

Stage 01: Initial Written Assessment

What stage is this document in the process?

01 Initial Written Assessment

02 Definition Procedure

03 Assessment Procedure

04 Report Phase

P269 'Prevention of Base Trading Unit BMUs' Account Status Flipping from Consumption to Production'

P269 seeks to prevent the P/C Status of Base Trading Units 'flipping' from Consumption to Production if the level of embedded generation increases. It proposes that Base Trading Units should always have a fixed P/C Status of Consumption.

The Proposer requests that P269 is progressed as a Self-Governance Modification Proposal.



ELEXON recommends:

A **4-month** Assessment Procedure for P269, and aligning the P268 and P269 assessment timetables



High Impact:

All BM Units in Base Trading Units whose P/C Status is linked to that of the Trading Unit



Medium Impact:

The Central Registration Agent and ELEXON

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About this document:

This document is an Initial Written Assessment (IWA), which ELEXON will present to the BSC Panel on 10 March 2011. The Panel will consider the recommendations and will agree how to progress P269.

Further information is available in the P269 Modification Proposal, which is **Attachment A** to this document.



Any questions?

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Background: P/C Status and Issue 38

What is a P/C Status?

Every Balancing Mechanism (BM) Unit has a Production/Consumption (P/C) Status.

This P/C Status is important for Settlement, as it determines which Energy Account the BM Unit's net Metered Volume is allocated to. A 'Production' status will result in Metered Volumes being allocated to the Production Energy Account, and a 'Consumption' status to the Consumption Energy Account.

If a Lead Party's net Metered Volume and its Energy Contract Volume Notifications (ECVNs) are not aligned to the same Energy Account, the Party will be exposed to imbalance on both accounts.

How is P/C Status determined?

If a BM Unit is not in a Trading Unit with any other BM Unit(s), the Central Registration Agent (CRA) determines the P/C Status for the BM Unit according to the BM Unit's Relevant Capacity.

A BM Unit's Relevant Capacity is determined using its Generation Capacity (GC – a positive value) and Demand Capacity (DC – a negative value).

If the sum of the BM Unit's GC and DC values is positive and greater than zero, then its Relevant Capacity is GC and its P/C Status is Production. Otherwise its Relevant Capacity is DC and its P/C Status is Consumption.

Lead Parties submit GC and DC values for each of their BM Units in each BSC Season, based on their estimates of the BM Unit's maximum generation and demand for the Season. A Lead Party must submit revised GC/DC values during a Season if the BM Unit's estimated maximum generation/demand is likely to exceed the original estimates by more than the amount specified in BSC Section K3.

If a BM Unit forms part of a Trading Unit with one or more other BM Units, then the P/C Status for the BM Units in that Trading Unit is determined according to the sum of the Relevant Capacities for all BM Units in the Trading Unit.

For example, if the sum of the Relevant Capacities for all BM Units in the Trading Unit is equal to or less than zero, then the P/C Status for that Trading Unit and all of its BM Units is determined as Consumption.

The P/C Status of a BM Unit is redetermined on each occasion which:

- The BM Unit joins or leaves a Trading Unit;
- Another BM Unit joins or leaves the Trading Unit to which the BM Unit belongs; or
- There is any change in the GC or DC values of any of the BM Units which belong to that Trading Unit.

Exempt Export BM Units are an exception to this rule, in that they can independently elect their P/C Status regardless of their own Relevant Capacity and the Relevant Capacities of any other BM Units in their Trading Unit. If they do not make an election, their P/C Status is determined at the Trading Unit level as described above.

What is...?

A Trading Unit?

A combination of BM Units, which may have the same or different Lead Parties.

A Lead Party?

The Party who registers a BM Unit and is responsible for its generation or demand. For a Licensable Generating Plant, the responsible Party is the Party which generates electricity at that plant. For Exemptable Generating Plant, the person generating electricity at that plant can elect either itself or another Party to be responsible for its generation and associated Exempt Export BM Unit.

An Exemptable Generating Plant?

A Generating Plant where the person generating electricity at that Generating Plant is, or would (if it generated electricity at no other Generating Plant and/or did not hold a Generation Licence) be, exempt from the requirement to hold a Generation Licence.

An Exempt Export BM Unit?

A BM Unit which comprises Exemptable Generating Plant.

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What was Issue 38?

In late 2009, the Issue 38 Group¹ considered a number of potential issues relating to the growth of embedded (distribution-connected) generation and how these might affect the BSC arrangements.

One of the issues which the Group considered concerns the impact of increased levels of embedded generation on the P/C Status of BM Units in Base Trading Units.

To date, Base Trading Units have always had Consumption status as they have comprised more demand than generation. However the Issue 38 Group considered that, with the growth in levels of embedded generation in particular geographic areas (such as the North of Scotland), it is increasingly possible that the sum of the Relevant Capacities for BM Units in a Base Trading Unit could become positive and greater than zero.

This would result in the P/C Status of the Base Trading Unit (and all BM Units whose P/C Status is linked to that of the Trading Unit) 'flipping' from Consumption to Production.

What is the issue?

If increased embedded generation results in the P/C Status of a Base Trading Unit 'flipping' from Consumption to Production, then the P/C Status for all the Supplier BM Units (and any Exempt Export BM Units whose P/C Status is linked to the Trading Unit's) will become Production. These BM Units' net Metered Volumes will therefore be allocated to the relevant Parties' Production Accounts.

This could expose the Lead Parties to imbalance charges, if the Parties originally notified their contracted volumes against their Consumption Accounts.

There are two ways in which an increase in embedded generation could cause the sum of the Relevant Capacities of all BM Units in a Base Trading Unit to become positive and greater than zero, such that the Trading Unit 'flips' from Consumption to Production:

- If the GC of one or more Supplier BM Units becomes large enough to exceed its DC; and/or
- If the number of Exempt Export BM Units in the Base Trading Unit, or the GC values of these BM Units, increases.²



What is a Base Trading Unit?

Each Grid Supply Point (GSP) Group has a Base Trading Unit.

This Base Trading Unit contains all Supplier BM Units within that GSP Group.

It also contains each embedded Exempt Export BM Unit within that GSP Group, unless the Lead Party makes an election to register its Exempt Export BM Unit in a different Trading Unit.

¹ Issue 38 'Potential Improvements to Credit Checking Rules to Support High Levels of Embedded Generation in North Scotland'.

² This is because an Exempt Export BM Unit's Relevant Capacity is likely to be Production (i.e. its GC is likely to be bigger than its DC) regardless of what P/C Status it has elected.

2 Solution

The Proposer has raised P269 to deliver the Issue 38 Group's recommended solution.

This solution is that Base Trading Units (and all BM Units within Base Trading Units whose P/C Status is determined at the Trading Unit level) shall always have a fixed P/C Status of Consumption, and that this shall not change even if the sum of the Relevant Capacities in the Base Trading Unit is positive and greater than zero.

The Proposer has clarified that P269 will not prevent all BM Units in a Base Trading Unit being treated as delivering (generating) rather than offtaking (consuming) in a Settlement Period. This situation has already happened in practice. Whether a Trading Unit is delivering or offtaking is determined according to the sum of its BM Units' actual Metered Volumes,³ and is therefore separate to a Trading Unit's P/C Status which is determined according to the sum of its BM Units' Relevant Capacities.

Applicable BSC Objectives

The Proposer believes that P269 will better facilitate the achievement of:

- **Applicable BSC Objective (c)**, by reducing the risk of imbalance for existing and future BSC Parties; and
- **Applicable BSC Objective (d)**, by ensuring that Suppliers do not have to make system/process changes to monitor their BM Units' P/C Status and switch their contract notifications between accounts.



What are the Applicable BSC Objectives?

- (a) The efficient discharge by the Transmission Company of the obligations imposed upon it by the Transmission Licence
- (b) The efficient, economic and co-ordinated operation of the National Electricity 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 of the balancing and settlement arrangements

3 Things to consider

In this section we highlight areas which we believe the Panel should consider when making its decision on how to progress this Modification Proposal.

If P269 goes into the Assessment Procedure, then we recommend that the areas below form the basis of the Workgroup's Terms of Reference.

What changes are needed to support the P269 solution?

P269 is likely to impact the Code, Code Subsidiary Documents and CRA systems.

The specific changes required will need to be identified through an impact assessment, along with any associated lead times and costs.

What mitigating actions can Suppliers take under the current arrangements?

If Suppliers are aware in advance of the change in a Base Trading Unit's P/C Status to Production, they could take action to prevent imbalance exposure by amending their systems/processes to notify their contracted volumes against their Production Accounts instead.

³ See BSC Section T2.1. If the sum of the Metered Volumes for all BM Units in a Trading Unit is positive and greater than zero in a Settlement Period, then the Trading Unit is a 'delivering' Trading Unit in that Settlement Period; otherwise it is an 'offtaking' Trading Unit.

However, it could be argued that this would undermine the original intention of the BSC arrangements that Parties who have separate licensable generation and supply businesses (i.e. vertically-integrated companies) should treat these separately through their Production and Consumption Energy Accounts respectively.

It would also mean that Suppliers would be handling imbalance for that GSP Group differently to other GSP Groups whose Base Trading Units still have a Consumption P/C Status (i.e. they would have metered demand volumes for that GSP Group in a different Energy Account to those for other GSP Groups).

In addition, Suppliers would not necessarily be aware if the P/C Status of the Base Trading Unit changes from Consumption to Production until after the event.

Currently, each Lead Party for a BM Unit receives notification through the CRA-I014 data flow of any change in its own BM Unit's registration data (including its P/C Status). ELEXON also publishes registration data for every BM Unit through the ELEXON Portal. The Portal data is updated daily, and it includes each BM Unit's current GC/DC values, Trading Unit and P/C Status.

However, if one BM Unit in a Base Trading Unit submits GC/DC values which flip the Trading Unit's P/C Status, the Lead Parties for the other affected BM Units in the Trading Unit may not know this until the after the change in P/C Status has occurred.

We suggest that a Workgroup confirms what, if any, advance notice of other Parties' GC/DC values is given under the current arrangements and whether this differs for pre-season or mid-season submissions.

This may affect the group's consideration of other possible solutions (see below), as well as the benefits associated with P269.

Are there any other solutions which will better address the issue/defect?

If P269 undergoes an Assessment Procedure, the Workgroup will have the option of developing an Alternative Modification if it believes an alternative solution will better address the identified issue/defect.

We suggest that a Workgroup may wish to consider the merits of the following:

- **Introducing a process to notify Lead Parties in advance of any changes in the GC/DC values of other BM Units in their Base Trading Unit.**

This would not stop the Trading Unit's P/C Status 'flipping' but could give Parties notice to change their contracts accordingly. However mid-season GC/DC changes can currently become effective very quickly, so the notice period might be limited in practice. Suppliers would also still have to continually readjust their ECVNs and any Metered Volume Reallocation Notifications (MVRNs)⁴ if the P/C Status of the Base Trading Unit changes frequently.

⁴ Section P3 of the Code only allows a Lead Party to reallocate a BM Unit's Metered Volumes to another Party through a MVRN if the Energy Account of the other Party matches the P/C Status of the BM Unit (i.e. if the BM Unit has a P/C Status of Production, the MVRN must be to the other Party's Production Account). A change in the BM Unit's P/C Status automatically end-dates the MVRN.

- **Fixing the P/C Status of Base Trading Units for the duration of a BSC Season, based on the declared GC/DC values for that Season.**

This would only stop the Trading Unit's P/C Status flipping during a Season due to mid-season GC/DC re-declarations, but it would limit any change in P/C Status to once per Season. The Issue 38 Group previously considered and discounted this solution.

- **Suppliers could prevent their GC from exceeding their DC by artificially-inflating their DC values.**

However, because these DC values would be used to calculate their required Credit Cover under the Code this would increase the amount of credit they are required to lodge. It might also put them in breach of the requirement in BSC Section K3.4.1 that a Lead Party shall estimate its GC and DC 'in good faith and as accurately as it reasonably can'.

Interaction with P268

The defects identified by, and solutions proposed by, P268 and P269 are different and the Modification Proposals are not contingent on each other. The Proposer of P268 is also seeking a retrospective implementation and the Proposer of P269 is not. Because of this, we do not recommend that the Panel amalgamates the two Modification Proposals.⁵

However, both P268 and P269 cover related subject matter (the rules for determining P/C Status) and are likely to impact the same Code sections, Code Subsidiary Documents and BSC Agent. They will also both impact Exemptable Generating Plant. The exact impacts on Exemptable generators will differ according to whether both modifications are implemented.

There may be benefits in implementing P268 and P269 together (or the prospective element of P268, if it is implemented retrospectively). We therefore recommend that a Workgroup considers the appropriateness of a parallel implementation.

We believe there will be benefits in using the same Workgroup for both P268 and P269, and in aligning the progression timetables for the two Modification Proposals (especially the industry consultation). We explain this in more detail in Section 4.

4 Proposed progression

What are the recommended next steps?

ELEXON recommends that P269 undergoes a 4-month Assessment Procedure by a Workgroup. We recommend that the Workgroup is formed from members of the P268 Workgroup plus the Proposer of P269.

The P268 Workgroup is already familiar with the existing P/C Status rules, and using the same group for both modifications will enable it to ensure that the P268 and P269 solutions work both independently and in combination with each other. The P268 Workgroup includes members of the Issue 38 group and the Settlement Standing Modification Group (SSMG).

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⁵ You can find the BSC's rules for amalgamating Modification Proposals in Section F2.3.

Workgroup's Terms of Reference

We recommend that the Workgroup considers the following areas:

P269 Terms of Reference
What changes to BSC documentation, systems and processes are needed to support P269?
What, if any, advance notice of other Parties' GC/DC values is given under the current arrangements and does this differ for pre-season or mid-season declarations?
Is there any alternative solution which will better address the P269 issue/defect?
What are P269's impacts on, and benefits to, Lead Parties for BM Units in Base Trading Units?
Will the P269 solution work independently and in combination with P268?
Are there benefits in aligning the implementation of P269 with P268?

Timetable

We recommend aligning the P268 and P269 assessment timetables so that the Workgroup can conduct the industry consultations for both proposals in parallel.

This will help Lead Parties for Exempt Export BM Units (who are affected by both proposals) understand both the individual and combined impact of the P268 and P269 solutions. We recommend a consultation period of 15WDs, to allow Parties time to consider both proposals.

The P268 Workgroup is a month into its assessment, and the P268 BSC Agent/ELEXON impact assessment is already underway. However, the Workgroup will need to undertake a separate impact assessment for P269, to establish its impacts, costs and implementation lead time. This will take approximately 4 weeks (2 weeks to complete the impact assessment; the other 2 weeks are needed to draft the impact assessment requirements, hold a Workgroup meeting to consider the responses, and draft the consultation documents).

We recommend that the joint P268/P269 consultation is not issued until the results of the P269 impact assessment are known, so that these can be included in the consultation document along with those for P268. Implementation costs and lead times may be relevant to Parties' views on the merits of the proposals. Additionally, as the Group may consider aligning the implementation of the two modifications, it may not be possible to include a provisional Implementation Date in the consultation until the P269 impact assessment is completed.

Given the 15WD consultation period, and the two long bank holiday weekends in late April/early May, we believe that a 4-month timetable is necessary for the Workgroup to complete its Terms of Reference. **Aligning the P268 and P269 timetables will therefore mean that both Assessment Reports will be presented to the Panel at its July 2011 meeting.**

Our proposed timetable also takes account of the increased workload of the SSMG if the Workgroup for new Modification Proposal P270 'Application of Line Loss Factors to GSPs who are not transmission-interconnected' draws members from this group.

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The table below shows the full list of activities which we believe the Workgroup will need to complete a combined assessment of P268/P269.

The Code allows the Panel to set an Assessment Procedure timetable which is longer than 3 months where the Panel believes this is justified by “the particular circumstances of the Modification Proposal (taking due account of its complexity, importance and urgency)” (BSC F2.2.9), and provided the Authority does not issue a contrary direction.

Proposed combined P268 & P269 progression timetable	
Assessment Activity	Date
ELEXON/BSC Agents undertake P268 impact assessment	Tues 1 – Tues 15 March
P268 meeting 2 / P269 meeting 1	Weds 23 March
ELEXON drafts requirements for P269 impact assessment	Thurs 24 March – Tues 5 April
ELEXON/BSC Agents undertake P269 impact assessment (ELEXON drafts P268 consultation document in parallel)	Weds 6 – Weds 20 April
P269 meeting 2	Weds 4 May (<i>avoiding bank holiday weekends</i>)
ELEXON drafts P269 consultation document (Group reviews P268 consultation document in parallel)	Thurs 5 – Fri 13 May
Group reviews P269 consultation document	Mon 16 – Weds 18 May
P268/P269 industry consultations & Party impact assessments undertaken	Fri 20 May – Fri 10 June (15WD)
P268 meeting 3 / P269 meeting 3	Thurs 16 June
ELEXON drafts P268 & P269 Assessment Reports	Fri 17 June – Mon 27 June
Group reviews P268 & P269 Assessment Reports	Tues 28 June – Tues 5 July
P268 & P269 Assessment Reports submitted to Panel	Fri 8 July
P268 & P269 Assessment Reports submitted to Panel	Thurs 14 July

Estimated progression costs

The following table contains our estimates of the costs involved in progressing P269 through the Modification Procedures.

Estimated progression costs based on proposed 4-month Assessment timetable	
Meeting costs (including Modification Group member expenses)	£750 (based on 3 meetings all being shared with P268)
Non-ELEXON legal and expert costs	£0
ELEXON resource	40 man days, equating to £9,600

The ELEXON resource cost is an estimate of how much time and effort it will take us to progress P269 through the Assessment and Report phases. This includes time supporting industry groups, drafting documentation and producing legal text.

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Below is our estimate of the cost incurred by the industry in assessing P269:

Estimate of total industry assessment costs					
Workgroup support	Est #mtgs	Est # att	Est effort	Est rate	total
	3	8	1.5	605	£21,780
Consultation response support	Est #con	Est # resp	Est effort	Est rate	total
	2	10	2.5	605	£30,250
Total					£52,030

Meeting costs reflect an estimate of how many Workgroup meetings will be held and the industry effort of supporting these meetings. The calculation is based upon an average number of members (8) each putting in 1.5 man days (MDs) of effort per meeting. This effort is multiplied by a standard rate of £605 per man day. The result is:

$$3 \text{ Workgroup meetings} \times 8 \text{ attendees} \times 1.5 \text{ MDs effort} \times £605 = \textbf{£21,780}$$

Consultation costs represent an approximation of industry time and effort in responding to consultations. The calculation is based upon an estimate of how many responses we will receive and assumes each response will take 2.5 man days of effort, again multiplied by a standard rate of £605 per man day. The result is:

$$10 \text{ responses} \times 2.5 \text{ MDs effort} \times £605 \times 2 \text{ consultations} = \textbf{£30,250}$$

Should P269 be progressed as Self-Governance?

The Proposer recommends that P269 is progressed as a Self-Governance Modification Proposal.

This is the first time self-governance has been requested since the process was introduced to the BSC by Approved Modification P262 on 31 December 2010.

A Modification Proposal can be progressed as self-governance if:

- The Panel believes that it satisfies the Self-Governance Criteria, and the Authority does not issue a contrary direction; and/or
- The Authority believes that it satisfies the Self-Governance Criteria and issues a notice to that effect.

Proposer's view

The Proposer believes that P269 satisfies the Self-Governance Criteria.

The Proposer believes that the Modification Proposal does not discriminate against any Party and will not have a material impact on:

- Existing/future customers;
- Competition;
- Operation of the Transmission System;
- Matters relating to security of supply; and
- BSC governance or modification procedures.

The Proposer also argues that P269 is designed to prevent impact on Parties and not to cause an impact.



What are the Self-Governance Criteria?

A Modification Proposal that, if implemented:

a) is unlikely to have a material effect on:

i) existing or future electricity consumers; and

ii) competition in the generation, distribution or supply of electricity or any commercial activities connected with the generation, distribution, or supply of electricity; and

iii) the operation of the national electricity transmission system; and

iv) matters relating to sustainable development, safety or security of supply, or the management of market or network emergencies; and

v) the Code's governance procedures or modification procedures, and

b) is unlikely to discriminate between different classes of Parties.

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We are not convinced that P269 satisfies the Self-Governance Criteria.

We acknowledge that P269 is designed to avoid Parties in Base Trading Units being impacted by either an unforeseen imbalance exposure or having to change their processes/systems to avoid this exposure.

However, the subject matter of the Modification Proposal (the appropriateness of any imbalance charges for Parties which result from the current P/C Status rules) is directly relevant to competition as well as the commercial arrangements connected with generation and supply (in this case, Parties' contract notifications).

We also note the interaction between P268 and P269, and that P268 is not being progressed as self-governance. We believe it would be appropriate if P269 followed the same process as P268, so that the Authority is able to take account of the combined effect of the two modifications when making its decision on P268.

Panel's Code requirements

If the Panel believes that P269 does not satisfy the Self-Governance Criteria, it does not need to take any further action and P269 will progress through the normal modification process (providing the Authority does not issue a contrary direction).

If the Panel believes that P269 should be progressed through the self-governance route, then the Panel:

- Is required to submit a Self-Governance Statement to the Authority;⁶
- May consult the industry as to whether the Modification Proposal should be self-governance before submitting a Self-Governance Statement (in practice, we would include this question in the Workgroup's Assessment Consultation);
- Is required to submit any consultation responses to the Authority at least 7 days before the Panel intends to make its decision whether to approve the Modification Proposal (in practice, we would issue these responses and the Panel's Self-Governance Statement to the Authority at the same time as we publish the Panel's Draft Modification Report for final consultation);
- Can withdraw its Self-Governance Statement at any time before the Panel makes its decision whether to approve the Modification Proposal;
- Must comply with any direction from the Authority not to treat the proposal as a Self-Governance Modification Proposal, providing this direction is made before the Panel makes its decision whether to approve the Modification Proposal.

You can find the full self-governance requirements in Section F6 of the BSC.

⁶ This must include the Panel's detailed reasons as to why it believes the Modification Proposal satisfies the Self-Governance Criteria and the date that the Panel intends to make its decision whether to approve the Modification Proposal.

5 Likely impacts

Impact on BSC Systems and processes

BSC System/Process	Potential impact
CRA systems and processes	Changes will be required to amend how the CRA determines P/C Status for BM Units in Base Trading Units.

Impact on BSC Parties and Party Agents

P269 will impact the Lead Parties for all Supplier BM Units in Base Trading Units (and the Lead Parties for some embedded Exempt Export BM Units in Base Trading Units).

Impact on ELEXON

Area of ELEXON's business	Potential impact
BM Unit/Trading Unit registration	Changes to ELEXON's working practices may be needed to support the P269 solution.

Impact on Code

Code section	Potential impact
BSC Section K	Changes will be required to implement the P269 solution.

Impact on Code Subsidiary Documents

CSD	Potential impact
BSCP15 'BM Unit Registration' and BSCP31 'Registration of Trading Units'	Changes will be required to implement the P269 solution, as these BSCPs contain the detailed processes to deliver the Section K provisions.
CRA Service Description	Changes will be required to reflect the P269 solution.
Data/reporting catalogues	May be impacted if P269 amends how Lead Parties are notified of changes in P/C Status and/or GC and DC values.

Impact on other Configurable Items

Configurable Item	Potential impact
CRA systems documentation (e.g. User Requirements Specification)	Changes may be required to reflect the P269 solution.
IDD	May be impacted if P269 amends how Lead Parties are notified of changes in P/C Status and/or GC and DC values.

Other Impacts

Item impacted	Potential impact
ELEXON's information sheets/guidance notes on Trading Units, BM Units and P/C Status	Changes will be required to reflect the new P269 rules.

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6 Recommendations



On the basis of this IWA, ELEXON invites the Panel to:

- DETERMINE that Modification Proposal P269 progresses to the Assessment Procedure;
- DETERMINE that the P269 Workgroup should be formed from members of the existing P268 Workgroup plus the Proposer of P269;
- AGREE a 4-month Assessment Procedure timetable for P269;
- ALIGN the P268 timetable with that for P269, such that both Assessment Reports are submitted to the Panel at its meeting on 14 July 2011;
- AGREE the P269 Workgroup's Terms of Reference; and
- AGREE whether P269 satisfies the Self-Governance Criteria.

Recommendation

ELEXON recommends a 4-month Assessment Procedure for P269.

7 Further information

You can find the Proposer's full views in the P269 Modification Proposal form, which is **Attachment A** to this document.

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