualified' ECVNAs; and ▪ The criteria for revoking / removing the 'Qualified' status. <p>The performance assurance aspects of the 'Qualified' ECVNA would have to be reflected in this section, and this may include a requirement for ECVAAs to report on the performance of 'Qualified' ECVNAs with respect to receipt of volume notifications by ECVAAs.</p>
K: Classification and Registration of Metering Systems and BM Units	No impact identified at this time.
L: Metering	No impact identified at this time.
M: Credit Cover and Credit Default	The Modification may require amendment to this section to support any amendment to the timing and / or the requirements around ECVAAs credit checking resulting from the implementation of this Modification.
N: Clearing, Invoicing and Payment	No impact identified at this time.
O: Communications	The Modification may require amendment to this section to support the concept that the communications between the ECVAAs and any 'Qualified' ECVNAs come under the provisions of the Balancing and Settlement Code, required in order to support the Modification Proposal's assertion that data with the 'Qualified' ECVNA at Gate Closure is firm for settlement purposes.

BSC Section	Potential Impact of Proposed Modification
P: Energy Contract Volumes and Metered Volume Reallocations	<p>The Modification will require significant amendment to this section to reflect:</p> <ul style="list-style-type: none"> ▪ The receipt and processing requirements of ECVAA with regards to volume notifications received from 'Qualified' ECVNAs. This section should reflect the differing timing requirements for 'Qualified' ECVNAs versus ECVNAs without 'Qualified' status; ▪ The definition of validation requirements of ECVAA, as these may require amendment to support any differences between validation for 'Qualified' ECVNA notifications and validation for ECVNAs without 'Qualified' status; and ▪ The extension, if deemed applicable, of the ECVAA failure to include certain aspects of the 'Qualified' ECVNA, required in order to support the requirement of the Modification that settlement data be considered firm for settlement if it is with the 'Qualified' ECVNA by Gate Closure.
Q: Balancing Mechanism Activities	No impact identified at this time.
R: Collection and Aggregation of Metered Data from CVA Metering Systems	No impact identified at this time.
S: Supplier Volume Allocation	No impact identified at this time.
S: ANNEX S-1 Performance Levels and Supplier Charges	No impact identified at this time.
S: ANNEX S-2 Supplier Volume Allocation Rules	No impact identified at this time.
T: Settlement and Trading Charges	No impact identified at this time.
U: Provisions Relating to Settlement	No impact identified at this time.

BSC Section	Potential Impact of Proposed Modification
V: Reporting	<p>The Modification may have an impact on this section if the reporting on the 'Qualified' status of ECVNAs is not subsumed into an existing interface, but is required to be supported by a new interface. However, it is suggested that the reporting on the qualification status could be implemented within an existing interface for reporting on Party Agents – namely the CRA-I024 'Issue Certification and Accreditation Status Report'.</p> <p>Performance reports may also be required to be added into this section – for reporting from the 'Qualified' ECVNA on aspects required for performance monitoring, and potentially from ECVA to report on the performance of 'Qualified' ECVNAs.</p>
W: Trading Queries and Trading Disputes	<p>The Modification may have an impact on this section if the scope of Trading Queries and Disputes is extended to allow / include Trading Disputes and Queries over certain aspects of data from the 'Qualified' ECVNA. Given the Modification Proposal's requirement that data with the 'Qualified' ECVNA by Gate Closure be considered firm for settlement purposes, then the definition of the circumstances that can give rise to subsequent Trading Queries and Disputes needs to be defined and included in this section.</p>
X: Definitions and Interpretation	<p>The Modification has an impact on this section in order to define the terms 'Qualified', 'Qualification' etc. with respect to their meaning in terms of the Code.</p>
X: ANNEX X-1 General Glossary	<p>The Modification has an impact on this section in order to define the terms 'Qualified', 'Qualification' etc. with respect to their meaning in terms of the Code.</p>
X: ANNEX X-2 Technical Glossary	<p>No impact identified at this time.</p>

7.2 Impact on Code Subsidiary Documents

Code Subsidiary Document	Potential Impact of Proposed Modification
BSC Procedures	A new procedure may be required in order to define the Qualification process (similar to BSCP 301 for MOA Accreditation), including the process(es) for removing the 'Qualification' status.
Codes of Practice	No impact identified at this time.
BSC Service Descriptions	The Modification has an impact on the Service Descriptions in order to reflect the amendments to the Balancing and Settlement Code, and subsidiary documentation. Any revised Service Levels resulting from the implementation of this Modification will require reflection in the Service Descriptions.
Party Service Lines	No impact identified at this time.
Data Catalogues	The NETA Data File Catalogue may require amendment to support the reporting of the 'Qualification' status of ECVNAs and any amendments to this status, as well as any performance reporting required to support this Modification.
Communication Requirements Documents	The Modification may have an impact on this document, depending upon the implementation of the Modification. If it is determined that the communication between the 'Qualified' ECVNA and the ECVAA is required to come under the provisions of the Balancing and Settlement Code, then this should be reflected here.
Reporting Catalogue	The Reporting Catalogue may require amendment to support the reporting of the 'Qualification' status of ECVNAs and any amendments to this status, as well as any performance reporting required to support this Modification.

7.3 Impact on Core Industry Documents

Core Industry Document	Potential Impact of Proposed Modification
Grid Code	No impact identified at this time.
MCUSA	No impact identified at this time.
Supplemental Agreements	No impact identified at this time.
Ancillary Services Agreements	No impact identified at this time.
Master Registration Agreement	No impact identified at this time.
Data Transfer Services Agreement	No impact identified at this time.
British Grid Systems Agreement	No impact identified at this time.
Use of Interconnector Agreement	No impact identified at this time.
Pooling and Settlement Agreement	No impact identified at this time.
Settlement Agreement for Scotland	No impact identified at this time.
Distribution Codes	No impact identified at this time.
Distribution Use of System Agreements	No impact identified at this time.
Distribution Connection Agreements	No impact identified at this time.

8 IMPACT ON OTHER CONFIGURABLE ITEMS

Item	Potential Impact of Proposed Modification
No impact identified at this time.	

9 IMPACT ON ELEXON

Area of Business	Potential Impact of Proposed Modification
ELEXON Systems	No impact identified at this time, as the scope of TOMAS does not currently include contract notifications.
ELEXON Procedures	<p>The Modification potentially has a significant impact on many aspects of ELEXON procedures. With regards to the procedural impact, there will be significant impact on ELEXON's processes, specifically with regards to introducing and operating the qualification and qualification removal procedures for qualifying ECVNAs and in monitoring the operational performance side of the process.</p> <p>ELEXON disputes processes may be adversely impacted by any extension to include 'Qualified' ECVNAs in the disputes processes, in that any extension to the causes for disputes will inevitably result in an increase in the number of disputes and queries raised.</p>
ELEXON Contracts (Excluding BSC Agent Contracts)	ELEXON may have to develop a contractual relationship, with associated financial implications, with 'Qualified' ECVNAs with regards to obtaining the operational information required by ELEXON to monitor the operational performance of such ECVNAs.
Other (e.g. costs, staffing, etc.)	If ELEXON is required to introduce and operate the qualification procedure for 'Qualified' ECVNAs then it is likely that additional resource would be required, depending upon the magnitude of the processes to be supported. However, without a view of the exact requirements of any processes, it is not possible to indicate the likely materiality.

10 IMPACT ON FINANCIAL ARRANGEMENTS AND BUDGET

Not known at this time, however, if ELEXON is required to introduce and operate the qualification procedure for 'Qualified' ECVNAs then it is likely that additional resource would be required, depending upon the magnitude of the processes to be supported. However, without a view of the exact requirements of any processes, it is not possible to indicate the likely impact of this on the ELEXON financial arrangements / budget.

11 IMPACT ON BSC AGENT CONTRACTUAL ARRANGEMENTS

BSC Agent Contract	Potential Impact of Proposed Modification
Logica (BMRA, CRA, CDCA, SAA, ECVAA, TAA(CVA))	This Modification may impact the contractual arrangements with the NETA Central Service Agent in order to reflect functionality and service level amendments required to support the differentiation between 'Qualified' ECVNAs and ECVNAs without 'Qualified' status.
EPFAL (FAA)	No impact identified at this time.
ESIS (TAA(SVA))	No impact identified at this time.
Cap Gemini (SVAA)	No impact identified at this time.
PwC (BSC Auditor, Certification Agent)	This Modification may impact the auditing arrangements, in that certain aspects of the 'Qualified' ECVNA may require additional auditing over that defined in the BSC. As PwC are the 'Certification Agent', this Modification may require an extension to PwC's current role to include any relevant aspects of the qualification process as well. However, without a definition of the qualification process it is difficult to assess the impact on PwC.
EASL (Teleswitch Agent, Profile Administrator)	No impact identified at this time.

12 PROCESS AND TIMETABLE FOR PROGRESSING THE PROPOSAL

ELEXON recommends that this Modification Proposal be submitted to the Contract Notification Modification Group for Definition. The Contract Notification Modification Group should be actioned to provide its report to the Panel by 13th December 2001.

ELEXON recognise that this represents an extension to the timetable defined in the Balancing and Settlement Code, Section F 2.2.9 which defines the timetable for the Definition Procedure as 'no longer than two months'. However, ELEXON believe that the particular circumstances of the Modification, namely the complexity of the requirements of the definition, as identified through Sections 5 to 13, justify such extension, and therefore ELEXON request that, in the absence of any contrary direction from the Authority, the Panel agree with the recommendation that the Modification be submitted to a three month Definition Procedure.

The Contract Notification Modification Group (CNMG) should include a number of Parties with expertise and experience from Modification Proposal P1 (also undertaken by the CNMG), required due to the similarities in the governance issues between Modification P1 and Modification Proposal P35.

The Contract Notification Modification Group should also be able to call on Parties with expertise in the areas of Accreditation of Party Agents, Performance Management and audit, as deemed necessary by the CNMG to undertake the definition of this Modification. It is expected that ELEXON will determine the most appropriate persons to call on as required.

13 ISSUES

The following issues will need to be considered and addressed in progressing the Modification Proposal.

13.1 Definition Issues

- The main issue is what the Qualification process will / should entail. The Modification Proposal states that 'Qualified' ECVNAs will have to meet defined standards of independence, performance and auditability, and be subject to appropriate penalties for non performance, including removal of status'. However, no detail is provided as to what the defined standards are, nor what penalties would be appropriate, nor what constitutes non-performance. Therefore there is a significant piece of work required to determine the definition of 'Qualified' and the scope of such qualification, specifically:
 - The specifics of the qualification procedure, i.e. exactly what qualification will entail and how it will be implemented, this should include definition of the communications and systems that will require qualification;
 - The specifics of the governance of the communications and systems of any 'Qualified' ECVNA – for example, should the communications between the 'Qualified' ECVNA and the ECVAAs fall under the provisions of the Code; should these communications and systems be covered by the provisions of the Code with regard to failures, in a similar way to ECVAAs, and other associated matters;
 - The specifics of the performance standards to be applied to 'Qualified' ECVNAs and the mechanism for monitoring such standards, such as reporting, potentially including ECVAAs reports on 'Qualified' ECVNAs performance relative to notification receipt by ECVAAs;
 - The specifics of operating the qualification procedure, again, what should the operational side monitor, what is required for maintaining the review of the 'Qualified' status, what should constitute 'non performance' and what the penalties should be for such non performance.
 - Specifics of the audit requirements on the 'Qualified' ECVNA, and on ELEXON as part of the operational implementation of the qualification.
 - The specifics of removing the 'Qualified' status. For example, what the process should be for removing the 'Qualified' status, who should be informed of such removal and the mechanism for informing them, who the responsibility for making the final decision to remove the 'Qualified' status should sit with, ELEXON, the Panel, or some other body? Whether there should be an appeals procedure and what format this procedure would take and what criteria should be in place for an appeal to be raised.
- The Modification Proposal refers to these ECVNAs as 'Qualified'. Under the current arrangements a Notification Agent has to undertake a level of qualification in order to register successfully as a Party Agent. Therefore to refer to the ECVNAs meeting the standards required under this Modification Proposal as 'Qualified' is not consistent with the Code, but has been adopted throughout this IWA for consistency with the intent of the Modification Proposal. Therefore an alternative term is required to refer to such Notification Agents. It should also be noted that it is not appropriate to refer to these 'Qualified' Notification Agents as Accredited or Certified, as these also have specific meanings under the Code, which are not consistent with the intent of the Modification Proposal.

- The Modification Proposal implies that it is intended that the 'Qualified' ECVNA be a competitive service, but with certain aspects of the service falling under the Code in order to support the requirement that volume notifications with the 'Qualified' ECVNA by Gate Closure be considered firm for settlement purposes. This appears to provide a conflict in incentives on any such 'Qualified' ECVNA, in that they are incentivised to offer a competitive service to customers using them as an ECVNA, and thus enable their customers to submit notifications close to Gate Closure, with the 'Qualified' ECVNA then able to submit to ECVAAs past Gate Closure. This could lead to abuse of the leeway a 'Qualified' ECVNA has in notifying its submissions and therefore a watertight way of monitoring the times of receipt and provision of notifications within such a 'Qualified' ECVNA is required in order to provide appropriate incentives, and to enable levying of appropriate penalties for any breach.
- Further to the above point, the Modification Proposal intends that notifications can be received by the 'Qualified' ECVNA up to Gate Closure. This implies onwards submission to the ECVAAs potentially later than Gate Closure. However, in order to have a clear definition of the amended service levels that ECVAAs will operate by, which take into consideration the implementation of this Modification, a second "Gate Closure" for receipt of notifications from the 'Qualified' ECVNA should be determined, taking into consideration the performance of the communications between the 'Qualified' ECVNA and ECVAAs. This second "Gate Closure" could form the basis for at least some of the performance requirements and performance monitoring.
- The implications of the implementation of Modifications P4 (and to a degree) P17 should be considered with regards to the implementation of the Modification proposed by P35. Modification Proposal P35 states that Notification Agents may aggregate positions before notifying ECVAAs. This has implications on the data received by Parties in their Acceptance Feedback reports from ECVAAs (implemented under Modification P4), as where data has been aggregated, the feedback reports will not reflect the contract data initially provided by themselves. This may or may not be considered to be an issue, but requires further consideration.
- The interactions between this Modification and other Modification – namely P1, P4, P12, and P17 both regards to whether the implementation of these Modifications negates / increases requirement for the implementation of Modification P35, and in ensuring definition of a solution consistent with the solutions defined for these Modifications, where applicable.
- Given the nature of the requirements of the Modification Proposal, a specific set of expertise will be required in order to fully define the processes, performance aspects and audit requirements to support the implementation of the 'Qualified' status for Notification Agents. Therefore it is expected that ELEXON determine the most appropriate persons to offer support in the definition of these areas, as required to define the Modification Proposal fully.

13.2 Assessment Issues

- The concept of 'Qualifying' Notification Agents requires an extension to the boundary of the provisions of the Balancing and Settlement Code as well as the establishment of requirements for the notification process which differ between 'Qualified' Notification Agents and those without 'Qualified' status. In order to justify any amendment to the Code (for any Modification, not just P35), it would have to be proved that the Modification was less discriminatory, or more efficient, or more conducive to competition than existing arrangements, i.e. better meeting the Applicable BSC Objectives defined in the Transmission Licence Condition 7A 3. Therefore in the case of

Modification P35, these points need to be assessed and a view provided by the Modification Group as to whether Modification P35 meet these criteria better than the existing situation.

- The Modification Proposal relates to Energy Contract Volume Notification Agents only. Therefore depending upon the industry requirements for 'Qualified' Metered Volume Reallocation Notification Agents (MVRNAs), it could be considered discriminatory to limit this type of qualification to ECVNAs only. Therefore an extension of the qualification to include MVRNAs could be assessed.
- The implementation of this Modification Proposal may be material in terms of costs and timescales, and the associated cost to a Notification Agent of becoming 'Qualified', and then retaining such qualification, may also be high. Therefore the assessment of this Modification should include a cost benefit analysis, both in terms of the cost benefit to individual Notification Agents choosing to become 'Qualified' and in terms of the benefit to the operational trading arrangements of having such 'Qualified' ECVNAs.
- The Modification Proposal asserts that implementation of the 'Qualified' status for ECVNAs potentially improves the performance of the ECVAAs system by potentially reducing the volume of submissions into ECVAAs. Therefore it is appropriate that an analysis of any potential improvement be undertaken, to provide an assessment of the benefit to ECVAAs of the implementation of this Modification.

ANNEX 1 – MODIFICATION PROPOSAL

Modification Proposal	MP No: 35 <i>(mandatory by BSCCo)</i>
Title of Modification Proposal <i>(mandatory by proposer):</i> Qualified ECVNAs	
Submission Date <i>(mandatory by proposer):</i> 5th September 2001	
<p>Description of Proposed Modification <i>(mandatory by proposer):</i></p> <p>The BSC should be changed to recognise the status of appropriately "Qualified ECVNAs" such that any contract notifications held by them at Gate Closure are considered to be firm Settlement Data for the purposes of imbalance settlement, irrespective of whether such contract notifications are received by the ECVAAs prior to Gate Closure. Qualified ECVNAs will be required to meet defined standards of independence, performance and auditability, and be subject to appropriate penalties for non-performance, including removal of status. In essence, Qualified ECVNAs are able to submit notifications after gate closure, although the expectation and requirement is that this would be a very rare event.</p> <p>This proposal is envisaged to be simply a change to administrative controls, and should not require central systems changes. Qualified ECVNAs are an additional option existing alongside, not replacing, the existing ECVNA arrangements.</p>	
<p>Description of Issue or Defect that Modification Proposal Seeks to Address <i>(mandatory by proposer):</i></p> <p>A number of reasons have been cited for the lack of liquidity in the short term markets and they include: inadequate reporting from central systems of notified contracts, the length of Gate Closure, and the inability to undertake dual contract notification. This modification seeks to address these problems by treating data held by suitably Qualified ECVNAs as "firm" for imbalance settlement.</p> <p>Although Gate closure is currently set at three and half hours, in practice BSC Parties are unable to trade less than four hours before delivery. APX is typical of other power exchanges and third party ECVNAs in that it closes its service 30 minutes before gate closure to provide sufficient contingency to successfully notify positions to the ECVAAs. A Power Exchange, who acts as an ECVNA, would be able to allow trading and third party notifications right up until gate closure if the current risks associated with contract notification were eliminated.</p> <p>If the ECVNA is holding firm data, they will be in a position to offer higher value services to participants according to their needs:</p> <ol style="list-style-type: none"> 1 - Enhanced reporting of up to date notified positions (in part fulfilled by the P4 Alternative Modification, due for release 30th September 2002); 2- Dual Notification, giving effect to the rejected P4 modification which still has wide industry support. <p>Furthermore, by having a number of Agents aggregating contract notifications, the volume of contract submissions to the ECVAAs may well be reduced, potentially improving the performance of the ECVAAs system.</p>	
Impact on Code <i>(optional by proposer):</i>	

Modification Proposal	MP No: 35 <i>(mandatory by BSCCo)</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> This proposal is consistent with the current BSC Systems and Processes; minimal / zero impact is anticipated. No mandatory system changes are required by BSC Parties.	
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> Improved confidence in the contract notification process will: i) allow trading closer to gate closure, and ii) notification solutions (e.g. improved reporting, dual notification) to be developed to better meet the needs of market participants, thus promoting efficiency in the implementation and administration of the balancing and settlement arrangements. This in turn will improve trading conditions and help promote effective competition in the generation and supply of electricity.	
Details of Proposer: Name: Ian Moss Organisation: Automated Power Exchange Telephone Number: 020 7647 9783 Email Address: imoss@apx.com	
Details of Proposer's Representative: Name: Ian Moss Organisation: Automated Power Exchange Telephone Number: 020 7647 9783 Email Address: imoss@apx.com	
Details of Representative's Alternate: Name: Ms J Power Organisation: Automated Power Exchange Telephone Number: 020 7647 9792 Email Address: jpower@apx.com	

Modification Proposal	MP No: 35 <i>(mandatory by BSCCo)</i>
Attachments: NO If Yes, Title and No. of Pages of Each Attachment:	