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03 December 2001

The National Grid Company, BSC Signatories and
Other Interested Parties

Your Ref:
Our Ref : MP No: P17

Dear Colleague,

Modification to the Balancing and Settlement Code - Decision and Notice in relation to Modification Proposal P17: "ECVNAs to receive 7-Day Report"

The Gas and Electricity Markets Authority (the "Authority") has carefully considered the issues raised in Modification Proposal P17 "ECVNAs to receive 7-Day Report".

The Balancing and Settlement Code Panel (the "Panel") recommended to the Authority that the Alternative Modification be approved and implemented as part of the ELEXON¹ Balancing and Settlement Code ("BSC") Systems Release 2 Project, with a current planned implementation date of 27 March 2001.

The Authority does not agree with the Panel's recommendation. Ofgem has decided to reject the Proposed Modification and the Alternative Modification. This letter explains the background to the Modification Proposal and sets out the Authority's reasons for its decision.

Background to the proposal

Contractual positions from forwards and futures markets (including short-term power exchanges) are notified to the Energy Contract Volume Aggregation Agency (ECVAA) on an ex-ante basis. Contract notifications² are only registered if they are

¹ ELEXON is the Balancing and Settlement Code Company (BSCCo).

² Reference to 'contract notifications' includes both Energy Contract Volume Notifications (ECVNAs) and Metered Volume Reallocation Notifications (MVRNs).

notified to the ECVAA and acknowledged before Gate Closure (currently 3½ hours before real time).

The Contract Trading Parties notify the volume to the ECVAA central settlement system via an appointed Notification Agent,³ which can be one of the two Contract Trading Parties. If a contract is notified incorrectly, or not notified at all, and the Contract Trading Parties/Notification Agent do not rectify this, the Contract Trading Parties and/or the Notification Agent will be exposed to Electricity Imbalance Prices if their notified generation/demand does not equal their actual generation/demand.

Under provisions in the BSC⁴ the ECVAA is required each day to provide Contract Trading Parties with a Forward Contract Report that confirms notified volumes received by the ECVAA for the subsequent 7 Settlement Days. The Forward Contract Report enables Trading Parties to identify errors and omissions in contract notifications. Under the current arrangements Notification Agents who are not Trading Parties do not receive the Forward Contract Report. It has been argued that this is an inequality in the provision of reports by the ECVAA that disadvantages those Notification Agents who are not Trading Parties.

The costs of developing, operating and maintaining the ECVAA Systems that provide Trading Parties with reports are part of the BSC Costs. ELEXON recovers BSC Costs from Trading Parties⁵ under provisions in the Code⁶. Some Notification Agents are also Trading Parties and therefore contribute indirectly to BSC Costs, but Notification Agents who are not Trading Parties do not contribute to BSC Costs.

On 23 May 2001 PowerEx Limited proposed Modification P17: 'ECVNAs to receive the 7-Day Report' to the BSC.

The Modification Proposal

Modification Proposal P17 suggests that all ECVNAs who are currently active receive an appropriate version of the Forward Contract Report daily.

³ Reference to 'Notification Agent(s)' includes both Energy Contract Notification Agents (ECVNAs) and Metered Volume Reallocation Notification Agents (MVRNAs).

⁴ Section V, Annex V-1.

⁵ Trading Parties are a Party, other than the Transmission Company which holds Energy Accounts.

⁶ Section D: BSC Cost Recovery and Participation Charges.

During the Assessment procedure of Modification Proposal P17, the Modification Group ("the Group") developed and recommended an Alternative Modification Proposal. The Alternative Proposal extends the scope of the Proposed Modification. In addition to ECVNAs receiving an appropriate version of the Forward Contract Report the Alternative Modification specifies that an appropriate version of the Forward Contract Report be made available to MVRNAs.

The structure and content of the Notification Agent Forward Contract Report would be a variant of the existing Forward Contract Report received by Contract Trading Parties. The Alternative Modification seeks to provide the Notification Agent with a version of the Forward Contract Report that only includes information on the contracts that it has notified. In order to provide Notification Agents with a new version of the Forward Contract Report, a new external Party interface between Central Services and Notification Agents systems is required. The Notification Agent Forward Contract Report would be treated as a variant of the Forward Contract Report and provided to Notification Agents in accordance with existing service levels for the Forward Contract Report. The existing Forward Contract Report, for Trading Parties, would remain unchanged.

The Alternative Modification proposes that the receipt of the Notification Agent Forward Contract Report would be optional. This would mean that Notification Agents who chose to receive the Notification Agent Forward Contract Report will have to build functionality into their systems to receive it from a new ECVAA interface.

The Panel considered the Group's Assessment Report at the Panel meeting on the 26 July 2001. The Group recommended that the Alternative Modification is approved and the Proposed Modification is rejected. The Alternative Modification was put forward for inclusion as part of the ELEXON BSC Systems Release 2 Project.

The Group believed that providing Notification Agents with a version of the Forward Contract Report would further the BSC Objective of promoting effective competition in the generation and supply of electricity and (so far as is consistent therewith) promoting such competition in the sale and purchase of electricity⁷ by redressing an inequality in the provision of reports from ECVAA. The Group also argued that the Alternative Modification should enable Notification Agents to determine errors and omissions in the notifications they submit to ECVAA and rectify them. Furthermore, the provision of a Notification Agent Forward Contract Report should increase BSC

⁷ Transmission Licence Condition 7A 3(c).

Party confidence with regard to contract notifications, which may lead to increased liquidity in the forwards markets particularly on exchanges.

The Group also noted the Alternative Modification Proposal would further the BSC Objective of 'promoting efficiency in the implementation and administration of the balancing and settlement arrangements⁸' by potentially reducing the number of Trading Queries and Trading Disputes raised with ELEXON.

The Group believes that the implementation costs associated with the Alternative Modification should be borne by all BSC Parties according to the current financial arrangements. The Group considered that amending the allocation of costs associated with implementing the Modification or the Alternative Modification for P17 would require an additional Modification to be raised and was therefore considered to lie not within the scope of the Modification Proposal.

The Panel endorsed the Group's recommendations and determined to go to the Report Phase. ELEXON published a Draft Modification Report on 30 July 2001 which invited respondents' views by 13 August 2001.

Respondents' views

In total, ELEXON received eight responses (representing 22 BSC Parties) to the consultation on the Draft Modification Report. Of the responses, all eight expressed support for the Alternative Modification Proposal.

The respondents agreed with the Panel's recommendation that the Alternative Modification Proposal better facilitates the relevant Objectives of the BSC. The respondents felt that it is reasonable to provide Notification Agents with a version of the Forward Contract Report to assist them in the identification and rectification of errors and/or omissions in their notification submissions.

One respondent expressed concern over the cost allocation of the Alternative Modification Proposal. They suggested that where changes benefit all market participants, in this case by increasing confidence in third-party Notification Agents, the implementation costs should be included in the BSC costs, but third-party Notification Agents should contribute towards the operational costs of receiving a version of the Forward Contract Report.

⁸ Transmission Licence Condition 7A 3(d).

Panel's Recommendation

The Panel met on the 23 August 2001 and considered the Modification Report, the views of the Modification Group and the consultation responses received.

The Panel recommended to the Authority that the Alternative Modification be approved and implemented as part of the ELEXON BSC Systems Release 2 project, with a current planned implementation date of 27 March 2002.

Ofgem's view

Ofgem⁹ agrees with the view of the Panel that Notification Agents should have the option to receive an appropriate version of the Forward Contract Report to better enable them to identify and rectify omissions in submitted notifications. Ofgem considers that providing Notification Agents with an appropriate version of the Forward Contract Report could potentially increase Trading Parties confidence in the use of Notification Agents and may lead to a reduction in the occurrence of Trading Disputes and Trading Queries. Ofgem also agrees with the Panel's view that providing Notification Agents with a version of the Forward Contract Report would address an inequality in the provision of reports from the ECVAA. However, Ofgem does not consider that it is appropriate to provide Notification Agents who are not Trading Parties with a version of the Forward Contract Report without contributing to the costs of providing that report.

Ofgem recognises that some Trading Parties who use third party Notification Agents feel that it is appropriate to bear the costs of providing Notification Agents with a version of the Forward Contract Report to reduce the risk of erroneous contract notifications on their behalf. However, Ofgem considers that it is not appropriate that the cost of reducing the risk associated with erroneous contract notification by Notification Agents is borne by all Trading Parties under the current financial arrangements given that Notification Agents may not be Trading Parties.

Ofgem considers that the Proposed Modification and the Alternative Modification Proposal, as recommended to the Authority, do not allocate implementation and operational costs appropriately. Ofgem considers that the cost of the Alternative Modification Proposal should be targeted on those Notification Agents who choose to receive the Notification Agent Forward Contract Report. Ofgem therefore

⁹ Ofgem is the office of the Authority. The terms "Ofgem" and "the Authority" are used interchangeably in this letter.

considers that the allocation of costs associated with implementing and operating the Proposed Modification or the Alternative Modification should fall within the scope of the Modification Proposal.

Ofgem considers that a failure to allocate the costs to Notification Agents will result in Trading Parties cross-subsidising Notification Agents who choose to receive the Notification Agent Forward Contract Report. Ofgem therefore considers that the Alternative Modification does not further the BSC Objectives of promoting competition in the generation and supply of electricity and efficiency in the implementation of the balancing and settlement arrangements.

Ofgem considers that the version of the Forward Contract Report put forward in the Alternative Modification Proposal is not currently provided to BSC Parties or Trading Parties. Ofgem considers that it would be appropriate for any future Modification Proposal that seeks to provide Notification Agents with a version of the Forward Contract Report to include provisions for the recovery of any costs associated with providing any new Forward Contract Report from all parties who elect to receive the reports and therefore lead to costs being incurred.

The Authority's decision

The Authority does not agree with the Panel's recommendation that the Alternative Modification Proposal P017 should be approved and implemented as part of the ELEXON BSC Systems Release 2 Project, with a current planned implementation date of 27 March 2002.

Having regard to the above, the Authority, in accordance with Section F1.1.4 of the BSC, hereby notifies NGC that it does not intend to direct NGC to modify the BSC as set out in Alternative Modification Proposal P17.

If you have any queries in relation to the issues raised in this letter, please feel free to contact me on the above number.

Yours sincerely,

Sonia Brown

Head of Electricity System Operation

Signed on behalf of the Authority and authorised for that purpose by the Authority