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DRAFT MODIFICATION REPORT
MODIFICATION PROPOSAL P87 -
Removal of market risk associated
with the operation of a generator
intertrip scheme

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

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c References

Reference	Document	Owner	Issue Date	Version
Reference 1	P87 Initial Written Assessment	ELEXON	07/06/02	1.0
Reference 2	P87 Assessment Report	ELEXON	11/09/02	2.0

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1 SUMMARY AND RECOMMENDATIONS

1.1 Recommendation

On the basis of the analysis, consultation and assessment undertaken in respect of this Modification Proposal during the Assessment Procedure, and the resultant findings of this report, the Panel recommends that the:

Alternative Modification P87 should be made, with an Implementation Date of 30 Working Days after Authority decision; and the

Proposed Modification P87 should not be made. However, if the Authority determines that the Proposed Modification should be made, the Implementation Date should be 30 Working Days after Authority decision.

It should be noted if the Authority decides that either the Proposed or Alternative Modification should be made consequential changes, outside of the vires of the BSC, are required to the Transmission Licence, Grid Code and the Transmission Company's processes are required (see Section 8.4).

1.2 Background

Modification Proposal P87 'Removal of market risk associated with the operation of a generator intertrip scheme' (P87) seeks to amend the current arrangements for operational intertripping which issue a deemed Acceptance at freely submitted Bid Prices. P87 would compensate an affected BM Unit through issuing ex-post contract notifications to remove their imbalance in the Balancing Mechanism Window Period (BMWP). It is also proposed that if the commercial consequences of the intertrip operating are not covered by a balancing services agreement (outside of the Code) the affected BM Unit can take a claim to the Panel to recover costs.

P87 was raised in an attempt to create incentives on both the Transmission Company and BSC Parties to contract for operational intertripping schemes, and thereby remove the market risk associated with the issuing of deemed Acceptances at Bid Prices as extreme as £-99,999/MWh.

Currently, there are three types of intertrips (i) intertrips under derogation, (ii) intertrips with compensation via a balancing services agreement with the Transmission Company, and (iii) intertrips that are not under derogation and do not have any agreements for compensation outside of the Code¹.

1.3 Rationale for Recommendations

The Panel endorsed the majority view of the P80 Modification Group ("the Group") as set out in the Assessment Report (reference 2). The majority view of the Group concurred that the removal of the current market risk provided by both the Proposed and Alternative Modification better facilitates Applicable BSC Objective (c).

In addition, the Alternative Modification better facilitated the following Applicable BSC Objectives, when compared to the Proposed Modification:

- Applicable BSC Objective (d) as the probability of a claim for an extra cashflow being raised is reduced; and

¹ Any references to "the Code" refer to the BSC and not the Grid Code.

- Applicable BSC Objective (b) as the Transmission Company is better placed to manage disconnections that may occur due to the operation of an intertrip scheme, for example, by having a better view of when the event might end.

Eleven responses to the consultation were received, six responses (representing 15 Parties) supported the Panel's recommendations, one respondent (representing 1 Party), which was the proposer, supported the Proposed Modification and two (representing 2 Parties) did not support either the Proposed or Alternative Modifications, stating compensation for intertrips should not lie within the BSC. However, it should be noted that no new substantive arguments were raised. A summary of the arguments raised for and against the Proposed and Alternative Modifications is given in section 8.

2 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 ('the Code'). The Code 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 Code.

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

3 HISTORY OF PROPOSED MODIFICATION

P87 was raised on 31 May 2002 by National Grid and seeks to change the compensation for operational intertripping schemes. The Initial Written Assessment (IWA), (reference 1), was presented to the Panel meeting of 13 June 2002. The Panel agreed to submit P87 to a 2-month Assessment Procedure, which was later extended by 1-month to allow for a 3-month Assessment Procedure.

In parallel Modification Proposal P80 'Deemed Bid-Offer Acceptance for Transmission System faults' (P80) was submitted on 01 May 2002, and went through a two-month Definition Procedure, with the Definition Report submitted to the July BSC Panel meeting. P80 seeks to align the compensation for system faults with the current compensation arrangement for intertrips and system constraints. However, P87 seeks to change the compensation arrangements for intertrips away from deemed Acceptances at submitted Bid Prices to issuing ex-post contract notifications in the Balancing Mechanism Window Period (BMWWP) only. Both P80 and P87 have been assessed in parallel as the Group noted that it was important to reach consistent rationale with respect to better facilitating the achievement of the Applicable BSC Objectives.

The Group met six times during the Assessment Procedure to consider P87. During the Assessment Procedure an industry consultation and two impact assessments were issued. The results of these were reported in the Assessment Report (reference 2), which recommended that the Proposed Modification should not be made and that the Alternative Modification better facilitated the Applicable BSC Objectives, and should be made.

The Assessment Report for P87 was submitted for consideration at the BSC Panel meeting of 12 September 2002. The Panel agreed with the recommendations of the Group and decided to submit P87

to the Report Phase. The Panel recommended that the Alternative Modification be approved with an implementation date of 30 Working Days after the Authority Decision.

In recognition that the proposed introduction of the transmission access arrangements under the Connection Use of System Code (CUSC) may negate the need for the P87 provisions it was concluded that BSACo would decide whether BSC Systems documentation would need to be updated. It should be noted that there are no software changes required for the Proposed or Alternative Modification. If it is decided to update the BSC Systems documentation this would be part of a planned release and at a minimum will require two-months notice, independent of the Implementation Date of 30 Working Days after the Authority Decision.

The draft Modification Report for P87 was issued for consultation on 25 September 2002 with responses due back on the 03 October 2002. The majority of respondents supported the recommendations of the Panel that the Alternative Modification should be made. Furthermore, the responses received highlighted a number of amendments to the legal drafting to clarify the processes associated with P87 (see Section 8.3).

4 DESCRIPTION OF P87

Modification Proposal seeks to amend the compensation for the operation of an intertrip away from issuing a deemed Acceptance. As generators are free to submit large negative Bid Prices this could result in the affected Party receiving a "windfall gain" should the intertrip operate on a plant where the Transmission Company is obliged to issue an Acceptance. In addition, some Parties use large negative prices to indicate an unwillingness to accept commercial Bids and Offers². The cost of such extreme priced Bids would currently be funded out of Balancing Service Use of System (BSUoS) charges levied on BSC Parties as a function of their physical metered volumes, and there is potential to set an extreme, negative level of System Sell Price.

P87 seeks to ensure that compensation for intertrips does not have a negative impact on other participants in the industry, while limiting balance exposure for the directly affected BM Unit.

4.1 Proposed Modification

The Proposed Modification seeks to issue ex-post contract notifications for all Settlement Periods for which the Gate Closure had occurred at the time of the intertrip (i.e the BMWP). As shown from figure 1 the relevant Settlement Periods are referred to by the new Code term "Initial Intertrip-affected Settlement Period". This ensures that the affected BM Unit is not exposed to imbalance in the BMWP.

Furthermore, if the commercial consequences of the intertrip operating go beyond the BMWP, and the BM Unit is not compensated through a balancing services agreement then the affected BM Unit can take a claim to the Panel for extra compensation to cover costs over the whole "Intertrip-affected Period" (see figure 1). An affected BM Unit will be able to claim extra compensation under the following categories:

- i. avoidable costs as described in Section G2 of the Code (including any costs associated with trading out of its position),
- ii. lost revenue from any potential actions for balancing services and BM activity; and
- iii. any charges incurred, for example non-delivery charges.

² during particular times of the day, or related to operational factors of the plant.

The extra compensation will be recovered as part of Daily System Operator BM Cashflow (CSOBM) so the cost can eventually be recouped through BSUoS.

The Proposed Modification has a sunset clause with a trigger of the 31 March 2003 reverting to the current obligation to issue a deemed Acceptance at submitted Bid Prices. The trigger for the sunset clause is related to the introduction of Transmission Access arrangements targeted for the 01 April 2003.

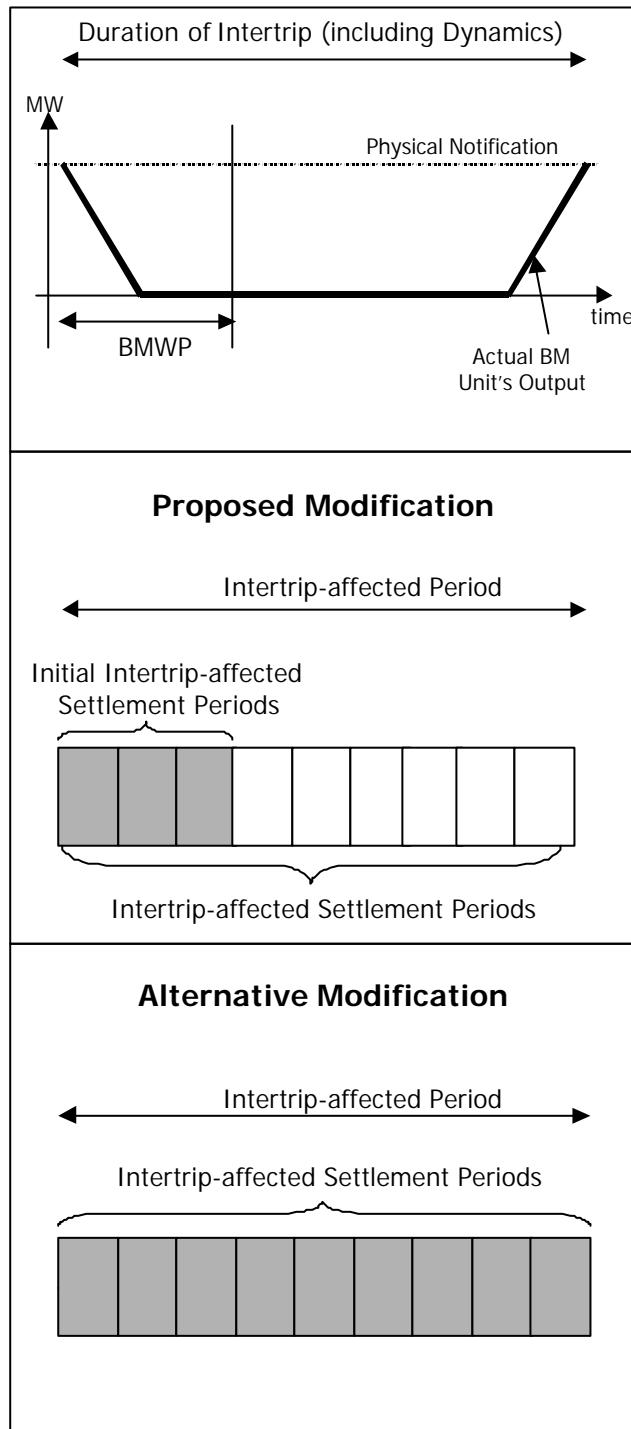


Figure 1. Relationship between "Intertrip-affected Period" and "Initial Intertrip-affected Settlement Period" for the Proposed and Alternative Modifications.

4.2 Alternative Modification

The Alternative Modification builds on the original Modification Proposal, but will remove imbalance for all the "Intertrip-affected Settlement Periods", which covers the entire period of deviation from Final Physical Notification (FPN) caused by the intertrip ("Intertrip-affected Period"), taking into consideration plant dynamics at the time of the disconnection. The level against which to issue ex-post contract notifications to remove an affected BM Unit's imbalance is the FPN submitted following the system constraints management process.

In common with the Proposed Modification, if the affected BM Unit does not have compensation through a balancing services agreement the Alternative Modification contains the possibility of an extra cashflow. The removal of imbalance for some generators may not be sufficient compensation, and an affected generator can raise a claim against:

- i. avoidable costs as described in section G2 of the Code;
- ii. lost revenue from any potential actions for balancing services and BM activity; and
- iii. other charges incurred, for example non-delivery charges.

The extra compensation will be recovered as part of Daily System Operator Balancing Mechanism charge (CSOBM) so the cost can be recouped through BSUoS.

The Alternative Modification has no sunset clause and unlike the Proposed Modification is viewed as an enduring solution for the compensation due to the operation of an intertrip scheme. It is also recognised that alternative solutions could arise from the transmission access arrangements taking place outwith the BSC, but any consequential BSC changes be addressed by new BSC Modification Proposals at such time as any new transmission access initiatives are recommended.

5 RATIONALE FOR PANEL RECOMMENDATIONS

The unanimous view of the Panel was that the Alternative Modification would better facilitate Applicable BSC Objectives (c) as compared to the current Code baseline, and Applicable BSC Objectives (b) and (d) are better facilitated as compared to the Proposed Modification for the reasons stated in the following paragraphs.

The majority view of the Group was that both the Proposed and Alternative Modification would promote effective competition in the generation and supply of electricity (Applicable BSC Objective (c)), by removing the current market risk that exists for the compensation due to the operation of an intertrip scheme, as compared against the current Code baseline.

A majority of the Group were also of the view that the Alternative Proposal, by removing imbalance liability throughout the duration of the event ("Intertrip-affected Period"), would be less reliant on utilising the Panel claims process and would therefore be more economical and expeditious than the Proposed Modification, thereby better achieving Applicable BSC Objective (d).

Furthermore, the Panel also accepted the majority view of the Group that a further distinction between the Proposed Modification and the Alternative Modification was that the Proposed Modification encouraged the generator to manage its position by trading out after the initial BMW. On the other hand, the Alternative encouraged the Transmission Company to manage the position after the initial BMW. Since the Transmission Company is better placed to manage such situations, for example having a better view of when the event might end, it was suggested that Applicable BSC Objective (b) might also be better achieved by the Alternative Modification, as compared to the Proposed

Modification. Hence, the alternative was preferred to the Proposed Modification, by the majority of the Group.

6 LEGAL TEXT TO GIVE EFFECT TO THE PROPOSED MODIFICATION

The legal drafting is based on version 6.0 of Section Q and version 9.0 of Section X-1 in the Code. It is important to note that the Proposed Modification has the inclusion of a sunset clause and after the 31 March 2002 the compensation will revert back to the current method of issuing a deemed Acceptance at submitted Bid Prices as detailed in Section Q version 6.0 of the Code.

6.1 Proposed Modification

Red lined version of amended Code text for the Proposed Modification is attached in annex 2.

6.2 Alternative Modification

Red lined version of amended Code text for the Alternative Modification is attached in annex 3.

7 ASSESSMENT

The Assessment Procedure for P87 identified that there are 6 possible solution for P87 and these are described in the table below. More detailed information on the consultation and the Group's conclusions can be found in reference 2.

Potential Solution	BMW Ex-Post	Future Ex-Ante	Extra Cashflow	Comments
PS1	No Correction	No Correction	No	
PS2	No Correction	No Correction	Yes	
PS3	BOA ³ Correction	No Correction	No	Current
PS4	QABC ⁴ Correction	No Correction	Yes	Proposed
PS5	BOA Correction	BOA Correction	No	
PS6	QABC Correction	QABC Correction	Yes	Alternative

There was a diverse range of views raised from the industry consultation, but overall the Group agreed that:

- system faults, intertrips and system constraints are all mechanisms by which a BM Unit is prevented from delivering or off-taking from the Transmission System;
- any compensation arrangements for intertrips and system faults should be consistent, but this does not necessary mean that the mechanisms have to be identical;

³ Bid-Offer Acceptance (BOA)

⁴ Account Bilateral Contract Volume (QABC)

- the industry is in favour of an extra cashflow outside of the Code, however, the Group felt that this would be difficult to mandate and would result in complex governance issues. The Group agreed that any extra cashflow should reside within the Code as this would provide the simplest solution;
- it seemed reasonable for the Transmission Company to be able to raise a claim for a negative extra cashflow, however, the Group was legally advised that it was inappropriate for the Transmission Company to be able to make such a counter-claim as this may involve the Transmission Company having prior knowledge of confidential generator information, for example, an affected Party's avoidable costs;
- the level to compensate against after the initial BMWP was initially chosen to be indicated Physical Notification (iPN) data frozen at the time of the fault. However, concern was expressed as to whether this solution was equitable to flexible generators and Parties who, for example, had planned outages for the day ahead. Therefore, the Group determined that FPN as submitted by the affected BM Unit, identical to the system constraints process, would be a more equitable level to compensate against; and
- the Proposed Modification would have a sunset clause as drafted in the Modification Proposal and that the Alternative Modification does not require a sunset clause as the Group believed that reverting back to the current arrangement did not better facilitate the Applicable BSC Objectives.

Overall, the majority view of the Group was that:

- PS4 (contract notifications to remove imbalance in the BMWP only plus extra cashflow) represented the Proposed Modification and better facilitates Applicable BSC Objective (c) for the period until the sunset clause would operate; and
- PS6 (contract notifications to remove imbalance throughout the entire deviation from FPN plus extra cashflow) better facilitates Applicable BSC Objectives (c) compared to the current BSC baseline and Applicable BSC Objectives (b) and (d) when compared to the Proposed Modification;

8 SUMMARY OF REPRESENTATIONS

11 responses representing 23 Parties were received from the consultation on the draft Modification Report. Overall there were no new substantive arguments raised and the majority of respondents supported the recommendations of the Panel and the Group that the Alternative Modification should be made. All consultation responses can be found in Annex 1. Six responses representing 15 parties supported the recommendations of the Panel that the Alternative Modification should be made. One respondent, the proposer, favoured the Proposed Modification over the alternative. There were two respondents who did not support with the Proposed or Alternative Modification which is referred to as "no support" in the table below, and there was one "no comment" response.

	Proposed Modification	Alternative Modification	No Support for Modification	No comment
No. Respondents	1	6	2	1
No. Parties	1	51	2	1

A summary and copies of the original representations received and considered by the Modification Group under the assessment consultation for P87 can be found in the P87 Assessment Report, and this Modification Report should be read in conjunction with the P87 Assessment Report (reference 2).

8.1 Arguments Supporting P87

Six respondents supported the Alternative Modification agreed with the findings of the Group to introduce contract notifications to counter the imbalance caused by forced deviation of a Production BM Units from FPN due to certain types of intertrip operation. One respondent stated that the Alternative Modification provides the best balance of protecting generators from the effects of imbalance caused by an intertrip, whilst ensuring that generators do not receive large windfall payments due to extreme negative Bid Prices. Another respondent stated that the Alternative Modification removes the market risk to all participants in the form of anomalous Energy Imbalance Prices, and avoids placing unmanageable imbalance risk on individual BM Units during and after the BMWWP. Furthermore, the cost to implement P87 is small and it improves the incentives on the Transmission Company, who is best placed to manage the imbalance after the initial BMWWP.

However, there were concerns expressed that the artificial governance boundaries that exist between the BSC and CUSC has lead to a solution developed to fit under one governance structure rather than being developed provide the best solution.

8.2 Arguments against P87

Two respondents did not support either the Proposed or Alternative Modification. One of the respondents stated that the most appropriate form of compensation for intertrips would be through a commercial arrangement between the Transmission Company and the affected Party. The other respondent stated that both solutions should only deal with the time period within the BMWWP and outside of this period any arrangements should fall under the CUSC or through agreements with the Transmission Company. They also stated that they supported the principle of P87 and agree that there should be a mechanism within the BSC to remove the imbalance exposure in the BMWWP, however, any solution that seeks to go beyond the BMWWP is outside the vires of the BSC. In particular, the Proposed and Alternative Modifications allow an affected Party to make a claim for extra compensation, which will be recouped through BSUoS via the Daily System Operator BM Cashflow (CSOBM). As BSUoS falls outside of the BSC, the respondent does not believe that this is appropriate to blur the distinction between BSC Cashflows and BSUoS.

It was stated that is it unclear how the Alternative Modification will encourage Parties to contract with the Transmission Company for compensation for intertrips, and that the mechanism proposed by P87 is cumbersome to operate and difficult to administer. Furthermore, if the Transmission Company believe that the current arrangements could lead to abuse then competition law is available to address any such occurrence.

One respondent, the proposer, supported the Proposed Modification stating that compensation for a the operation of an intertrip which endures after the end of the initial BMWWP should be sought through a claim to the Panel should no contract exist between the intertripped Party and the Transmission Company.

One respondent also noted that they had little confidence that 31 March 2003, the date for the termination for the Proposed Modification will see the introduction of a complete solution under the CUSC.

8.3 Issues raised regarding the Legal Drafting

A number of legal drafting issues were raised during the consultation. These have been assessed by ELEXON and a means of addressing each identified. This was subsequently presented to the Modification Group for endorsement. The amendments to the legal text are considered to be necessary

and minor. Accordingly, the Panel has been asked to authorise these changes, without recourse to a further consultation.

First of all the definition of "Intertrip-affected Period" in Q5.6.1(a)(i) of each Modification purports to exclude from the contract notification and compensation arrangements the situation where an intertrip operates "as a result of an act or omission of the Lead Party", however the Grid Code references "due to a fault at the BM Unit". The legal drafting was amended in the Proposed and Alternative Modifications to refer to the description in the Grid Code and remove any inconsistencies that could arise.

Q5.6.1(a)(i) commencing with (and including a Settlement Period in which an intertrip was operated in respect of that BM Unit as, and in the circumstances, described in BC2.5.2.3 of the Grid Code ~~other than in intertrip operated as a result of an act or omission of the Lead Party~~;

It was also noted that the process by which an affected BM Unit could resubmit its FPN during an "Intertrip-affected Period" is in conflict with the current Grid Code BC2.5 where a BM Unit's Physical Notification has to reflect its "best estimate of expected input or output", which in the case of a disconnection would be a Physical Notification of zero. Therefore, the processes whereby a BM Unit submits its PN level during an "Intertrip-affected Period" should be contained within the Grid Code (see section 8.4). This requires no change to the proposed legal drafting.

A respondent stated that the operation of an intertrip will clearly reduce the metered volume of the affected generator until the loss is restored by the post event contract notification. If this loss of energy takes a user over its permitted Energy Indebtedness (albeit temporarily), then it is liable to have its trading facility curtailed. The Group noted this comment and agreed that the affected BM Unit could be exposed to large imbalance charges which may impact their Energy Indebtedness. It should be noted prior to the relevant Interim Information (II) Settlement Run, indebtedness will reflect simulated production from Generating Capacities and Credit Assessment Load Factors. The forced deviation will only be reflected post the II Settlement Run 5 Working Days after the disconnection, and this will provide time for the Generator to ensure that they have adequate Credit Cover. Taking this into account, BSC Section Q5.6.7 states the assurance that ELEXON "may" deem that there is a material doubt has been changed to "shall", whereby ELEXON will look at every individual case and determine whether a Party enters in to Credit Default. However, it should be noted that an affected Party whose Energy Indebtedness is adversely affected may need to consider lodging extra Credit Cover due to the operation of an intertrip.

Q5.6.7 In relation to the Lead Party of an Intertrip-affected BM Unit, the existence of an Intertrip affected Period which is known to BSCCo ~~may shall~~, if BSCCo considers appropriate, constitute a material doubt for the purpose of Section M3.4 (but no Trading Disputes may be raised in relation to the calculation of such Lead Party's Credit Cover Percentage by virtue of any matter referred to in this paragraph 5.6 and such Lead Party shall not be entitled to any Credit Cover Error Compensation in respect thereof).

One respondent stated that it was not clear whether the "Intertrip-affected Period" covered the affected BM Unit's ramp-up to FPN level. The legal text was clarified so that the time, after the intertrip was clear, to ramp-up to FPN according to a BM Unit's dynamics is included in the "Intertrip-affected Period".

Q5.6.1(a)(ii) ending with (and including) the Settlement Period immediately prior to the first Settlement Period following the operation of such intertrip at the start of which

the Lead Party was permitted (after taking account of the BM Unit's prevailing Dynamic Data Set) under the Grid Code to operate Plant comprised in that BM Unit at its prevailing Physical Notification level for that Settlement Period;

A few typographical errors were also amended that were identified during consultation with BSC Parties (see below).

- Q5.6.3(b) the Energy (To) Account shall be, in relation to the Intertrip-affected BM Unit, the corresponding Energy Account (in accordance with Section X2.2.3(d)) of the Lead Party of the Intertrip-affected BM Unit, or such other corresponding Energy Account as the Lead Party ~~and~~ may (with the assent of the Trading Party holding such Energy Account) nominate to the Transmission Company;
- Q9.1.2 Where the Lead Party wishes to make a claim for compensation, it shall submit a notice in writing to BSCLCo within 10 Business Days ~~+0 Business Days~~ after the Settlement Run.....

8.4 Impact on the Transmission Company

During the Assessment Procedure, the Group noted that in order for the Proposed and Alternative Modifications to be implemented there should be consequential changes to the Grid Code, Transmission Licence and the Transmission Company's processes. Below is a list of changes that the Transmission Company could carry out for both the Proposed and Alternative Modifications:

- the Grid Code should be updated to reflect the issuing of contract notifications and claims for extra compensation under the BSC. The Group have been informed that the legal drafting will be finalised and a consultation document will be issued before mid October and a report should be with the Authority for mid November;
- to recoup compensation for intertrips through BSUoS which is linked to CSOBM in the BSC the Transmission Licence Special Condition AA5A 'Revised Restrictions on Revenue' Part 2i, paragraph 5 should be updated to refer to the amended version of CSOBM which includes any compensation paid out due to the operation of an intertrip scheme. ELEXON have been advised that the Transmission Licence requires a 28 Working Day consultation, if Ofgem are minded to approve either the Proposed or Alternative Modification.
- the Transmission Company should ensure that there are a number of procedures in place to carry out the actions described below:
 - maintain a list of eligible BM Units, those with intertrips, the subset eligible for settlement compensation when it is armed, and those eligible for extra compensation. Submit the list to BSCLCo;
 - for any incident the submission of the start time and expected duration to BSCLCo and the Party. Later submission of the earliest time a Party can synchronise, the expected ramp profile and hence the formal end of the disconnection is also required;
 - the submission of the expected "settlement correction" to BSCLCo, including obtaining the correct account names;
 - on the submission of details to counter a Party's claim for extra cashflow, for example, historical information on lost opportunity for Bids and Offers; and

- as the compensation is linked to the delivered MW output and not the agreed ramp rate profile, there maybe a need for the Transmission Company to ensure a BM Unit returns to service as agreed.

For the Alternative Modification, then additionally this update to documentation should be completed:

- to document the process whereby a BM Unit resubmits PN data during an "Intertrip-affected Period". The Transmission Company is also required to respect a BM Unit's Dynamics Data Set once the intertrip has cleared and the generator can start to export again. Furthermore, the Transmission Company's documentation should be updated to include any safeguards the Transmission Company believes it needs to stop an affected Party exploiting their power.