

September 2001

MODIFICATION REPORT

Modification P7 - Allocation of Supplier Demand to the Same BM Unit in a GSP Group for all Suppliers in the Same Company Group

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

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1 SUMMARY AND RECOMMENDATIONS

1.1 Recommendation

The Proposed Modification P7 seeks to allow the allocation of Supplier demand to the same BM Unit in a GSP Group for all Suppliers in a Company Group. An Alternative Modification was proposed to achieve the same business objectives by allowing two or more Suppliers to join a Trading Unit.

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

- **The Proposed Modification should be rejected.**
- **The Alternative Modification as set out in Section 8 of this report be approved and implemented on the Settlement Day one month after such approval.**

1.2 Background

Modification proposal P7 was raised by Powergen on the 18th April 2001 and was presented to the Panel at its meeting of the 3rd May, 2001. The Proposer argued that the Proposal would better achieve the Applicable BSC Objectives of promoting competition by enabling the 'embedded benefits' available to Licence Exemptable Generators (LEGs) to be more easily and more fully realised through contracts with Suppliers. These benefits reflect the costs saved as Licence Exemptable Generators are, broadly speaking, embedded in a distribution network and do not make use of the high voltage transmission system.

At the May meeting, the Panel agreed that the proposal should be submitted to the Definition procedure and that the P7 Modification Group should be established to progress the necessary work. The Definition Report was presented to the Panel on the 31st May 2001 and an Assessment procedure was subsequently undertaken.

The Modification Group noted that there are facilities already available under the BSC that enable a LEG to realise embedded benefits with a number of Suppliers. Three facilities are purported to be of relevance; Meter Volume Reallocation Notifications (MVRNs), Change of Supplier process and Meter splitting.

Consideration of these mechanisms by the Modification Group lead to the conclusion that the MVRN facility did not, of itself, allow the LEG to gain embedded benefits from more than one Supplier, since all of the benefits described are associated with Trading Units, rather than purely with credited energy. It was also recognised that full embedded benefits can only be realised where the volume of demand exceeds that of generation in such a Trading Unit.

The Modification Group considered an Alternative Proposal whereby the demand BM Units associated with the Suppliers in the Company Group could together form a Trading Unit. Under the current arrangements, only one Supplier BM Unit may belong to a Trading Unit.

On the basis that the embedded benefits relate to Trading Units, this approach provides a mechanism for improving the likelihood that a LEG could realise embedded benefits for its entire output. This Alternative Modification has the advantage that it would be more straightforward and less expensive to implement within the BSC than the Original Proposal.

The Group assessed the Modification and prepared an Assessment Report (which included the Alternative Modification) that was presented to the Panel on 26th July. The Panel returned the Modification to the Group for further analysis.

The Panel considered the revised P7 Modification Group Assessment Report, which forms Attachment 1 to this Modification Report, at its meeting on 23rd August 2001. The Panel agreed that the Alternative Modification should proceed to the Report Phase and that the draft Modification Report, to be consulted upon, should contain a recommendation to the Authority that the Alternative Modification should be approved and implemented with effect from the Settlement Day falling one month after approval from the Authority.

The Industry Consultation on the Modification Report resulted in a majority in favour of the Alternative Modification. Some minor amendments were made, including changes to the Legal Text, as a result of comments from Industry. The updated Report was presented to the Panel at its meeting on 20th September 2001. At the meeting, the Panel agreed to recommend to the Authority that the Alternative Modification for P7 be approved.

1.3 Rationale for Recommendations

The Panel endorsed the Modification Group's conclusions that the Alternative Modification would better facilitate the Applicable BSC Objectives as set out in Condition 7A(3) of the Transmission Licence. In particular, it would meet primarily objective 7A(3)(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".

The Alternative Modification also meets the Applicable BSC Objective 7A(3)(d) – 'Promoting efficiency in the implementation and administration of the balancing and settlement arrangements'. It has no impact on the remaining Applicable BSC Objectives set out in Condition 7A(3)(a-b).

These Objectives are achieved by providing a more flexible and extensive mechanism than exists at present for Suppliers and Licence Exemptable Generators to contract with each other and to take advantage of the full potential of the embedded benefits available.

In reaching this conclusion, the Panel took due account of the views of the proposer, all representations received from interested parties and the views of the Modification Group. This Modification Report should be read in conjunction with the Modification Group's Assessment Report.

2 INTRODUCTION

This report has been prepared by ELEXON Ltd., on behalf of the Panel, in accordance with the terms of the 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

3 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 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).

A Modification Report must be prepared and submitted to the Authority in respect of each Proposed Modification and must contain:

- (a) The recommendation of the Panel as to whether or not the Proposed Modification or any Alternative Modification should be made;
- (b) The proposed Implementation Date for implementation of the Proposed Modification or any Alternative Modification;
- (c) The matters set out in Annex F-1 of the BSC. This will usually be in the form of the relevant Assessment Report where the Proposal has been submitted to a Modification Group prior to the Report Phase;
- (d) An explanation of the Panel's rationale should the Panel form a different view of any matters contained in the Modification Group Report; and
- (e) A summary of the representations made by Parties and interested third parties during the consultation undertaken in respect of the Proposed Modification and any Alternative Modification.

4 HISTORY OF PROPOSED MODIFICATION

Modification proposal P7 was raised by Powergen on the 18th April 2001 and was presented to the Panel at its meeting on 3rd May, 2001. At that meeting, the Panel agreed that the proposal should be submitted to the Definition procedure and that the P7 Modification Group should be established to progress the necessary work.

The Definition Report was presented at the Panel Meeting on 31st May 2001. The Panel directed that the Modification be progressed to the Assessment Stage and that the Alternative Modification identified in the report should be assessed along with the original Proposal.

The Assessment Report was presented to the Panel Meeting on 26th July 2001 and recommended an Alternative Option based on Supplier demand being combined at the Trading Unit level (rather than at the BM Unit level) because this would achieve the same benefits and would be more straightforward and less expensive to implement within the BSC than the original Proposal. At that meeting the Panel referred the Modification back to the Modification Group for further analysis. There were two particular issues for the Group to address.

The first issue concerned the recommendation by the Group to allow any grouping of Suppliers in a GSP Group to join the Trading Unit. The Group recommended that in the event that Ofgem did not support that option that at least the option of any Suppliers in the same company group (affiliate Suppliers) should be allowed to join the Trading Unit. At the Panel it was pointed out that the procedures required the Group to make a positive recommendation to the Panel to either approve or reject the Proposal in its entirety – there is no provision for the Authority to “cherry pick” subsequently. It was agreed that the Assessment Report would be amended to recommend that any grouping of Suppliers should be allowed.

The second issue concerned the inclusion in the original Assessment Report of centrally registered Exemptable (ie a Licence Exemptable Generator: LEG) BM Units in the Trading Unit. One sub-option that was considered in the consultation carried out at the Assessment phase sought an opinion on whether to allow inclusion of one or many centrally registered LEG BM Units in the Trading Unit. However the Assessment Stage consultation document omitted the term ‘LEG’ and instead referred to ‘any centrally registered BM Unit’. As a result of this confusion, the impact assessment by National Grid included a section on the impact of ‘any centrally registered BM Unit’.

To address any possible confusion by other Industry Parties resulting from the omission of the term ‘LEG’ a further consultation process took place to clarify that the option was, and indeed should be, limited to ‘centrally registered LEG BM Unit’ and to give Parties an opportunity to reconsider their original responses. As part of the consultation process one sub-option was removed on the basis that it was effectively identical to another. The full text of the consultations appears in the Assessment Report which forms Attachment 1 to this report. The results of the third consultation were consistent with the second consultation and the Modification Group concluded that they should recommend allowing any grouping of Supplier BM Units and centrally registered Exemptable BM Units to join a Trading Unit.

At the Panel Meeting on 23rd August, the amended Assessment Report, including the outcome of the third Industry Consultation, was submitted for consideration. The Panel directed that the Modification be progressed to the Report stage and endorsed the Modification Group recommendation to reject the original P7 Modification based on a BM Unit and adopt the Alternative Modification based on a Trading

Unit. The recommendation to allow any grouping of Suppliers from the GSP Group in the Trading Unit together with any number of centrally registered LEG BM Units was also endorsed by the Panel.

The Modification Report was sent for Industry Consultation on 10th September 2001 and a summary of representations is provided in section 10.3 of this report. Copies of the representations are provided in Annex 1 of this report.

The Modification Report, together with the Industry representations and summary, was subsequently presented to the Panel at its meeting on 20th September 2001. The Panel approved the Alternative Modification and instructed the Modification Secretary to make some minor changes to Section 7 'Rationale for Panel Recommendations' and to Section 8 'Legal Text to Give Effect to the Alternative Modification'. The Panel agreed to recommend to the Authority that the Alternative Modification for P7 be approved.

5 DESCRIPTION OF EXISTING ARRANGEMENTS

Under the existing trading arrangements certain generators, for example those under 100MW, are exempt from the requirement to hold a generation licence and are commonly referred to as Exemptable or Licence Exemptable Generators (LEGs). These generators are normally connected to a Distribution System (ie they are embedded in a Distribution System) and as such their output is deemed not to reach the Transmission System.

A number of particular benefits, known as 'embedded benefits', are available to such Licence Exemptable Generators. The general nature of these embedded benefits is that, being embedded, the generation in question can offset neighbouring demand, such that certain charges are then levied on the net amount. The benefits are associated with both the BSC and with NGC's transmission charges, as stipulated in NGC's LC10 charging statement.

The BSC benefits relate to:

- ELEXON charges
- Allocation of Transmission Losses
- Allocation of revenue surplus
- Ability to make bids and offers
- Allocation of Information Imbalance charges

The NGC Transmission charge benefits are:

- Transmission Network Use of System (TNUoS) charges
- Balancing and Settlement Use of System (BSUoS) charges

Licence Exemptable Generators have the choice of registering centrally as an Exemptable Export BM Unit or of being registered non-centrally under a Supplier in a GSP Group in which case the Licence Exemptable Generation would be consolidated within a Supplier's BM Unit in the same GSP Group.

5.1 BSC related benefits for Embedded Generation

The various charges associated with the BSC are assessed in different ways. The ELEXON charges are allocated *pro-rata* against the overall magnitude (i.e. ignoring the sign) of the credited energy for a Party, for each Trading Unit. The Trading Unit being a collection of BM Units that conform to certain pre-requisites under the BSC, or being a sole Trading Unit which comprises only one BM Unit.

If an LEG (or, indeed, more than one) is registered in a Supplier registration system, it may be registered, along with any number of demand meters within the same GSP Group as a Supplier BM Unit, and constitutes a sole Trading Unit. Such a sole Trading Unit would have a volume of credited energy that would be the net figure resulting from the offset of the generation and demand within the sole Trading Unit. Alternatively a LEG may register such that it is classified as an Exempt Export BM Unit.

In the latter case, the BSC allows the LEG to form a Trading Unit with a (single) Supplier BM Unit in the same GSP Group. Hence, a similar netting effect results. It should be noted that, in both cases the charge is levied on credited energy per Party. Thus, in order to produce the overall net volume, the energy in question must actually be credited to the one Party. If, in the first instance, more than one Party is associated with the Trading Unit, this can be achieved through the use of an MVRN (this credits the energy from one party to another).

The allocation of Transmission Losses and the allocation of revenue surpluses (which, since this is a payment, rather than a liability, may be regarded as a disbenefit) are also based on the overall

magnitude of credited energy, per Party for each Trading Unit. Hence, embedded benefits accrue in the same way as for the allocation of the above element of ELEXON charges.

Where embedded generators are to be included in BM Units and wish to have the ability to make bids and offers under the existing arrangements they may lose the advantage of the other embedded benefits that rely on backing off demand. If the Trading Unit option is adopted then this would allow, for example, LEGs to contribute to bids and offers at the BM Unit level but to gain the other embedded benefits at the Trading Unit level.

The Information Imbalance price is currently set to zero. However, in principle, these charges would be levied against the difference between actual metered volume and the expected metered volume, for each BM Unit. Hence, the benefit of being able to net a generation volume against a demand volume would only be available to a LEG that registers in a Supplier registration system, along with some demand meters. This is because it is only in these circumstances that the generation and demand could be within one BM Unit.

5.2 Transmission Related Benefits for Embedded Generation

The Modification Group recognised, as did the original Proposal, that the structure of the arrangements within the BSC would have an impact on transmission charge related benefits, the governance of which is outside the BSC but these are reproduced here since the issues were also raised during the consultation process. The transmission charge related benefits are:

- Balancing Services Use of System Charges (BSUoS)
- Transmission Network Use of System Charges (TNUoS)

BSUoS charges are allocated to each Lead Party, *pro-rata* on the proportion of the BM Unit metered volume to the total metered volume. However, this proportion is calculated such that in effect, the volume is net across each Trading Unit. Hence, a LEG registered in a supplier registration system, if in a BM Unit with demand metering (this would constitute a sole Trading Unit), will be liable for BSUoS in respect of a net volume. Similarly, if a centrally registered LEG is in a Trading Unit with a supplier BM Unit, this combination would also be charged for BSUoS on a net basis.

In so far as TNUoS is concerned, a LEG that forms part of a supplier BM Unit would attract the demand TNUoS charge, on a net basis with the demand within that BM Unit. These demand charges would either be based on consumption over the year (for non-half hourly metered demand), or on consumption over the triad of system peak demands (for half hourly metered demand). If the LEG is registered such that it is classified as an Exempt Export BM Unit, then it is possible for a proportion of its output over the triad of system peak demands to offset the demand of a nominated Supplier, or with a supplier BM Unit that is within a Trading Unit with the LEG.

It should be stressed that for the BSUoS and TNUoS arrangements, the governance is entirely outwith the BSC and is a matter for NGC and Ofgem.

5.3 Existing Mechanisms to Maximise Achievement of Embedded Benefits

The Change of Supplier process allows demand associated with one Supplier, or a LEG registered in a supplier registration system, to be transferred to another Supplier. Hence, recourse to this process would allow the demand (and generation from a LEG, if it is registered in a Supplier registration system) registered to various Suppliers to be re-registered to another Supplier. This provides a limited opportunity to redistribute demand and generation registered to Suppliers to allow embedded benefits to be maximised.

However, this process is not amenable to large numbers of transfers of metering systems, it was not intended to be a dynamic process and is considered by some Suppliers to be not sufficiently flexible to be of use.

The meter splitting arrangements within a GSP Group allow energy from a metering system, registered in a supplier registration system, to be allocated to two Suppliers. This would allow generation from a supplier registered LEG or demand from a half hourly demand meter to be allocated to two Supplier BM Units. The meter splitting process must be operated by a suitably accredited Half Hourly Data Collector (HHDC) and requires the HHDC to allocate the metered values between the two Suppliers for each half hour according to a pre-determined algorithm. This allocation must be such that the sum does not exceed the total metered value for the Settlement Period.

Meter splitting would improve the prospects for a LEG to obtain embedded benefits for its entire output as it allows the redistribution of either demand or Licence Exemptable Generation between different Suppliers on a half hourly basis. However, this facility would restrict this enhanced opportunity to those LEG's registered in a supplier registration system. This approach also requires a specialised supplier data collector agent to be accredited and is limited to two Suppliers for any one metering site.

6 DESCRIPTION OF THE PROPOSED AND ALTERNATIVE MODIFICATION

A copy of Modification P7 can be found in Annex 2 of this Report.

Modification P7 proposed that Supplier demand within a GSP Group for all Suppliers in a company group should be able to be allocated to the same BM Unit. The Proposer, Powergen, considered that this would improve the likelihood that a LEG associated with such a BM Unit in a GSP Group could obtain embedded benefits against its entire output, rather than just a proportion of it (in cases where the LEG output exceeds that of a single supplier BM Unit).

In considering the proposal, it was noted that this approach would have significant legal framework implications, as well as requiring system changes, both centrally and for participants. It was also recognised that the proposal presumed that existing transmission charging arrangements would apply.

In the Initial Written Assessment, it was noted that facilities already available under the BSC could enable a LEG to realise embedded benefits with a number of Suppliers. Three facilities are purported to be of relevance; Meter Volume Reallocation Notifications (MVRNs), Change of Supplier process and Meter splitting.

Consideration of these mechanisms by the Modification Group lead to the conclusion that the MVRN facility did not, of itself, allow the LEG to gain embedded benefits from more than one Supplier, since all of the benefits described are associated with Trading Units, rather than purely with credited energy.

6.1 Description of the Alternative Proposal

The Modification Group considered an Alternative Proposal whereby the demand BM Units associated with the Suppliers in the Company Group could together form a Trading Unit. Under the current arrangements, only one demand BM Unit may belong to a Trading Unit.

On the basis that the embedded benefits relate to Trading Units, this approach provides a mechanism for improving the likelihood that a LEG could realise embedded benefits for its entire output. It was noted that this Alternative Proposal would also have an impact on the legal framework and on central and participant systems. However, these impacts were judged to be of a lower order of magnitude than those associated with the original proposal. Again, this presumed that the transmission charging arrangements would be amenable to the revised Trading Unit category.

The Modification Group considered that there were in fact sub-options to the alternative proposal. The first of these is whether to restrict the grouping of Supplier BM Units into the Trading Unit to those within a Company Group or to extend this to allow any grouping of Suppliers BM Units.

A second option was to allow any number of centrally registered Exemptable BM Units to join the Trading Unit. In both sub-options, the arrangements would be limited to BM Units within a GSP Group.

The Modification Group saw no reason to limit the proposal to one centrally registered Exemptable BM Unit or to Suppliers in a company Group. The existing arrangements of meter splitting and change of Supplier do not have such restrictions and the Modification Group was of the view that limiting the Alternative Proposal arrangements in such a way might be inappropriate. Hence, the recommended option is to allow any grouping of Supplier BM Units and any number of centrally registered Exemptable BM Units, within the same GSP Group, to join the same Trading Unit.

7 RATIONALE FOR PANEL RECOMMENDATIONS

The Panel endorsed the views set out in the Modification Group's Assessment Report. The Assessment Report suggested that the Alternative Modification should be implemented as it would promote competition by facilitating the achievement of the embedded benefits for Licence Exemptable Generators in a more flexible, less costly and more practical manner than could be achieved using existing functionality.

Allowing any grouping of Suppliers to form a Trading Unit rather than restricting the grouping to Suppliers in a Company Group was considered further to improve the opportunity for competition. The Alternative Modification is more easily implemented within the BSC than the original Proposal which has significant implications for the legal framework. The Alternative also has significantly less impact on Party systems and on central systems and processes.

In light of the above considerations, the Panel has concluded that the Alternative Modification would better facilitate the Applicable BSC Objectives as set out in Condition 7A(3) of the Transmission Licence in comparison with the original Modification Proposal. In particular, it would meet primarily objective 7A(3)(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". The Alternative Modification also meets the Applicable BSC Objective 7A(3)(d) – 'Promoting efficiency in the implementation and administration of the balancing and settlement arrangements'.

On the basis of the analysis, consultation and assessment undertaken in respect of this Modification Proposal and the Alternative Modification, the Panel recommends to the Authority that the Alternative Modification be approved and implemented with effect from the Settlement Day falling one month after the approval. The Panel also recommends to the Authority that the Proposed Modification should be rejected. This Modification Report should be read in conjunction with the Modification Group's Assessment Report that forms Attachment 1 to this report.

8 LEGAL TEXT TO GIVE EFFECT TO THE ALTERNATIVE MODIFICATION

Alternative Modification: Allocation to a Trading Unit

The requisite amendments to the Balancing and Settlement Code for the Alternative Modification: Allocation to a Trading Unit for SVA BM Units and CVA registered Licence Exemptable Generator BM Units within a GSP Group, are presented in this Section.

The section sets out the legal text for the Alternative Modification allowing any grouping of Supplier BM Units and centrally registered Exemptable BM Units to join the same Trading Unit. The legal text for the Proposed Modification and for the sub-option allowing only BM Units for affiliate Suppliers had not been provided.

Section K 4.4.1

"4.4.1 Where:

- (a) any relevant BM Unit(s) (the "**TU BM Unit(s)**") belong to a Trading Unit (either a Sole Trading Unit or a Trading Unit registered in accordance with paragraph 4.5 ~~but not containing more than one Supplier BM Unit~~), and
- (b) there ~~are any~~ ~~is a~~ Exempt Export BM Unit(s) in the same GSP Group as the TU BM Unit(s),

then the Lead Party for ~~any such~~ ~~the~~ Exempt Export BM Unit may, by notice in writing to the CRA and BSCCo given jointly with the Lead Party(ies) for the TU BM Unit(s), elect that the Exempt Export BM Unit shall belong to the Trading Unit, irrespective of the requirements in Annex K-2.

4.4.2 For the purposes of paragraph 4.4.1, a relevant BM Unit is any BM Unit (including for the avoidance of doubt another Exempt Export BM Unit) other than one comprising Metering System(s) which are registered in CMRS pursuant to paragraph 2.1.1.

4.4.3 A notice of election under paragraph 4.4.1 shall specify:

- (a) the identity of the Lead Party(ies) for the Exempt Export BM Unit(s) and for each of the TU BM Units;
- (b) the Exempt Export BM Unit(s) and the TU BM Units;
- (c) the Trading Unit; and
- (d) the date with effect from which the election is to take effect."

This amendment will enable any number of Supplier BM Units and one or more Exempt Export BM Units to be associated with the same Trading Unit. The amendment will still prohibit an Exempt Export BM Unit being associated with a Trading Unit that has BM Units with CVA Metering Systems. The proposed rewording of section 4.4.1 will allow the following combinations of BM Units to be associated with the same Trading Unit:

- Two or more Exempt Export BM Units; and
- Many Supplier BM Units and one or many Exempt Export BM Units.

Section Annex K-2

"1.1.2 Every Trading Unit Application shall state whether it is a Class 1, Class 2, Class 3, ~~or~~ Class 4 or Class 5 application and the Panel shall consider a Trading Unit Application by reference to the provisions set out in this Annex K-2 for the stated class (or, in the case of paragraph 1.5 6, as provided therein)."

The above changes identify the requirement to introduce an additional Class of Trading Unit. The new class introduced is a new Class 4 with the current Class 4 being renamed Class 5. Class 5 will therefore still be the last "catch all" Trading Unit.

Section Annex K-2 New Class 4 Trading Unit

"1.5 Class 4

1.5.1 If the Trading Unit Application shall state that it is a Class 4 application then the Panel shall determine from the Trading Unit Application and supporting documentation and other matters (and any further evidence provided in accordance with paragraph 1.7) if all of the nominated BM Units are Supplier BM Units which are located in the same GSP Group, in which event the nominated BM Units shall be treated as belonging to a single Trading Unit."

A new Class 4 Trading Unit has been developed which will allow Supplier BM Units located in the same GSP Group to be associated with the same Trading Unit. It will also allow Exempt Export BM Units also located in the same GSP Group to be associated with an approved Class 4 Trading Unit, Code Section K 4.4.1.

Section Annex K-2 1.1.2

1.1.2 "Every Trading Unit Application shall state whether it is a Class 1, Class 2, Class 3, ~~or~~ Class 4 or Class 5 application and the Panel shall consider a Trading Unit Application by reference to the provisions set out in this Annex K-2 for the stated class (or, in the case of paragraph 1.5 6, as provided therein)."

Section Annex K-2 1.2.1

1.2.1 "If the Trading Unit Application shall state that it is a Class 1 application then the Panel shall determine from the Trading Unit Application and supporting documentation and other matters (and any further evidence provided in accordance with paragraph 1.6 7) if the nominated BM Units are or are to be electrically configured in the same manner as is prescribed in one of the line diagrams contained in BSCP 31 and fulfil or will fulfil all the conditions specified in such BSC Procedure applicable to a Class 1 application, in which event the nominated combination of BM Units shall be treated as belonging to a single Trading Unit."

Section Annex K-2 1.3.1

1.3.1 "If the Trading Unit Application shall state that it is a Class 2 application then the Panel shall determine from the Trading Unit Application and supporting documentation and other matters (and any further evidence provided in accordance

with paragraph 1.~~6~~7) if the nominated BM Units are or are to be electrically connected solely by Dedicated Assets, in which event the BM Units shall be treated as belonging to a single Trading Unit.”

Section Annex K-2 1.4.1

1.4.1 “If the Trading Unit Application shall state that it is a Class 3 application then the Panel shall determine from the Trading Unit Application and supporting documentation and other matters (and any further evidence provided in accordance with paragraph 1.~~6~~7) if the nominated BM Units are or are to be electrically connected by Contiguous Assets, in which event the nominated BM Units shall be treated as a single Trading Unit.”

Section Annex K-2 1.6

“1.6 Class ~~4~~5

1.~~6~~5.1 If the Trading Unit Application shall state that it is a Class 5 application or if the Panel shall determine that the nominated BM Units the subject of a Class 1, Class 2, ~~or~~ Class 3 or Class 4 Trading Unit Application do not satisfy the conditions specified in paragraphs 1.2, 1.3, 1.4 or (as the case may be) 1.5, the Panel shall determine from the Trading Unit Application and supporting documentation and other matters (and any further evidence provided in accordance with paragraph 1.~~6~~7) if the nominated BM Units shall be treated as a Trading Unit having regard to the criteria set out in paragraph 1.~~6~~5.2.

1.~~6~~5.2 The criteria referred to in paragraph 1.~~5~~6.1 are:

- (a) whether, although not satisfying the conditions applicable to a Class 1, Class 2, ~~or~~ Class 3 or Class 4 Trading Unit Application, the Trading Unit Application demonstrates (to the reasonable satisfaction of the Panel) sufficient similarities with sites which would satisfy those conditions such that it would be unreasonable not to treat the nominated BM Units as a single Trading Unit;
- (b) whether there are any other facts or evidence in support of the Trading Unit Application that in the reasonable opinion of the Panel demonstrate that the nominated BM Units ought to be treated as a single Trading Unit.

1.~~6~~7 Further evidence

1.~~6~~7.1 The Panel may request a Trading Unit Applicant to produce such further evidence as the Panel may reasonably require in support of its Trading Unit Application before the Panel makes any determination as to whether the nominated BM Units are to be treated as a Trading Unit, and the Panel shall not be bound to make any determination on the issue of whether the nominated BM Units are a Trading Unit pending receipt of such further evidence.”

Additional changes highlighted above reflect the renumbering that has resulted from the introduction of a new Class 4 with the current Class 4 being renamed Class 5.

9 ASSESSMENT

The following is a summary of the impacts identified in the Assessment Report produced by the Modification Group, which forms Attachment 1 to this report.

The Alternative Modification will have the following impacts:

- Amendment to Section K of the BSC. The relevant legal drafting can be found at Section 8 of this report;
- There would be an impact on the Code Subsidiary Document, BSCP31;
- No impact on the Core Industry Documents;
- No impact on the statutory, regulatory and contractual framework within which the Code sits; and
- No impact on the systems and processes of BSCCo
- It is recognised that there may be an impact on NGC's charging methodology for Transmission Use of System (TNUoS) and Balancing and Settlement Use of System (BSUoS).

The original Proposal would have significantly greater impact on the BSC, on the Party systems and on the central agent systems and processes. The detailed impacts of both the original proposal and the Alternative Proposal are documented in Sections 6 to 11 of the Assessment Report which forms Attachment 1 to this report.

10 SUMMARY OF REPRESENTATIONS

10.1 Initial Consultation

Copies of the original representations received and considered by the Modification Group under the initial consultation in the Definition Phase on this proposal can be found in the Assessment Report on the Proposed Modification. Of the 8 Parties that responded to the consultation undertaken in May 2001 as part of the Definition Stage, the majority requested that further assessment was carried out.

One Party objected on the basis that the benefits would be small and could be obtained by Parties by appropriate management of their business and by using the existing mechanisms of meter spitting and change of Supplier. The National Grid Company expressed concern that the Proposal would favour large companies and that it had NGC charging implications.

10.2 Industry Consultation and Impact Assessment

Copies of the responses received and considered by the Modification Group under the second consultation and impact assessment on this proposal can be found in the Assessment Report on the Proposed Modification.

Of the 14 Parties that responded to the consultation undertaken in June 2001, there was a majority in favour of the Alternative Modification. Of the 14 Parties, 9 positively supported the Alternative Proposal and one Party supported the original Proposal. One Party objected to both options on the basis that there were no benefits for that Party.

There was no majority decision on the sub-options to allow any Supplier BM Units and any centrally registered Exemptable BM Units to join the Trading Unit.

National Grid responded and saw no impact of the Proposed Modification (BM Unit option) on their charging systems. They were concerned that the Alternative Proposal would require modification to their Transmission Network Use of System charging methodology, approved by the Authority, as new rules would be required for the apportionment of the Triad Benefit between the relevant Suppliers. National Grid Company have begun discussions with the Authority on the impact of the Alternative Modification on their charging methodology.

National Grid had concerns based on the wording of the sub-options for the Alternative Modification. The Consultation document did not explicitly refer to 'any CVA LEG BM Units' in the sub-option but referred to 'any CVA BM Units'. As a result National Grid responded on the basis that 'any CVA BM Units' could appear in a Trading Unit.

In order to ensure that no other Parties had misunderstood the sub-options, a third consultation was undertaken in August 2001 to clarify the sub-options on CVA LEG BM Units. Nine Parties responded of which eight did not wish to change their previous response and one Party responded in favour of the Alternative Modification and in allowing any grouping of Supplier BM Units and any CVA Licence Exemptable BM Units in the GSP Group to join the Trading Unit.

10.3 Consultation on Draft Modification Report

The Modification Report consultation request resulted in the receipt of **ten** responses on behalf of **twenty-two** BSC Parties. These responses are provided in ANNEX 1 of this Attachment 3 to the main Modification Report.

To summarise:

- **Eight** responses, on behalf of twenty BSC Parties, **supported** the recommendations;
- One response (one BSC Party) neither supported nor rejected the recommendations; and
- **One** response (one BSC Party) **rejected** the recommendations.

In detail, eight responses, on behalf of twenty BSC Parties, indicated support of the Alternative Modification and therefore for the recommendations made by the BSC Panel in the Modification Report. Some comments and concerns were raised in these responses, as follows:

- Three responses (on behalf of nine BSC Parties) expressed a preference for limiting the ability to aggregate within a GSP Group to Affiliate companies only. The reasons provided for supporting such limitation were:
 - Enabling a grouping of any Suppliers within a GSP Group introduces competition issues and potentially enables market manipulation;
 - Limiting aggregation to company groups does not fundamentally impact established principles with regards to embedded benefits; and
 - Extension of the principle of the original Modification Proposal to include companies not within a company group may prejudice approval of the Alternative Modification.
- One response (on behalf of four BSC Parties) raised an issue regarding associated amendments to the Use of System (UoS) charging methodologies being undertaken by the Transmission Company. The response indicates that the Transmission Company are to issue a UoS Charge Consultation which clarifies the circumstances of UoS charging in the future (paper UoSCM-M-01). The response asserts that if Ofgem were to approve this paper, full realisation of embedded benefits would not occur without an associated implementation of Alternative Modification P7. Therefore the response requests that the Panel and Ofgem recognise that the full realisation of embedded benefits requires co-ordination of the implementation of the amendments to the BSC required to give effect to Alternative Modification P7 and of the implementation of any amendment to the Transmission Company's UoS Charging methodology.

It is believed that the above concerns have been addressed by the Modifications Group, in consideration of the consultation responses on the Assessment Report.

One response (one BSC Party) did not provide any indication of whether the recommendations made as part of the Modification Report were supported or rejected.

One response (one BSC Party) did not support the recommendations made in the Modification Report and indicated rejection of both the Modification and the Alternative Modification. The reasons provided for such rejection were stated as:

- Incurs costs for many, but with benefits for few;
- Other mechanisms, other than changes to the Balancing and Settlement Code, could be invoked to the same effect; and
- Expressed concerns over the mechanism for determination of 'exempt' status, if the aggregation defined under the Modification / Alternative Modification was enabled.

It is believed that the concerns raised here have been addressed by the Modification Group in response to previous consultation responses received.

Two responses (four BSC Parties) suggested amendments to the drafting of the proposed Legal text and it should be noted that these comments were based upon the interpretation of the proposed text, not the intent. Therefore, ELEXON will seek legal advice via review of the suggested amendments and a final draft of the proposed Legal Text will be provided to the Panel Meeting.

ANNEX 1 – COPIES OF REPRESENTATIONS

The following submissions were received in response to the consultation on the draft Modification Report.

Responses from P7 Modification Report Consultation

Representations were received from the following parties:

No	Company	File Number
1.	BGT	P7_MR_001
2.	Scottish and Southern Energy	P7_MR_002
3.	SEEBOARD	P7_MR_003
4.	Powergen UK plc	P7_MR_004
5.	NGC	P7_MR_005
6.	London Electric	P7_MR_006
7.	Northern Electric	P7_MR_007
8.	Scottish Power UK Plc	P7_MR_008
9.	Innogy Group	P7_MR_009
10.	EdF Trading Ltd	P7_MR_010

P7_MR_001 – BGT

British Gas Trading (BGT) is in agreement with the recommendations in the consultation document.

BGT supports the Alternative Modification as we feel it better meets the intent and objective of the proposal in providing further opportunities for industry parties to maximise embedded benefits by reducing overall charging liabilities. The Alternative Modification is a preferred market solution as it enables a change to be implemented at the least cost and impact to existing BSC systems and documents

We therefore agree that the original proposal be rejected and that the alternative proposal detailed in the consultation be adopted.

Regards,

Rob Cullender
Senior Account Manager
Transportation Services

P7_MR_002 – Scottish and Southern Energy

Response on behalf of Southern Electric, Scottish and Southern Energy, Keadby Generation Limited and Scottish and Southern Energy Supply Limited.

In line with our previous comments, SSE agree that the original proposal should be rejected. Our preference is for an alternative modification based on a Trading Unit solution. However we still have concerns that the recommendation to allow any grouping of Suppliers introduces competition issues and would prefer that this option be limited to Affiliated Suppliers.

Regards

Beverley
Market Development

P7_MR_003 – SEEBOARD

As previously stated SEEBOARD do not feel that this change is warranted.

This change will incur costs to many with benefits for a few parties under the same ownership. As we have previously stated there are other mechanisms that these parties could utilise rather than requiring a change to BSC. We have further concerns, for example, in terms of representations to BSC modifications. In this case these parties will be treated as separate entities but for Supplier demand they are treated as one. Should parties wishing to trade in this form also be considered as a single party for representations to BSC modifications. If not parties are independent, or not, depending upon circumstances that suit a party, which does not seem logical and could be considered as discriminatory.

Also if this proposal is to aid, by aggregation, exempt generators/supplier to trade how will exemption status be determined. As we understand it exemption status is applied to aggregated operational ability of exempt generators/suppliers, with 2500kW being the threshold. If there is a contract, either between an exempt operator and a licensed operator or between multiple exempt operators, that exceeds this threshold will the exemptions be lost as they are acting as associates?

Dave Morton
SEEBOARD
0190 328 3465

P7_MR_004 – Powergen UK plc

MODIFICATION PROPOSAL P7 – ALLOCATION OF SUPPLIER DEMAND IN A GSP GROUP FOR ALL SUPPLIERS IN THE SAME COMPANY GROUP.

Thank you for giving us the opportunity to make comments on this proposal. Powergen UK plc provides this response on behalf of itself and the following BSC Parties: Powergen Energy plc, Diamond Power Generation Limited and Cottam Development Centre Limited.

Powergen supports the recommendations of the Panel, but with some reservations which are described below. We agree that the alternative proposal outlined in Section 8 will satisfy the objectives of P7 by remove impediments within the BSC that currently limit full realisation of available embedded benefits. The proposal will help ensure embedded generators will be able to sell their output to a wider range of BSC parties thereby actively “promoting effective competition in the generation and supply of electricity, and (so far as it is consistent therewith) promoting competition in the sale and purchase of electricity”.

In putting forward this proposal we did not express a policy view as to the nature or extent of embedded benefits, merely the ability of relevant BSC parties to fully realise such benefits on a non-discriminatory basis. As a result in our original proposal we sought to limit the aggregation of supplier demand across companies in a GSP group to those within the same company group, believing that this would not fundamentally impact on established principles with respect to embedded benefits. We were concerned that drafting the proposal too widely might prejudice the chance that the proposal might be approved. The Panel may therefore wish to consider whether aggregation of demand between companies not within the same company group to maximise embedded benefits (as recommended in the Draft Modification Report) is reflected in their final recommendation.

The complexity that surrounds this proposal has at times made progress of P7 difficult and made it frustrating for those involved in the process. For example there has been much confusion as to whether the proposal does or does not ensure full realisation of TNUoS charge benefits. The answer appears to be no now but a probable yes in the near future. It appears an anomaly in the existing LC10 charging statement means that TNUoS benefits sought under P7 are in fact currently being provided in error. We had always assumed this would be corrected by NGC as a matter of urgency but has yet to be resolved.

At a recent NGC Transmission Charging Methodology Forum meeting attended by Powergen, NGC indicated that they will shortly be issuing a UoS charge consultation which will clarify in what circumstances TNUoS charges will be applied in future (this paper UoSCM-M-01 Clarification various) is now available in draft form but will not be formally issued until 19 September 2001). Approval of UoSCM-M-01 by Ofgem would mean that without implementation of P7 full realisation of available embedded benefits with respect to TNUoS charges will not possible for many BSC participants. We also understand NGC are shortly planning to issue a UoS charge consultation looking at options for allocation of TNUoS charges following the anticipated implementation of P7.

Full realisation of embedded benefits sought by P7 requires the co-ordination of the implementation of both amendments to the BSC and changes to NGC’s UoS charging methodologies. It is important that these processes are carried out in parallel. We trust Ofgem will urge to NGC to progress any consequential changes to the TNUoS charging methodology as a matter of urgency.

Yours sincerely

Peter Bolitho
Trading Arrangements Manager

P7_MR_005 – NGC

P7 – Allocation of Supplier Demand to the same BM Unit in a GSP Group for all Suppliers in the same Company Group

Introduction

Further to our previous comments on this report it has come to our attention that the description of the effect of the legal text to give effect to the alternative modification is misleading. In addition a number of additional “in the same GSP Group” comments are suggested.

Existing BSC Drafting

The current BSC drafting allows any number of Exempt Export BM Units to form a Trading Unit with one Supplier BM Unit. Although Section K4.4.1 only considers adding individual Exempt Export BM Units to a Supplier BM Unit in a Trading Unit, there is no restriction to how many times this can be done. Hence all the following can form valid trading units.

- 1 Supplier BM Unit & 1 Exempt Export BM Unit (all in the same GSP Group)
- 1 Supplier BM Unit & multiple Exempt Export BM Units (all in the same GSP Group)

Legal Text to Give Effect to the Alternative Modification (section 8)

Multiple Exempt Export BM Units can already join with single Supplier BM Unit in the same GSP group. The effect of the changes to the legal text is that all the current options available would still be valid and in addition the following additional option would be available.

Multiple Supplier BM Units & multiple Exempt Export BM Units (all in the same GSP Group)

The text underneath the proposed K4.4 legal text is unclear, it may be taken to indicate that “Two or more Exempt Export BM Units” could form a Trading Unit without a Supplier BM Unit. This is not the case. The wording should be changed to avoid confusion as this was not the intention of the Modification Group, is not possible under the current BSC drafting, and will not be possible when the proposed changes to the Legal Drafting are implemented.

History of the Proposed Modification (Section 4)

In the last sentence of both paragraphs 6 and 7 of this section of the report it would be helpful to add “in the same GSP Group” after the last occurrence of the words BM Unit.

Nigel Brooks
14/9/01

P7_MR_006 – London Electric

London Electricity's view of Modification P7 has not changed since the last consultation, and I copy you our response to that for completeness:

-----Original Message-----

From: Walker Rachel
Sent: 13 July 2001 15:41
To: 'ccc@elexon.co.uk'; 'modifications@elexon.co.uk'
Subject: P7 consultation/assessment

Please find below London Electricity's response to the above modification.

Regards
Rachel Walker

London Electricity agrees with the general principle of modification P7 - Allocation of Supplier Demand to the Same BM unit in a GSP Group for all Suppliers in the Same Company Group to increase the benefits of embedded generation. We would like to agree cost implications for this modification before giving our unconditional support.

We believe that Option 2 is the better solution as this has less of an impact on our systems whilst achieving a broadly similar result.

We do not think that the use of Trading Units will be impractical as it is unlikely that the units will change their configuration very frequently.

Of the three sub-options within Option 2 we support the second sub-option of allowing Affiliate Supplier BM Units and any CVA BM units to be assigned within a GSP Group. This allows the greatest amount of flexibility within a company group without facilitating any market manipulation that may occur by allowing any supplier BM Units to be allocated together. It will also allow a single party to retain control of the Trading Unit which will be in the interests of transparency of action and responsibility which would not occur with sub-option 3.

We expect that changes to our internal systems to accommodate this modification could take up to six months for Option 1 or up to 2 months for Option 2.

P7_MR_007 – Northern Electric

Modification Proposal P7: 'Allocation of Supplier Demand to the same BM Unit in a GSP Group for all Suppliers in the Same Company Group'.

Northern Electric and Gas welcomes the opportunity to comment on modification P7 'Allocation of Supplier Demand to the Same BM Unit in a GSP Group for all Suppliers in the Same Company Group'.

Having considered the options outlined in the Modification Report of Modification Proposal P7', Northern Electric supports this proposal. We welcome the recommendation in the Modification Report that the Proposed Modification should be rejected and the Alternative Modification should be approved.

We hope that these comments are helpful,

Yours faithfully

Lesley Mulley

Industry Communications Manager

Northern Electric and Gas

P7_MR_008 – Scottish Power UK Plc

**Modification Proposal P7 – Allocation of Supplier Demand to the Same BM
UNIT IN A GSP GROUP FOR ALL SUPPLIERS IN THE SAME COMPANY GROUP**

After further consideration of the above proposal and the Draft Modification Report, I refer you to our previous comments at the assessment stage. While the sub-option recommended was not our original preferred choice, we however do feel that the Alternative Proposal gives a better way to achieve the BSC objectives. We therefore support the Panel's recommendation.

With regard to the drafting of legal text, we would make the following comments: -

1. Sec. K 4.4.1 - "... then the Lead Party(**ies**) for any such Exempt Export BM Unit(**s**) may,...., elect that those Exempt Export BM Unit(**s**) shall belong to the Trading Unit,..."
2. New clause 1.5 in Annex K-2 has a sub-clause 1.5.1 ending in the word "and" but no subsequent sub-clause. Perhaps Elexon can clarify whether there is further legal drafting, which has been omitted, or whether it is intended to have the one clause, viz. 1.5.

I trust you find these comments helpful, and please do not hesitate to contact me should you wish to discuss any points further.

Yours sincerely,

Man Kwong Liu
Scottish Power UK Plc, Manweb Plc and Emerald Power Generation Ltd

P7_MR_009 – Innogy Group

Innogy Group (Innogy plc, Innogy Cogen Trading Limited, Npower Limited, Npower Direct Limited, Yorkshire Electricity Group) supports the recommendations in the draft Modification Report.

Best regards,

Richard Harrison
Npower Finance - Commercial Services
NETA & BSC Issues Manager

P7_MR_010 – EdF Trading Ltd

On behalf of EdF and EdF Trading Ltd I would like to comment that the reasons for rejecting the Proposed Modification and for recommending the Alternative Modification as given in the Elexon document appear both reasonable and acceptable. The new P7 modification would seem to fit the Transmission Licence and the BSC objectives better and as such would receive the above Companies' support.

Steve Drummond

ANNEX 2 – MODIFICATION PROPOSAL P7

Modification Proposal	MP No: <i>(mandatory by BSCCo)</i>
Title of Modification Proposal <i>(mandatory by proposer):</i> " Allocation Of Supplier Demand To The Same BM Unit In A GSP Group For All Suppliers In The Same Company Group"	
Submission Date <i>(mandatory by proposer):</i> 18 April 2001	
Description of Proposed Modification <i>(mandatory by proposer):</i> The modification proposes that the Supplier demand, for all supply companies in the same company group, can be allocated to the same BM Unit within a GSP Group.	
Description of Issue or Defect that Modification Proposal Seeks to Address <i>(mandatory by proposer):</i> For historical reasons many company groups have more than one licenced supply company. To maximise the embedded benefits associated with embedded licence exempt generation, suppliers need a greater amount of demand in a GSP Group than embedded generation. With the increasing of the generation licence exemption limit and the expansion of CHP and renewable generation, there are more embedded generators expecting to realise these embedded benefits. These benefits could be better realised if all the demand for a company group could be allocated to the same BM Unit. If the total supply take for a company group can be summed together in a GSP Group, the embedded benefits can be fully secured.	
Impact on Code <i>(optional by proposer):</i> Section K Clause 3 "Configuration and Registration of BM Units" Section T Clause 4 "Settlement Calculations"	
Impact on Core Industry Documents <i>(optional by proposer):</i>	
Impact on BSC Systems and Other Relevant Systems and Processes Used by Parties <i>(optional by proposer):</i>	
Impact on other Configurable Items <i>(optional by proposer):</i>	

Modification Proposal	MP No: <i>(mandatory by BSCCo)</i>
<p>Justification for Proposed Modification with Reference to Applicable BSC Objectives <i>(mandatory by proposer):</i></p> <p>It is essential that embedded generation is able to fully capture the embedded benefit value from suppliers in order to maximise the value of their investment.</p> <p>As many supply companies have demand in a GSP group on more than one supply licence, they are unable to consolidate their position and offer the full benefit share potential to renewable and CHP generators. Under current arrangements renewable and CHP generators are less likely to experience competitive pricing for their product as many suppliers will have insufficient demand on a single licence to offer a competitive benefit share.</p> <p>This proposal will better facilitate competition in the embedded generation market and electricity supply in general.</p>	
<p>Details of Proposer:</p> <p style="padding-left: 40px;">Name: Peter Bolitho</p> <p style="padding-left: 40px;">Organisation: Powergen</p> <p>Telephone Number: 024 7642 5441</p> <p style="padding-left: 40px;">Email Address: peter.bolitho@pgen.com</p>	
<p>Details of Proposer’s Representative:</p> <p style="padding-left: 40px;">Name: Peter Bolitho</p> <p style="padding-left: 40px;">Organisation: Powergen</p> <p>Telephone Number: 024 7642 5441</p> <p style="padding-left: 40px;">Email Address: peter.bolitho@pgen.com</p>	
<p>Details of Representative’s Alternate:</p> <p style="padding-left: 40px;">Name: Jane Butterfield</p> <p style="padding-left: 40px;">Organisation: Powergen</p> <p>Telephone Number: 024 7642 4414</p> <p style="padding-left: 40px;">Email Address: jane.butterfield@pgen.com</p>	
<p>Attachments: NO</p> <p>If Yes, Title and No. of Pages of Each Attachment:</p>	