

May 2001

URGENT MODIFICATION REPORT FOR CONSULTATION

MODIFICATION PROPOSAL P9

**Correction of technical error in respect of the
energy contract volume notifications and
adjustment of settlement data**

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

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1 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.

2 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.

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).

The modification procedures culminate in a modification report to the Authority, which normally contains the Panel's recommendation on whether or not a proposed modification should be approved and a proposed date for its implementation, together with a detailed assessment of the proposal in question. The report forms the basis upon which the Authority will decide whether to approve, direct or reject a modification proposal.

The Transmission Company or ELEXON may recommend that a Modification Proposal be treated as urgent, subject to approval by the Authority. The procedure for progressing an Urgent Modification Proposal is set out in Sections F2.9 and B4.6 of the Code. These urgent procedures allow the normal modification procedures to be circumvented as necessary to fit with the urgency of the matter. In such cases, the Authority will confirm the timetable and procedure that should apply. The timetable and procedure directed by the Authority must be adhered to, along with any other special instructions. A statement containing the reasons why the Panel (or Panel Chairman) consider the Proposal should be treated as urgent must be included in the Urgent Modification Report, together with a description of the extent to which the procedure followed deviated from the normal modification procedure.

Depending on the urgency of the matter, it may not be possible to establish a Modification Group or undertake detailed assessment of the modification proposal. The level of detail and analysis presented in this Urgent Modification Report therefore represents the full extent of relevant information regarding the modification proposal that could be collated within the time available.

3 EXECUTIVE SUMMARY AND RECOMMENDATIONS

The Proposed Modification P9 would allow Parties to correct, retrospectively or otherwise, Energy Contract Notifications (ECVNs) which are erroneous due to a no fault technical error.

The **Justification for the Proposed Modification** is that it would promote efficiency in the implementation and administration of the balancing and settlement arrangements.

The Process for Consideration of the Proposed Modification

The BSC Panel has directed that the proposed modification be treated as an Urgent Modification, and this approach has been endorsed by the Authority. A Modifications Group has been convened to consider the proposal, and this report includes the issues and points of view raised at the first meeting of that Group. The Group considered that the proposal raised matters of principle that it was appropriate to consider along with more specific points, and this is reflected in this report.

Consultation

Views are now invited on the Proposed Modification and the issues raised. The consultation responses will be provided to the BSC Panel with this report. To aid this process, please can you respond against the issues and points of principle set out in this executive summary and in the order that they are set out.

Principal Matters Raised

The following issues were identified and considered by the Modifications Group. In most instances the Group did not reach a unanimous view, but where it did it is noted below. In other cases there were in essence two points of view expressed. The first supported the underlying thrust of the Proposed Modification and, further, felt that the appropriate way forward would be to expand the scope of the Manifest Errors provisions in the BSC to include erroneous notifications.

The second position was that no new BSC provisions were justified and any changes would be prejudiced to it being those Parties that had successfully complied with the terms of the BSC as it stands.

The issues considered were:

1. **Previous Consideration of the Issue**, including the work of the G3 Group, which had concluded that erroneous notifications should not be considered as manifest errors. The counter view was that operational experience had demonstrated that parties could not adequately mitigate the risk of such errors, or at least not without unnecessarily increasing the cost base of the industry.
2. **Intent of the BSC** The position put was that imbalance charges were intended to recognise the costs of physically balancing the system when Parties were in imbalance. The intent was not to apply disproportionately large charges purely as a result of a failure to correctly notify trades. The counter view was that the principles and mechanisms of the BSC were clear at Go-live.
3. **Correct Execution of the BSC** A view put to the Modifications Group was that the circumstances described by the Proposer were outside the scope of the BSC. This view was not unanimously supported.
4. **Separation of Production and Consumption Accounts** The Modifications Group were unanimous in agreeing that the principle of separate Production and Consumption

accounts should be maintained. Further, no special provisions should be considered specific to the circumstance where trades were between member companies of the same group.

5. **Ex-Ante Notification of Contract Volumes** The Group was unanimous that this principle should be maintained. A view was put that introducing a mechanism to allow correction of erroneous notifications in limited and strictly controlled circumstances was justifiable.

6. **Retrospective Modification** The Group recognised the normal presumption in markets against retrospective amendments. A view was put that in the case of erroneous notifications only the originating Party was adversely impacted and so retrospective application was acceptable and desirable. The counter view put was that the behaviour of Parties in a number of respects had been determined by the provisions of the BSC as set out before Go-live, and retrospective amendment might invalidate the basis for such behaviour.

7. **Impact on the Party Making the Erroneous Notification** The Modifications Group was unanimous in agreeing that the significance of the impact on the originating Party was determined not just by the absolute size of the payment, but also by its size in relation to the size of the Party.

8. **Impact on Other Parties** One view was that the correction of erroneous notifications would not adversely affect other Parties, and would bring a general benefit because imbalance settlement would better reflect real positions. The counter view was that Parties would have taken actions and incurred expenditure based on the BSC as it stands, and would now need to modify these. Further, there would be the direct implication that payments through the Total System Residual Cashflow mechanism, which are derived from imbalance charges, would be subject to revision.

9. **Impact on Notifications Close to Gate Closure** The view was put that the risk associated with erroneous notifications was sufficiently large as to discourage notifications close to Gate Closure, which would not be in accord with the intent of the BSC. The counter view was that it was possible to put in place adequate risk management measures to mitigate the risk.

10. **Mechanisms for Parties to Correct Errors** One view was that the BSC provided for the correction of data by BSC Agents centrally, but did not provide equivalent mechanisms for Parties. The counter view was that errors in BSC Agents could affect all Parties, whilst erroneous notifications only adversely impacted the originating Party.

11. **Temporary or Enduring Provision** Members of the Group generally supporting the proposal felt that the erroneous notifications would continue to occur and therefore that, if introduced, provisions to allow correction should be enduring. A view was put that the frequency of such occurrences (and their impact) might have been greater during the initial period of operation of the market and that a provision could be of limited duration.

12. **Metered Volume Reallocation Notifications** This matter was identified subsequent to the meeting. The view has been put that any conclusions reached regarding erroneous ECVNs should apply similarly to Metered Volume reallocation Notifications.

13. **Treatment as a Manifest Error** The view was put that the appropriate way to deal with erroneous notifications was through the expansion of the scope of existing provisions for Manifest Errors.

The points of principle that this modification raises are:

- (i) Should contract notification be definitive at Gate Closure, or should provisions be made for (gross) errors to be corrected.
- (ii) If correction of errors in contract notifications is permitted post Gate Closure, does this dilute incentives on Parties and their Agents to submit correct data for settlement.
- (iii) If supported, should the change be permitted retrospectively; from when the modification was raised, or from when implemented.
- (iv) If supported, should the change be made enduring for all parties, available to all parties but only for a limited duration (from Go-Live), or applied only to new entrants for a limited period of duration.

In addition to the above, the Modifications Group gave further consideration to three aspects of the Proposed Modification, relating to **“Technical Error”**, **“No Fault”**, and **“Software”**.

The BSC Panel will now need to determine how the Proposed Modification should be carried forward, in light of the responses to the consultation. If the general intent of the proposal is supported then the Panel may feel it is appropriate to direct that detailed assessment work be done.

If the general intent of the proposal is not supported then the Panel may wish to proceed immediately to Report.

4 **DESCRIPTION OF PROPOSED MODIFICATION**

On 4th May 2001 Scottish Power submitted a proposed modification to the BSC to allow for the corrections of Technical errors in respect of the Energy Contract Volume Notifications under Section P.2.3 and Adjustment of Settlement Data under Section U.2.5. In its submission Scottish Power stated that: The Total System Residual Settlement Cash flow under Section T of the BSC is calculated with reference to the imbalance charges arising due to the mis-match of the physical balance of the system as against the trades notified under the BSC.

At present there has accrued and continues to exist a risk that the Total System Residual Settlement Cash flow can be distorted by trades which are notified erroneously through a no fault technical error in the software used by Participants. The position being that where trades have taken place between production and consumption accounts in order to match off the trading position against the physical flow the technical error undermines the position to create a distorted Total System Residual Settlement Cash flow. In order to correct this problem the ability should be given to parties who suffer such error to correct (retrospectively or otherwise) the data submitted to ensure that the correct calculation of the Total System Residual Settlement Cash flow is made.

A copy of the Modification proposal, is available on the ELEXON website (www.ELEXON.co.uk) and is replicated in Annex 2 of this document. Details of the Modification and the issues addressed by the Modifications Group are described in Section 7 of this document.

5 STATEMENT OF URGENCY

Due to the nature of this modification, ELEXON recommended that Modification Proposal P9 be treated as an Urgent Modification Proposal.

The BSC Panel Chairman sought the views of Panel Members, all of which supported the recommendation that the Modification Proposal be treated as urgent.

The Panel recommendation to treat the Modification as Urgent has been ratified by the Authority.

6 DETAIL OF PROCEDURE AND TIMETABLE FOLLOWED

The key steps that have been adopted in progressing this Urgent Modification Proposal are as follows:

- i) On 4th May 2001 the Scottish Power raised Modification Proposal P9 - Correction of technical error in respect of the energy contract volume notifications and adjustment of settlement data with ELEXON.
- ii) The BSC Panel Chairman sought the views of Panel Members all of whom supported the recommendation that the Modification Proposal be treated as urgent (in accordance with the procedures set out in F2.9 of the BSC).
- iii) The Panel recommendation to treat the Modification as Urgent was subsequently ratified by the Authority. A Modification Group was established (based on the membership of group that considered Modification Proposal P1/P4 – Contract Notifications Group) with the membership agreed by the Panel Chairman and the Group were subsequently notified of a meeting date the following week;
- iv) The Authority agreed the process and timescale as described below:
 - The issues raised were discussed with the Modifications Group on the 10th May 2001. The Group comprised the Proposer (Scottish Power), Ofgem representatives, industry experts and ELEXON technical experts. A full listing of members is given in Annex 1.
 - Following discussion at the Modification Group meeting, this Urgent Modification Report was drafted and issued for consultation on 11th May 2001. This requested that responses be submitted by 18.00hrs on 16th May 2001. These will then be presented to the Panel on the 18th May 2001.
 - The Panel will review this report in conjunction with the written responses and decide on how this modification will be progressed.

Deviations from the normal Modification Procedures (as prescribed by Section F of the BSC) were as follows:

- If the Panel recommend that this be taken forward, ELEXON will be instructed to undertake further analysis on this matter before producing a report to the authority for their judgement. However, if the Panel recommend that this Modification is not enacted, a report will be sent directly to the Authority.

7 ISSUES FOR CONSIDERATION

7.1 The Proposed Modification

The modification as proposed by Scottish Power would allow Parties to correct Energy Contract Volume Notifications (ECVNs), retrospectively or otherwise, which are incorrect due to a no fault technical error.

The Proposal states that such errors can lead to a penal charge on a Balancing and Settlement Code (BSC) Party, to distortions in the Total System Residual Settlement Cash flow, and hence to substantial and disproportionate benefits to other Parties.

The Proposal (attached as Annex 2) further states that such events can occur even though the Party adversely affected is physically in balance and other Parties have incurred no costs or loss.

The justification described by Scottish Power for this modification is that it would promote efficiency in the implementation and administration of the Balancing and Settlement Code.

The modification has been raised since the current Code makes no provision for errors in ECVNs. Such errors fall outside the provisions of the Code and cannot be directly disputed. The modification proposed would include such errors in the scope of the Code and is seen as enabling their controlled resolution under the Code.

Furthermore, this modification addresses areas covered by the DTI/Ofgem in their conclusions on the G3 consultations on Manifest Errors in Balancing Mechanism Transactions (October 2000) and Special Provisions for Computing Systems Failures (November 2000).

7.2 The Process for Consideration of the Proposed Modification

The BSC Panel has directed that this modification could have significant implications for payments by and to Parties, thus it should be treated as an Urgent Modification; the Authority has endorsed this view. Furthermore, the Panel emphasised that the modification should be considered in the context of all market participants, both small and large. Thus errors of small overall magnitude could still be highly significant if they affected a smaller participant.

A Modifications Group has been convened to consider the Proposal and this document reports the considerations of the first meeting of the Group, supplemented by supporting information. This Report is now issued for consultation. The Report, and the results of the consultation will be provided to the Panel for their consideration on Thursday 17th May 2001. This meeting will determine how the Modification is to be progressed, e.g. further detailed assessment or directly to Report.

7.3 Modifications Group Meeting

The Modifications Group met on Thursday 11th May 2001 to consider the proposed modification. The view of the Group was that whilst the Proposal as set out related to a quite specific set of circumstances, it did raise issues relating to certain of the principles on which the Balancing and Settlement Code is founded. The Group agreed that, in order to provide the best starting point for the consultation process, it was appropriate to crystallise and consider these matters of principal.

The Group therefore heard a presentation of the proposed modification from the Proposer, then went on to consider the main issues raised, before returning for a further consideration of specific aspects of the proposed modification.

7.4 Main Issues

The Modifications Group identified and gave views on the following matters that were seen as raising questions of principle. The Group identified and considered issues in open debate; votes on issues were not taken. Where it is stated that the Modification Group “agreed”, then the agreement was without dissent; where it is stated “there was a view” then the position stated was not unanimous. Some further information has been added by ELEXON subsequent to the meeting: this is shown in *italics*.

1. Previous Consideration of Issue

The circumstances identified by the Proposed Modification concern erroneous inputs from Party Agent systems.

There was a view that these matters had previously been considered by the G3 Group in its consultation of Manifest Errors and Computing System Failures. The conclusions of this work were that means were available to Parties to mitigate risks arising from the operations of their agents, and that Parties should therefore remain liable for the consequences of such errors.

Work earlier in the NETA Programme had also concluded that the consequences of an error by the ECVNA (Energy Contract Notification Agent) would not adversely affect Parties in general, but only the Party responsible for the Agent.

The BSC designated by the Secretary of State took account of these conclusions.

Another view stated was that operational experience since Go-live had now demonstrated that the consequences of erroneous notifications could be disproportionately large. Further, the costs of mitigating such large risks could now be seen to unnecessarily increase the cost base of the industry.

2. Intent of the BSC

A view put was that the imbalance charges incurred by Parties as a result of erroneous notifications did not align with the intent of the BSC. In this view, one objective of the BSC was that Parties should incur imbalance charges as a recognition of the costs of physically balancing the system. In the circumstances cited by Scottish Power here no such costs had arisen, since the failure had been that notifications had not reflected the underlying trades.

3. Correct Execution of the BSC

A view put to the Modifications Group was that the circumstances described by Scottish Power are outside the direct scope of the current BSC. This view was not unanimously supported.

4. Separation of Production and Consumption Accounts

The circumstances described in the Proposed Modification relate to trades between Production and Consumption Accounts of a group of companies that were accomplished using Energy Contract Volume Notifications. The error was with specific inter-company group trades and did not involve trading parties external to the group. The issue would not have been encountered if trade was conducted on a net (group wide) basis. The Group, however, reaffirmed the principle of maintaining separate production and consumption accounts. Furthermore, the Modifications Group considered that the BSC should not be modified to include error provisions specific to the type of trade cited in the modification.

5. Ex-Ante Notification of Contract Volumes

The Proposed Modification envisages that, in the case of no fault technical error, it should be allowable to adjust ECVNs after Gate Closure.

The Modifications Group agreed that ex-ante notification should be maintained as a principle consistent with the present provisions of the BSC. However, there was a view that the correction of an agreed manifestly erroneous notification post Gate Closure should be supported under the Code.

6. Retrospective Modification

As set out, the Proposed Modification would not be limited temporally. In particular, it would encompass the adjustment of notifications from Go-live onwards.

The Modifications Group recognised that in a market environment there is a general presumption against retrospection.

There was a view that the correction of the type of error described did not impact adversely on other parties, and in such circumstances retrospective application was acceptable, and, in this context, beneficial.

There was another view that some Parties would have behaved differently had the provisions of the Proposed Modification been incorporated in the BSC previously, for example before Go-live. This question is considered further in item 8 below.

7. Impact on the Party Making the Erroneous Notification

The absolute size of the financial impact on the Party making the erroneous notification is determined both by the size of the notification error and by the system prices that are applied to any resulting imbalance. The resulting impact may therefore fall anywhere in a range from negligible to many millions of pounds, depending on the circumstances.

The Modifications Group agreed that the relative as well as the absolute size of the impact is important. That is to say, a small Party might be severely affected by an error which others might consider to be small.

8. Impact on Other Parties

A view was put that the correction of erroneous notifications in the circumstances envisaged would not adversely impact other Parties. The position put was that such corrections had no implications for the costs of physically balancing the system, since they reflected corrections to notifications rather than changes to underlying trading positions. Furthermore, there would be a general benefit because imbalance settlement would more accurately reflect real positions.

There was a counter view that other Parties would be adversely affected by the Proposed Modification, on the grounds they will have taken actions both prior to and subsequent to Go-live on the basis of the BSC as it stands. In this view, Parties might have made different investments in risk management measures in systems and processes had the BSC been cast differently. Also, Parties having assessed the nature of any risk associated with erroneous notifications may have adopted particular trading and notification strategies to manage the risk.

Moreover, a view was put that Parties may have taken actions on the basis of the payments they have received in respect of Total System Residual Cash flow. This mechanism acts, in effect, to share the "receipts" from imbalance charges amongst Parties. There was a view put that such payments have been substantial, and Parties should have been alert to the fact that they arose from unexpected consequences of the BSC.

Further, a view was expressed that were it accepted that erroneous notifications could be corrected after gate closure uncertainty would inevitably arise over the firmness of payments made through the Total System Residual Cash flow mechanism.

9. Mechanisms for Parties to Correct Errors

A view was put that the BSC as it stands is asymmetrical in that in defined circumstances data collected by BSC Agents can be subsequently revised. The revision of meter data collected by the Central Data Collection Agent is an instance of this. On the other hand, the Manifest Errors provisions in the balancing mechanism only extend to Parties and the Transmission Company in the limited circumstance of accepted bids and offers.

Further to this, a view was put that the BSC contains no mechanism by which a Party can raise a specific instance of the error outlined in the proposal, other than through the Modifications Process.

Another view was that these features of the BSC are the consequence, in particular, of the conclusion that failures in BSC Agents may affect all Parties, whilst erroneous notifications only adversely affect the originating Party. This view is consistent with that adopted in the DTI/Ofgem Conclusions Document.

10. Temporary or Enduring Provision

A view was put that the circumstances described in the Proposed Modification are particularly likely to occur in the early stages of operation of the market. Some members of the group considered that Parties had agreed to the earliest possible Go-live date with a recognition that some problems would be encountered. However, the overall benefits of an early Go-live were seen as paramount. In these circumstances, Parties and their Agents had not been able to conduct the extended bedding down process that would have been ideal.

Further, in this initial period of the market, prices had been volatile, sometimes exhibiting large excursions. Such characteristics could result in substantial imbalance charges being incurred.

Moreover, whilst it was recognised that the reports provided by the BSC agents should provide adequate information to enable a Party to promptly confirm its trading position, some Parties had raised concerns over the clarity and availability of these reports.

Another view was that erroneous notifications with substantial impacts on Parties would continue to be possible subsequent to any settling down period in the market, and that any BSC provisions should therefore be enduring rather than temporary. A variant on this was that the issue was one for new trading parties and a fixed period could be specified from when a trading party commences trading.

A counter view to both of the above was expressed. This held that neither temporary nor permanent provisions were appropriate. In this view, Parties should have made their own assessment of risks at market start-up and responded accordingly. Further, the reporting provided by BSC agents had been adequate

11. Metered Volume Reallocation Notifications (MVRNs)

Note in many circumstances the treatment of MVRNs mirrors that of ECVNs. The Proposed Modification and the discussion at the Modifications Group were couched in terms of ECVNs. It would appear that all the arguments for and against the Proposed Modification, and the questions of principle it raises would apply equally to MVRNs. Therefore consideration should be given to applying the decisions reached to MVRNs as well as ECVNs.

12. Treatment As a Manifest Error

A view was that the Proposed Modification would apply to a limited set of circumstances, and, were it approved, there was a considerable likelihood of a sequence of similar modifications being brought forward subsequently, each addressing slightly different situations.

The supporters of this view considered that a preferable mechanism would be to expand the scope of the manifest error provisions in the BSC such that they encompassed erroneous ECVNA notifications. In such a scheme the onus of proof would be on the claimant.

7.5 Specific Issues Related to Proposed Modification as Drafted

Having considered the matters of principle raised by the Proposed Modification, the Modifications Group returned to allow further consideration of specific aspects of the proposal as drafted.

1. Technical Error

The Modification Proposal cites the condition as arising due to a Technical Error. No clarification is provided in the proposal on what constitutes a Technical Error. The Proposer confirmed the wording was intended to distinguish these types of error from Operator induced errors.

The Group recognised that such a distinction may prove difficult to exercise and would recommend that if a solution were developed then the scope be broadened to encompass all errors, regardless of source. Thereafter it would be necessary to consider the particular circumstance of the error to determine whether it was admissible.

2. No Fault

The Modification Proposal states that the error is a 'no fault' error. Clarification was sought on the interpretation of 'no fault'. It was asserted that the faults that the modification was seeking to treat were ones that could not reasonably have been detected. This view was countered by the assertion that comprehensive testing should reveal such faults.

It was, however, noted that the data submitted from the ECVNA to the ECVAAs would have contained the error and that subsequent reports from the central systems to the Trading Party would have reflected the same error. Further enhancement of settlement reporting would increase visibility of (but not remove) such errors, and is recommended by the Modification Group.

3. Software

The specific case identified by the Proposer arose from errors introduced in the software application employed by the Party Agent.

Differing Party Agents employ differing technologies to deliver their service and the Group concluded that, were a modification to be progressed, then it would be problematic to restrict allowable sources of errors to software faults.

The Group also noted that remedies for errors introduced by a software application could be subject to discussion with the software provider.

7.6 Options for Consideration By the Panel

Where an erroneous Energy Contract Volume Notification is identified pre Gate Closure, then the affected trading party may submit further contracts to remedy their position. If agreed, the modification would permit BSC Parties to correct erroneous Energy Contract Volume Notifications post Gate Closure. This is currently precluded under the Code.

At Gate Closure, definitive physical notifications and contractual positions are established for each Trading Party. The Grid Operator thereafter balances the system and through the imbalance mechanism trading parties are incentivised to match actual physical and contractual positions.

Whilst the current arrangements require a definitive contractual position to be notified at Gate Closure, they allow no mechanism for correcting any errors in the notifications. Currently these would permeate through the settlement calculation resulting in imbalance charges. The issue becomes particularly relevant to the affected party when the charges are of high magnitude.

The imbalance charges resulting from such errors fall against the affected accounts, and the ensuing surplus is redirected across all trading parties. Thus only the affected trading parties are financially disadvantaged. The consequences of an error introduced by a Party Agent are therefore borne by the Party. A relaxation of this principle could be seen as diluting the incentives on Parties and their Agents to perform correctly.

This view is, however, countered by the opinion that the current arrangements are resulting in excessive costs to the affected Party, and the risk of incurring these is militating against contract notification being submitted near to Gate Closure.

The key principles highlighted by the proposal are:

(v) Should contract notification be definitive at Gate Closure, or should provisions be made for (gross) errors to be corrected.

(vi) If correction of errors in contract notifications is permitted post Gate Closure, does this dilute incentives on Parties and their Agents to submit correct data for settlement.

(vii) If supported, should the change be permitted retrospectively; from when the modification was raised, or from when implemented.

(viii) If supported, should the change be made enduring for all parties, available to all parties but only for a limited duration (from Go-Live), or applied only to new entrants for a limited period of duration.

Views on points (i) and (ii) were expressed in the DTI/Offer Consultation document on manifest error and computing systems failures. The present BSC drafting reflects DTI/OFFER conclusions.

The purpose of this paper is to explore the principles underpinning the proposed modification and highlight the issues. Views are sought on these points through the consultation exercise.

Should the Panel, in the light of the consultation responses, agree the tenet of the modification, then further work will be conducted through the Modification Group to resolve the outstanding issues and identify the necessary changes to the business process and supporting systems.

Should the Panel, in the light of the consultation responses, reject the tenet of the modification, then the Report Phase will be initiated. This approach would expedite resolution of the issue and avoid nugatory work.

8 LEGAL TEXT TO GIVE EFFECT TO THE PROPOSED MODIFICATION

The Proposer has suggested that the following sections of the Code would need to be amended in order to accommodate the implementation of this Modification.

Paragraph 2.3.6 in Section P.2.3 should be amended by the addition of a new Paragraph 2.3.6A as follows:-

"2.3.6A

Where the Relevant Contract Party has submitted an erroneous Energy Contract Volume Notification due to a technical fault then it shall be entitled to:

(a) amend or vary the Energy Contract Volume Notification (retrospectively or otherwise) under Paragraph 2.3.6 and

(b) the data in respect of such Energy Contract Volume Notification shall be treated as manifestly erroneous pursuant to Paragraph 2.5.6 of Section U.2.5. and the relevant BSC Agent or Relevant Party shall be permitted to correct such data for the purposes of Settlement in relation only to the Settlement Days identified by the Relevant Contract Party and shall inform BSC Co. accordingly. The effect being to permit such corrected data to be taken into account for the purposes of Settlement (retrospectively or otherwise) under Paragraph 2.5.7 of Section U.2.5.

This drafting may prove inadequate to cover all of the issues raised in this consultation and further analysis will need to be undertaken.

ANNEX 1 ATTENDEES OF MODIFICATIONS GROUP

Urgent Modifications Group – MP9

Member	Organisation
Chris Rowell	Chairman (ELEXON)
Mike Edgar	NGC
Roy Dinsmore	Innogy
Joosje Hamilton	Ofgem
Sonia Brown	Ofgem
Adam Higginson	Ofgem
Paul Chesterman	London Electricity
Dave Lenton	St-Clements
John Sykes	Scottish and Southern
Nicola Lea	TXU Europe Energy Trading
Mike Harrison	Scottish Power
Peter Bolitho	PowerGen
Neil Cohen	Elexon
Ben Jones	Elexon

ANNEX 2 COPY OF MODIFICATION PROPOSAL

Modification Proposal	MP No: P9 <i>(mandatory by BSCCo)</i>
<p>Title of Modification Proposal <i>(mandatory by proposer):</i> Correction Of Technical Error In Respect Of The Energy Contract Volume Notifications Under Section P.2.3 And Adjustment Of Settlement Data Under Section U.2.5.</p>	
<p>Submission Date <i>(mandatory by proposer):</i> 4th May 2001</p>	
<p>Description of Proposed Modification <i>(mandatory by proposer):</i> Modification to Section P.2.3 and U.2.5 to permit BSC Parties to correct submission of ECVNS (retrospectively or otherwise) which are incorrect due to no fault technical error.</p>	
<p>Description of Issue or Defect that Modification Proposal Seeks to Address <i>(mandatory by proposer):</i> The Total System Residual Settlement Cashflow under Section T of the BSC is calculated with reference to the imbalance charges arising due to the mis-match of the physical balance of the system as against the trades notified under the BSC.</p> <p>At present there has accrued and continues to exist a risk that the Total System Residual Settlement Cashflow can be distorted by trades which are notified erroneously through a no fault technical error in the software used by Participants. The position being that where trades have taken place between production and consumption accounts in order to match off the trading position against the physical flow the technical error undermines the position to create a distorted Total System Residual Settlement Cashflow. In order to correct this problem the ability should be given to parties who suffer such error to correct (retrospectively or otherwise) the data submitted to ensure that the correct calculation of the Total System Residual Settlement Cashflow is made.</p>	
<p>Impact on Code <i>(optional by proposer):</i> Paragraph 2.3.6 in Section P.2.3 should be amended by the addition of a new Paragraph 2.3.6A as follows:-</p> <p>"2.3.6A</p> <p>Where the Relevant Contract Party has submitted an erroneous Energy Contract Volume Notification due to a technical fault then it shall be entitled to:</p> <p>(a) amend or vary the Energy Contract Volume Notification (retrospectively or otherwise) under Paragraph 2.3.6 and</p> <p>(b) the data in respect of such Energy Contract Volume Notification shall be treated as manifestly erroneous pursuant to Paragraph 2.5.6 of Section U.2.5. and the relevant BSC Agent or Relevant Party shall be permitted to correct such data for the purposes of Settlement in relation only to the Settlement Days identified by the Relevant Contract Party and shall inform BSC Co. accordingly. The effect being to permit such corrected data to be taken into account for the purposes of Settlement (retrospectively or otherwise) under Paragraph 2.5.7 of Section U.2.5.</p>	

Modification Proposal

MP No: P9
(mandatory by BSCCo)

Impact on Core Industry Documents (optional by proposer):

None

Impact on BSC Systems and Other Relevant Systems and Processes Used by Parties (optional by proposer):

None

Impact on other Configurable Items (optional by proposer):

Justification for Proposed Modification with Reference to Applicable BSC Objectives (mandatory by proposer):

The modification is made pursuant to Transmission Licence Condition 7A (3) (d) - promoting efficiency in the implementation and administration of the balancing and settlement arrangements. The Applicable BSC Obligation is fulfilled as it is addressing the general issue of technical fault and is the correction of the position where (i) latent IT fault beyond the control of the BSC Party has caused an incorrect Settlement to occur and (ii) there is no physical imbalance resulting from such fault. It is not the purpose of the balancing and settlement arrangement to be implemented in a manner which imposes, and neither it should be possible for a technical error to result in, a penal charge on a BSC Party and grant other BSC Parties a substantial and disproportionate benefit where there has been no physical imbalance on the GB system and no costs or loss occurring to such other Participants.

Details of Proposer:

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Attachments: NO

If Yes, Title and No. of Pages of Each Attachment:

ANNEX 3 PROCESS AND TIMETABLE FOR PROGRESSING THE MODIFICATION

P9 – Correction of a Technical Error in Respect of the ECVNA (under Section P.2.3) and Adjustment of Settlement Data (under Section U.2.5) – Scottish Power (4th May 2001)

Aim:

- Definition Report for Panel meeting on Friday 18th May. (Due to the complexity and potential impact on participants, a 2 stage process is proposed; namely 1st stage Definition, then a decision point for a next stage of either further definition, assessment or report)

Issue:

- Correction of technical error in respect of the energy of the Energy Contract Volume Notifications under section P.2.3 and adjustment of settlement data under section U2.5.

Justification:

Scottish Power state:

- The modification is made pursuant to Transmission Licence Condition 7A (3) (d) - promoting efficiency in the implementation and administration of the balancing and settlement arrangements.
- The Applicable BSC Obligation is fulfilled as it is addressing the general issue of technical fault and is the correction of the position where (i) latent IT fault beyond the control of the BSC Party has caused an incorrect Settlement to occur and (ii) there is no physical imbalance resulting from such fault. It is not the purpose of the balancing and settlement arrangement to be implemented in a manner which imposes, and neither it should be possible for a technical error to result in, a penal charge on a BSC Party and grant other BSC Parties a substantial and disproportionate benefit where there has been no physical imbalance on the GB system and no costs or loss occurring to such other Participants.

Urgency:

- The Panel recognised that the proposal seeks retrospective adjustment of monies and introduces the precedent that ECVNA errors can be corrected. This materially affects participants and the way that they trade. The Panel therefore recommended prompt resolution.

Ofgem suggested wording "The matter requires urgent attention due to the materiality involved both retrospectively and prospectively and the prospective part of the modification".

Timetable – Definition Procedure

Mod Proposal	Mon 7 th	Tue 8 th	Wed 9 th	Thu 10 th	Fri 11 th	Sat 12 th	Sun 13 th
P10	-	<i>Elexon analysis</i>	<i>Mods Gp meeting Report</i>	<i>Consult</i>	<i>Collate Issue Report to Ofgem</i>	-	-
P09	-	Elexon analysis	Elexon analysis	Mods Gp	Construct & Issue Report for consult	-	-
	Mon 14th	Tue 15th	Wed 16th	Thu 17th	Fri 18th	Sat 19th	Sun 20th
P10	<i>Present report to Ofgem</i>	-	-	-	-	-	-
P09	Consult	Consult	Consult	Collate Report	Panel Meeting – next stage		
	Mon 21st	Tue 22nd	Wed 23rd	Thu 24th	Fri 25th	Sat 26th	Sun 27th
P09	Present panel decision to Ofgem						

Day	Action	Comment
Friday 4 th May	Notify Mods Group Initiate definition work within ELEXON	Agree mods group and process with Panel Chairman + panel sponsor (Richard Brealey) Issue process to Ofgem
Friday 4 th May – Wednesday 9 th May	ELEXON definition analysis	See table on “Definition work Areas”
10:00hrs Thursday 10 th May	Mods group meeting	
18:00hrs Friday 11 th May	Issue report for consultation Issue draft report to Panel	
18:00hrs Friday 11 th – 18:00hrs Wednesday 16 th May	Consultation	
Thursday 17 th May	Collate comments Update report	
10:30hrs Friday 18 th May	Panel meeting Agree next stage	Next Stage – Further definition, assessment or report

Membership (utilise Modifications Group for P1/4, invite all Trading Parties to attend)

			Attendance
Chris Rowell	ELEXON	Chairman	-
Mike Harrison	ScottishPower	Proposer	-
Andrew Foster	UK Power Exchange	Mods Group Member	-
Lisa Waters	Dynegy UK	Mods Group Member	-
Tim Johnson	Powergen	Mods Group Member	-
Dave Lenton	St Clements	Mods Group Member	yes
Roy Dinsmore	Innogy	Mods Group Member	-
Chris Teverson	European Power Source Company (UK)	Mods Group Member	-
Nicola Lea	TXU Europe Energy	Mods Group Member	yes
Mike Edgar	Transmission Company	Mods Group Member	-
Andrew Paddon	Sempra Energy	Mods Group Member	-
TBA	Ofgem	Attendee	-