

Mr Nicholas Durlacher
Chairman, BSC Panel
c/o Elexon Limited
Third Floor, 1 Triton Square
London NW1 3BX

RB/MVB

11 June 2001

Dear Mr Durlacher

ERRONEOUS NOTIFICATIONS: MODIFICATION PROPOSAL

London Electricity ('London') wishes to propose a modification to the Balancing and Settlement Code to ensure that the Code fulfils the objectives of Condition 7A.2 of NGC's transmission licence by providing that each Party's imbalance position is settled by reference to its true contract position rather than by reference to a notified position which turns out to have been erroneous.

This letter adds some background to the proposed modification, which we have submitted separately in the prescribed manner, and should be treated by the Panel as an integral part of our submission.

London is a Trading Party to the BSC, which governs the operations of the NETA market. These new arrangements commenced on 27 March 2001. As you and other Panel members will know, many BSC Parties had some initial problems with their business processes or systems during the first few weeks of operation of NETA. As you also know, these problems were compounded in the early days of NETA by the feedback to Parties, from the central parties, of inaccurate data for validation. All this is verifiable by reference to Elexon circulars.

One such process problem on London's part, and its unfortunate combination with other problems arising from the operation of the systems employed by the central parties, resulted in an undetected error in London's submission of its contract position relating to the day of 3 April, only a week after the commencement of the new market. The consequence of this error was that Elexon's calculation

of London's net financial liability for that day was increased by some £7.5 million above the level corresponding to its true contract position.

In brief, although London's error had no adverse effect whatsoever on the physical balancing or costs of operation of the electricity system, it had a very large adverse effect on the calculation of London's liability for imbalance charges for the day of 3 April. The total cost to London was then redistributed to other BSC Parties, resulting in windfall gains for them.

The justification for our proposed modification of the BSC is that, under present arrangements, the objects described in Condition 7A.2 of NGC's licence are not achieved, with the result that the affected Party – as in London's case in relation to the events described above – may suffer substantially higher imbalance charges than would apply if the correct contract volumes had been used to calculate the Party's settlement liabilities.

Given that for all Parties there has been a greater risk of notification errors during the early period of operation of the BSC, our proposal is designed to provide for the rectification of all past notification errors, including those in respect of trading periods for which initial settlement has been completed prior to the adoption of the proposed modification. We believe that the case for such retrospection is a strong one, from which all BSC Parties stand to benefit, both immediately and on a continuing basis, particularly as regards new market entrants.

Our case is set out in more detail in the separate formal proposal, which we have formulated in the light of, amongst other things, the Authority's decision dated 8 June in relation to Modification Proposal P9. For the avoidance of doubt, (1) we ask that our proposal be treated as an urgent modification, and (2) we confirm that London will wish to make a retrospective claim for the rectification of its notification error in respect of its contract position for the day of 3 April, if the proposed modification is adopted.

If you or other Panel Members have any questions in relation to the above, we would be happy to deal with them. We look forward to hearing from you.

Yours sincerely

Roger Barnard

Regulatory Lawyer
London Electricity Group