

## **Consultation for Modification Proposal P141: Removal of Unintentional Effects of Approved Modification P106 on Supplier Charges**

A consultation document developed on behalf of the Volume Allocation Standing Modification Group (VASMGM).

**For Attention of:** BSC Parties and all other interested parties.

**Date of Issue:** 21 September 2003

**Responses Due:** 17:00 on Friday 26 September 2003 (To: [Modifications@elexon.co.uk](mailto:Modifications@elexon.co.uk))

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### **1. INTRODUCTION**

Modification Proposal P141, "Removal of Unintentional Effects of Approved Modification P106 on Supplier Charges" (P141) was raised by EDF Energy on 28 August 2003.

P141 seeks to ensure that the process by which Serials and Standards are reported and monitored, and Supplier Charges levied, remains on the basis of Supplier IDs rather than on a Supplier basis which has been brought about by a side effect of the implementation of P106 "Amendment to the BSC to allow multiple Supplier IDs" (P106).

#### **Supplier IDs**

A Supplier ID is a four character code that historically, uniquely identified a single Supplier within a number of IT Systems used under the Pooling and Settlement Arrangements (P&SA). The Supplier ID has continued to be used within IT Systems such as the Performance Assurance Reporting and Monitoring System (PARMS) under the governance of the Balancing and Settlement Code (the Code). As a result of various company acquisitions, some following Defaults by Suppliers, the Supplier ID was an asset that identified groups of customers that were transferred from one company to another. This mechanism of transferring customers was seen as the most efficient means by which such volumes of customers could be transferred without having to undergo a Change of Supplier Process.

#### **P106**

P106 was implemented on 24 June 2003. P106 sought to formally introduce the term Supplier ID into the Code for the purposes of Settlement. The P106 legal text stated that all provisions in the Code apply with respect to Supplier unless they are referred to in Section S1.3.4 in which case they apply separately to each Supplier ID. Section S1.3.4 does not reference Serials or Supplier Charges, hence following the P106 Implementation Date the Code is unambiguous, that wherever the term Supplier is used it should not refer to Supplier IDs which are a subdivision of a Supplier's customer base.

It has been agreed that this effect of P106 on Standards, Serials and Supplier Charges was unintentional and if unchanged would have several effects:

- possible dilution of incentives on Suppliers;
- changes would be required to PARMS (both the existing system and the new P99 system);
- changes would be required to Code Subsidiary Documents in relation to PARMS;
- changes would be required to Supplier and Party Agent systems; and
- Suppliers would need to resubmit data from 24 June 2003 at a Supplier level in accordance with the changes in the Code Subsidiary Documents.

#### **P141**

The Panel, at its meeting on 14 August 2003, suggested that a Party may wish to raise a Modification Proposal to correct this unforeseen side effect. In the mean time, the P99 development project<sup>1</sup> will continue to develop a new PARMS to a specification that acquires and reports data at a Supplier ID level.

P141 proposes to amend the Code such that Serials and Supplier Charges are dealt with at a Supplier ID level and not at a Supplier level. In order to give full effect to P141, i.e. to remove completely the effect of P106 on Serials and Supplier Charges, it is necessary to backdate the implementation of the P141 to 24 June 2003. This will prevent systems having to be developed to cope with the P106 rules for a limited period. The Proposer believes that P141 will better facilitate the achievement of Applicable BSC Objective (d), efficiency in the implementation and administration of the balancing and settlement arrangements, by ensuring that provision and reporting of data is carried out in a consistent manner and hence avoid unintended changes and the associated costs.

This document describes the discussions of the VASMG to date and seeks views on:

- whether or not the principle behind P141 is valid;
- whether the Implementation Date should be backdated to 24 June 2003; and
- whether there are any substantive issues that need to be brought to the attention of the VASMG to be taken into consideration when undertaking an assessment of P141.

## **2. ISSUES CONSIDERED IN THE INITIAL WRITTEN ASSESSMENT (IWA)**

An initial assessment of P141 identified the following potential areas of impact and issues which will need to be considered and addressed in progressing Modification Proposal P141:

- the need to consult Parties as to whether the change to Serials and Supplier Charges was an expected outcome of P106 and whether they have taken steps to implement this change;
- whether P141 should be backdated to 24 June 2003 or whether an Alternative Modification purely prospective in nature should be adopted.

*In order to fully remove the effect of P106 on Serials and Supplier Charges, P141 implementation date would need to coincide with that for P106 i.e. be backdated to 24 June 2003. There is the potential for the development by the VASMG of an Alternative Modification which is purely prospective in nature. In this situation, there would then be an issue as to how to cope with Serials and Supplier Charges that fell in between the P106 and P141 Implementation Dates;*

- consequences of P141 not being implemented. If P141 is rejected then the inadvertent effects of P106 will require full implementation, namely the change in the process by which Serials and Standards are reported and monitored, and Supplier Charges levied, from being on the basis of Supplier IDs to being on a Supplier basis;
- the existing PARMS is not robust enough to support the requirements of P106, therefore a new PARMS will be required to deal with data from 24 June 2003. How this is developed and the associated cost depends on several circumstances:
  - P99 also requires a new PARMS system be developed – this would require an increase in scope to include the Serials that existed pre-P99 for use between 24 June 2003 and 1 May 2004 (P99 implementation date). In the meantime the existing PARMS would be used for the period up to 24 June 2003 (see Appendix 1);

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<sup>1</sup> P99 "Changes to Accreditation and the PARMS Serials and Standards resulting from the Performance Assurance Framework (PAF) Review (Phase1)" (P99) introduces new Serials and Standards and will be implemented on 1 May 2004. Part of the development programme for P99 will see the introduction of a new PARMS system.

- if P143 is approved, there will not be a new PARMS system for P99 Serials. A new system will still be required for P106. The cost of this is likely to be of the order of the proposed P99 system (see Appendix 2); and
- if the VASMG, subsequent to their consideration of Supplier Charges, decide to simplify them, and a Modification raised to effect this subsequently approved, a new system will still be required for P106 to calculate charges from 24 June 2003 until the Implementation Date of the Modification arising from the VASMG discussions (see Appendix 3).

In all of these situations it is possible that a subsequent Modification would still be required to fully define how to apply the Supplier Charges cap as the implementation of P106 was part way through a PARMS reporting month. In addition, until the new system to accommodate the P106 rules is developed, no monitoring of Serials or validation of submitted data can occur. This may result in Serial 10<sup>2</sup> charges being incurred by Parties. Additionally if a validation failure occurs Parties will not be aware of this for a considerable amount of time and may have to resubmit the correct data at a later date.

- Party Agents may not know the Party ID that corresponds to the particular Supplier ID and thus may be unable to comply with the new rules. Ways of dealing with this could be developed, however no change is currently planned.

### 3. MODIFICATION GROUP DISCUSSION

At its meeting on 18 September 2003, the VASMG discussed the issues raised in the P141 Initial Written Assessment.

#### Backdated Implementation Date

The VASMG decided that the Implementation Date for P141 should be backdated to the 24 June 2003 as a pragmatic solution to fully unwind the unintended effects of P106 and return reporting and monitoring of Serials and Standards to be performed at a Supplier ID level. The VASMG did not think an Alternative Modification which was purely prospective should be developed since this would not better facilitate the achievement of the Applicable BSC Objectives when compared with the Proposed Modification and in any event the solution would not resolve the issue and the P106 unintended effects would have to be implemented for the interim period. One member of the VASMG suggested backdating the Implementation Date to the start of NETA in 2001. The VASMG agreed that this was outside the scope of P141 and did not address the issue or defect identified in P141.

The Authority in several of its decision letters has indicated that, in general, retrospective changes to the Balancing and Settlement Code (the Code) would damage market confidence in, and the efficient operation of, NETA. The Authority stated that there are generally accepted and well understood legal reasons why retrospective Modification Proposals should be avoided but accepted that there may be a number of particular circumstances that could give rise to the need for a retrospective rule change, including:

- a situation where the fault or error occasioning the loss was directly attributable to central arrangements;
- combinations of circumstances that could not have been reasonably foreseen; or
- where the possibility of retrospective action had been clearly flagged to participants in advance and only the details and process were decided retrospectively.

It further stated that for a retrospective change to be justified, the loss sustained would need to be material. The VASMG believed that rejecting P141 would have a large material effect.

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<sup>2</sup> Serial 10 places an obligation on Suppliers to arrange the delivery of Routine Performance Monitoring Reports to the Performance Assurance Board, by not later than 20 Business Days after the end of each month. This obligation is replaced on 1 May 2003 by Serial SP01.

### Calculation Of Supplier Charges pre-P106

One member of the VASMG questioned the validity of levying Supplier Charges at a Supplier ID level rather than at a Supplier level pre-P106. The issue is whether the Code permitted Supplier Charges to be calculated by reference to Supplier IDs in prior to 24 June 2003.

Essentially, **if** PARMS and the Code had commenced without history or context, the answer would probably have been:

- No - if Suppliers had multiple Supplier IDs. If in a "clean slate" situation it were questioned whether a Supplier ID level methodology would be acceptable for calculating Supplier Charges under the BSC, it would have been difficult to say that it was.
- Yes - if Suppliers had only one Supplier ID, as in such a case Supplier and Supplier ID can presumably be read synonymously.

**However**, PARMS and the Code have did commence within an historical context. For the past several years Supplier Charges have been calculated by reference to Supplier IDs in a situation where some Suppliers at some stage have had multiple Supplier IDs. While the Code does not expressly recognise the concept of a Supplier ID, it could be argued that it does so impliedly and it is generally known and accepted by the industry (or a sufficient part of it) that Supplier Charges are calculated by reference to Supplier IDs, and that this is so under both the Code and under the P&SA.

Irrespective of this, P106 legal text had the unintentional effect of clarifying this position to be on a Supplier not a Supplier ID basis from the P106 Implementation Date. Since this would be very costly P141 was raised to facilitate the levying of Supplier Charges on a Supplier ID basis from P106 Implementation Date.

### Applicable BSC Objectives

The VASMG agreed a provisional view that P141 better facilitated Applicable BSC Objective (d) in that removal of an unintentional side effect would better facilitate the implementation and administration of the balancing and settlement arrangements.

## 4. CONSULTATION

This consultation seeks respondents' views on the issues raised by P141.

For information, the Applicable BSC Objectives are:

- (a) The efficient discharge by the Transmission Company of the obligations imposed under the Transmission Licence;
- (b) The efficient, economic and co-ordinated operation by the Transmission Company of the Transmission System;
- (c) Promoting effective competition in the generation and supply of electricity, and (so far as consistent therewith) promoting such competition in the sale and purchase of electricity;
- (d) Promoting efficiency in the implementation and administration of the balancing and settlement arrangements; and
- (e) without prejudice to the foregoing objectives and subject to paragraph 3A, the undertaking of work by BSCCo (as defined in the BSC) which is:
  - (i) necessary for the timely and effective implementation of the proposed British Electricity Trading and Transmission Arrangements (BETTA); and
  - (ii) relevant to the proposed GB wide balancing and settlement code;

and does not prevent BSCCo performing its other functions under the Code in accordance with its objectives.

**You are invited to provide a response in respect of the questions on the attached pro forma.**

Please send your responses entitled 'P141 Assessment Consultation' by 17:00 on Friday 26 September 2003 to the following email address: [Modifications@elexon.co.uk](mailto:Modifications@elexon.co.uk)

Any queries on the content of the consultation pro-forma should be addressed to Dena Harris (020 7380 4364) e-mail address [Dena.Harris@elexon.co.uk](mailto:Dena.Harris@elexon.co.uk)