

Draft MODIFICATION REPORT for Modification Proposal P215 'Revised Credit Cover Methodology for Generating BM Units'

Prepared by: ELEXON¹ on behalf of the BSC Panel

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This document has been distributed in accordance with Section F2.1.10 of the Balancing and Settlement Code.²

Proposed Modification P215 seeks to amend the Balancing and Settlement Code ('the Code') so that certain types of BM Units (defined as 'Credit Qualifying BM Units') have their Credit Cover calculated using Final Physical Notifications (FPN), instead of Credit Assessment Load Factor (CALF) values.

Alternative Modification P215 seeks to amend the Code so Credit Cover for 'Credit Qualifying BM Units' uses FPNs, and Metered Volumes from a Central Data Collection Agent run two Working Days after Gate Closure is used for CVA registered Credit Qualifying BM Units' Credit Cover (SVA registered Credit Qualifying BM Units would use FPNs in calculating Credit Cover over a five Working Day period).

BSC PANEL'S RECOMMENDATIONS

Having considered and taken into due account the contents of the P215 draft Modification Report, the BSC Panel recommends:

- **that Proposed Modification P215 SHOULD NOT be made;**
- **that Alternative Modification P215 SHOULD be made;**
- **an Implementation Date for Proposed Modification P215 of 6 November 2008 if an Authority decision is received on or before 30 April 2008, or 25 June 2009 if the Authority decision is received after 30 April 2008 but on or before 13 November 2008;**
- **an Implementation Date for Alternative Modification P215 of 25 June 2009 if an Authority decision is received on or before 30 October 2008, or 5 November 2009 if the Authority decision is received after 30 October 2008 but on or before 26 March 2009; and**
- **the proposed text for modifying the Code, as set out in the Modification Report.**

¹ ELEXON Ltd fulfils the role of the Balancing and Settlement Code Company ('BSCCo').

² The current version of the Code can be found at <http://www.elexon.co.uk/bscrelateddocs/BSC/default.aspx>

CONTENTS TABLE

Summary of Impacted Parties and Documents	4
1 Description of Modification	5
1.1 Proposed Modification	6
1.2 Alternative Modification	8
2 Areas Raised by the Terms of Reference	10
3 Implementation Approach and Costs.....	10
3.1 Proposed Modification	10
3.2 Alternative Modification	12
4 Rationale for Modification Group's Recommendations to the Panel	13
4.1 Assessment of Proposed Modification Against Applicable BSC Objectives	13
4.2 Assessment of Alternative Modification Against Applicable BSC Objectives	14
4.3 Implementation Date.....	16
4.4 Legal Text.....	16
5 Rationale for Panel's Recommendations to the Authority.....	16
5.1 Panel's Consideration of Assessment Report.....	16
5.2 Results of Report Phase Consultation	21
5.3 Panel's Consideration of Draft Modification Report	21
5.4 Panel's Final Recommendation to the Authority	21
6 Terms Used in this Document	21
7 Document Control	22
7.1 Authorities	22
Appendix 1: Legal Text	23
Appendix 2: Process Followed	23
Appendix 3: Assessment Report	24
Appendix 4: Report Phase Consultation Responses	24

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SUMMARY OF IMPACTED PARTIES AND DOCUMENTS

As far as the Modification Group has been able to assess, the following parties/documents would be impacted by P215.

Please note that this table represents a summary of the full impact assessment results contained in the Assessment Report in Appendix 3.

Parties	Sections of the BSC	Code Subsidiary Documents
Distribution System Operators <input type="checkbox"/>	A <input type="checkbox"/>	BSC Procedures <input checked="" type="checkbox"/>
Generators <input checked="" type="checkbox"/>	B <input type="checkbox"/>	Codes of Practice <input type="checkbox"/>
Interconnectors <input type="checkbox"/>	C <input type="checkbox"/>	BSC Service Descriptions <input checked="" type="checkbox"/>
Licence Exemptable Generators <input checked="" type="checkbox"/>	D <input type="checkbox"/>	Party Service Lines <input type="checkbox"/>
Non-Physical Traders <input type="checkbox"/>	E <input type="checkbox"/>	Data Catalogues <input checked="" type="checkbox"/>
Suppliers <input type="checkbox"/>	F <input type="checkbox"/>	Communication Requirements Documents <input type="checkbox"/>
Transmission Company <input checked="" type="checkbox"/>	G <input type="checkbox"/>	Reporting Catalogue <input checked="" type="checkbox"/>
Party Agents	H <input type="checkbox"/>	Core Industry Documents
Data Aggregators <input type="checkbox"/>	I <input type="checkbox"/>	Ancillary Services Agreement <input type="checkbox"/>
Data Collectors <input type="checkbox"/>	J <input type="checkbox"/>	British Grid Systems Agreement <input type="checkbox"/>
Meter Administrators <input type="checkbox"/>	K <input checked="" type="checkbox"/>	Data Transfer Services Agreement <input type="checkbox"/>
Meter Operator Agents <input type="checkbox"/>	L <input type="checkbox"/>	Distribution Code <input type="checkbox"/>
ECVNA <input type="checkbox"/>	M <input checked="" type="checkbox"/>	Distribution Connection and Use of System Agreement <input type="checkbox"/>
MVRNA <input type="checkbox"/>	N <input type="checkbox"/>	Grid Code <input type="checkbox"/>
BSC Agents	O <input type="checkbox"/>	Master Registration Agreement <input type="checkbox"/>
SAA <input checked="" type="checkbox"/>	P <input type="checkbox"/>	Supplemental Agreements <input type="checkbox"/>
FAA <input type="checkbox"/>	Q <input checked="" type="checkbox"/>	Use of Interconnector Agreement <input type="checkbox"/>
BMRA <input type="checkbox"/>	R <input checked="" type="checkbox"/>	BSCCo
ECVAA <input checked="" type="checkbox"/>	S <input type="checkbox"/>	Internal Working Procedures <input checked="" type="checkbox"/>
CDCA <input checked="" type="checkbox"/>	T <input type="checkbox"/>	BSC Panel/Panel Committees
TAA <input type="checkbox"/>	U <input checked="" type="checkbox"/>	Working Practices <input checked="" type="checkbox"/>
CRA <input checked="" type="checkbox"/>	V <input type="checkbox"/>	Other
SVAA <input type="checkbox"/>	W <input type="checkbox"/>	Market Index Data Provider <input type="checkbox"/>
Teleswitch Agent <input type="checkbox"/>	X <input checked="" type="checkbox"/>	Market Index Definition Statement <input type="checkbox"/>
BSC Auditor <input type="checkbox"/>		System Operator-Transmission Owner Code <input type="checkbox"/>
Profile Administrator <input type="checkbox"/>		Transmission Licence <input type="checkbox"/>
Certification Agent <input type="checkbox"/>		
Other Agents		
Supplier Meter Registration Agent <input type="checkbox"/>		
Unmetered Supplies Operator <input type="checkbox"/>		
Data Transfer Service Provider <input type="checkbox"/>		

1 DESCRIPTION OF MODIFICATION

This section outlines the solution for the Proposed Modification and Alternative Modification, as developed by the P215 Modification Group ('the Group') during the Assessment Procedure.

For a full description of the original Modification Proposal as submitted by Uskmouth Power Limited ('the Proposer'), and the background to the proposal, please refer to the P215 Initial Written Assessment (IWA). Details of the Modification Group's refinement of the Proposed Modification in the Definition Procedure can be found in the [P215 Definition Report](#).

P215 seeks to revise the provisions regarding Credit Cover in the Balancing and Settlement Code ('the Code'). The Modification Proposal suggested revision of the method of calculating Credit Cover in respect of 'generating BM Units' with the intent that the accuracy of the calculations would be increased, and that consequently the amount of credit Parties are required to lodge would be based on more accurate data than it is presently. The Group defined the term 'Credit Qualifying BM Unit' to give effect to the intent of the Modification Proposal; the definition developed and agreed for this term can be found in section 2.1, below.

Credit Cover is currently based upon the total Energy Indebtedness (EI) of a Party, which is the sum of the Party's Credit Assessment Energy Indebtedness (CEI) and Actual Energy Indebtedness (AEI). EI is calculated over a period of 29 Settlement Days; the CEI period makes up the most recent five Working Days and AEI constitutes the remainder. AEI covers the period for which an Interim Information Settlement Run (II Run) has been carried out. Figure 1 illustrates these current arrangements for the calculation of Parties' Energy Indebtedness. The arrangements are described in greater detail in the [P215 IWA](#).

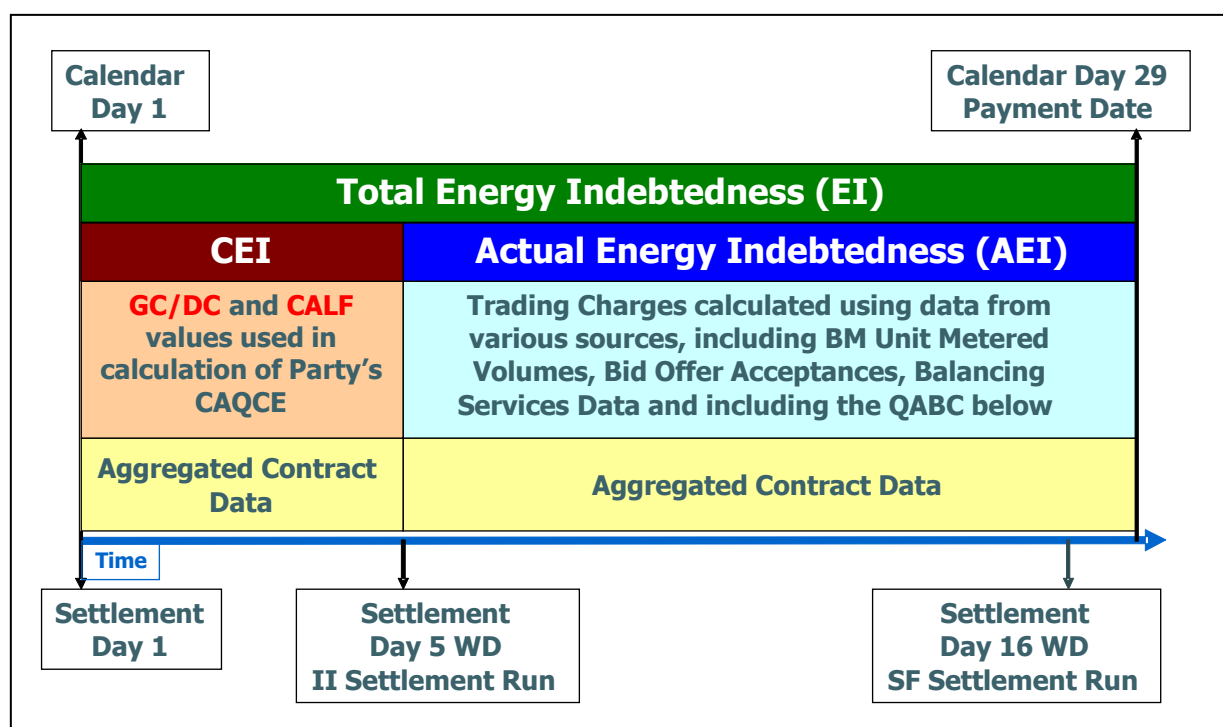


Figure 1: Current Energy Indebtedness arrangements

The information from the Initial Interim (II) Run allows actual BM Unit Metered Volume data to be used with contract data and other information to calculate AEI. The CEI calculation currently uses information on BM Units' maximum Generation Capacity (GC) or Demand Capacity (DC) in conjunction with a Credit Assessment Load Factor (CALF) value which represents the expected operation of the BM Unit.

CALF values are based on analysis of historic data for a given BM Unit from the previous applicable BSC Season (e.g. Winter 2007 CALF values are based on Winter 2006 data), and therefore encompass BM Units' average output, Bid-Offer Acceptance (BOA) activity and any plant outages. It should be noted that CALF is

not a parameter that varies dynamically, but is determined on a seasonal basis. CEI is a proxy estimation of Parties' imbalance, i.e. their estimated Metered Volume compared with actual contract data. CEI is used in the Credit Cover arrangements only until II Run data is available.

1.1 Proposed Modification

The provisions of the P215 Modification Proposal would apply on the basis of the following definition, agreed in the P215 Definition Procedure. This definition was updated in the Assessment Procedure so that the term used is 'Credit Qualifying BM Unit' rather than 'generating BM Unit to which P215 is applicable' (the original wording), in order to more clearly reflect the criteria.

Definition of a Credit Qualifying BM Unit:

A BM Unit shall be considered as a Credit Qualifying BM Unit if it is a BM Unit which is obliged to submit Physical Notifications due either to obligations placed on it under the Grid Code or because it has indicated its participation in the Balancing Mechanism, and which is not an Interconnector BM Unit, and to which at least one of the following criteria applies:

- *Its Production/Consumption Status flag is Production; or*
- *It is an Exempt Export BM Unit; or*
- *It has been assigned such Credit Qualifying BM Unit status by the BSC Panel (e.g. following application to the Panel for such status on the basis of evidence of operation as a delivering BM Unit).*

It is intended that this definition would capture BM Units whose FPN flag is set to 'Yes' (due either to obligations placed upon them by the Grid Code or because they have elected for the FPN flag to be set to 'Yes'). This is reflected in the wording of the first paragraph of the definition. Details of the considerations of the Group in the Definition Procedure can be found in the [P215 Definition Report](#).

2.1.1 Use of FPN to calculate CEI, in place of BMCAEC

The P215 Proposed Solution is that FPNs are used in the calculation of CEI in the Credit Cover arrangements for Credit Qualifying BM Units, in place of the BM Unit Credit Assessment Export Capability (BMCAEC). BMCAEC is the product of CALF and GC, and is used in the calculation of CEI for Production BM Units that are not Interconnector BM Units. More detail on this is provided in the [P215 IWA](#).

The Group agreed that the use of FPNs in the calculation of CEI, without any other adjustment to the Credit Cover arrangements, was the intent of the P215 Modification Proposal. The Group was satisfied FPNs are a reasonably accurate proxy for estimating BM Unit Metered Volumes, and overall are sufficiently accurate for the purposes of the Credit Cover arrangements.

Figure 2 illustrates the arrangements for the calculation of Parties' Energy Indebtedness under the provisions of P215 Proposed Modification (i.e. as opposed to the current arrangements in figure 1).

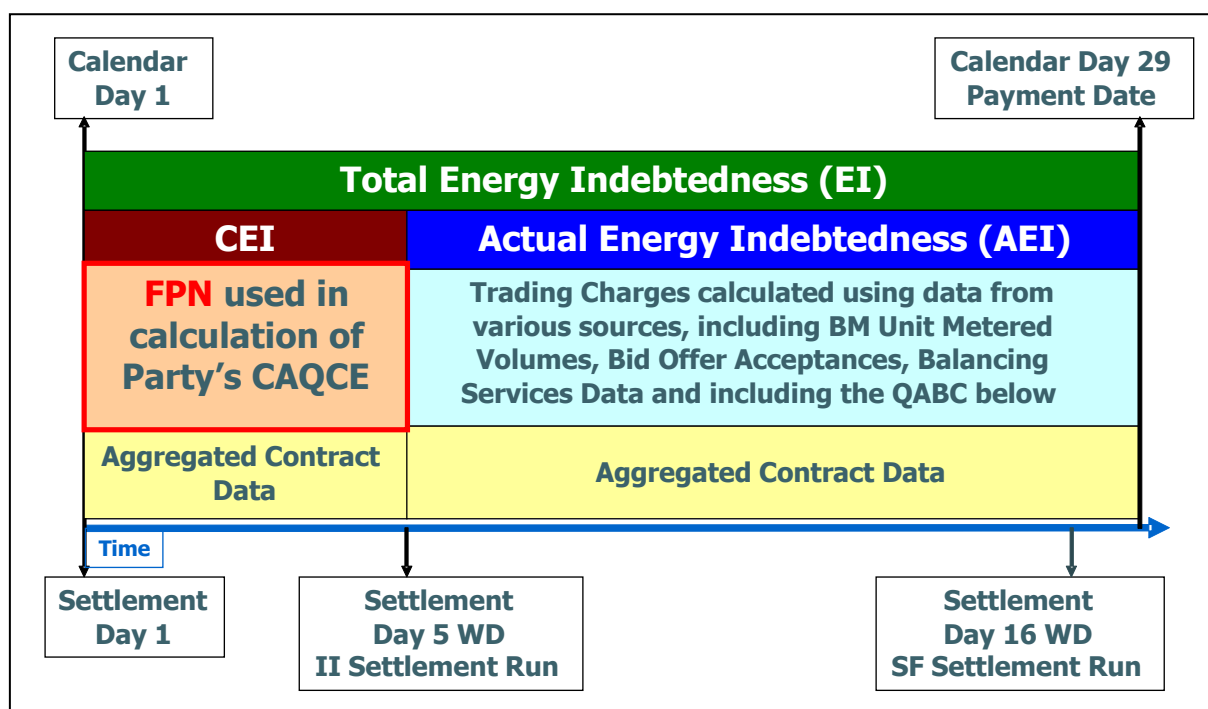


Figure 2: P215 proposed Energy Indebtedness arrangements

2.1.2 Default of FPN Data

In the arrangements for the calculation of the CEI of Interconnector BM Units using FPNs, if no FPN is received for a BM Unit in relation to a particular Settlement Period the latest FPN value submitted would be used in CEI calculation. If no FPN has previously been submitted for the BM Unit, then the FPN used will default to zero. These current default rules are considered sufficiently robust for use in the P215 provisions.

2.1.3 System Impacts

Reporting in the ECVAI-I014 Notification Report would be changed. The ECVAI-I014 shows 'Credit Assessment Credited Energy Volume (CAQCE) by BMU Type'. Reporting is currently split between 'Interconnector Credit Assessment Credited Energy Volume' and 'Non Interconnector Credit Assessment Credited Energy Volume'.

The ECVAI-I014 would be changed so CAQCE reporting is split between 'Credit Cover calculated using FPNs' and 'non-FPN Credit Cover' (i.e. the Interconnector category would be expanded to include Credit Qualifying BM Units, rather than adding a third category for non-Interconnector FPN Credit Cover). This is an amendment to the definition, not the functionality, of the ECVAI-I014.

Other system impacts are that the CRA-I014 will contain a BM Unit 'Credit Qualifying' flag and the CRA-I015 will include BM Unit Exempt Export Data and P215 Qualifying Flag (this will impact ECVAI only, not the FAA or BMRA). Implementation of P215 Proposed would involve maintenance of 2 versions of the CRA-I020. A new version of the CRA-I020 would be received by BSCCo, and would report the new BM Unit Credit Qualifying flag. National Grid would continue to receive the current version of the CRA-I020. Further details can be found in the BSC Agent IA (Attachment 5).

2.1.4 Approach to demand BM Units within Production (P) status Trading Units³

Under P215, demand BM Units within P status Trading Units are identified within the system, and their CEI is calculated using CALF and DC values. This approach minimises the operational impact on Parties because the demand BM Units are included in the CEI calculation using DC and CALF values calculated using the

³ A Trading Unit is normally a combination of several BM Units whose Production and Consumption accounts are captured under a single entity, that being the Trading Unit. Trading units are established in accordance with Section K-4 of the Code.

existing methodology. ECVA system changes are required to enable the ECVA system to identify BM Units whose CEI would be calculated in this way and to effect the necessary data processing and reporting.

2.1.5 Application process for Credit Qualifying BM Unit status

Parties associated with BM Units that do not qualify automatically for status as a Credit Qualifying BM Unit may apply for such status to be assigned to the BM Unit. The criteria for successful application would be:

- The BM Unit must be a net generator (i.e. export exceeding import) for the majority of the Settlement Periods in the previous 6 month period; and
- The BM Unit must be a net generator (i.e. export exceeding import) in total volumes, over a 6 month period.

For the avoidance of doubt, this application process and criteria would apply only to those Parties that do not qualify under the first two criteria described in 2.1.

BSCCo (with the assistance of the applicant) would examine the Metered Volume data and determine whether an applicant should be assigned Credit Qualifying BM Unit, because the clear criteria mean this can be done mechanistically. BSCCo's decision would then be presented to the Panel (or Panel Committee with delegated responsibility in this area) for ratification. A formal application procedure should be introduced in a BSC Procedure (BSCP), and considered that BSCP15 'BM Unit Registration' would be suitable.

Where qualification for Credit Qualifying BM Unit status had been awarded following application, review of the status would be carried out annually by BSCCo. Determination regarding the continued qualification of BM Units would be done by reapplying the qualification criteria to the BSC Season's Metered Volume data for the BM Unit. For the avoidance of doubt, this review of Credit Qualifying BM Unit status would not apply to those BM Units that qualify automatically under the first two criteria described in 2.1, i.e. they have P status or are an Exempt Export BM Unit.

2.1.6 Review of FPN Data

The Panel would have the right, if it considered it appropriate, to review (and could request that the Transmission Company provide data to assist in such review) a Party's submission of FPNs. There is a current obligation on a Lead Party under the Code to ensure FPNs are submitted in accordance with the Grid Code. The purpose of this new provision is to provide recourse in the event that a Party has submitted, or is submitting on an ongoing basis, inaccurate FPN data (i.e. which does not represent its true operation and energy volume activity). This provision was included to address concerns over potential submission of inaccurate FPNs as a result of P215, either intentionally or unintentionally, despite Parties' Grid Code obligations.

1.2 Alternative Modification

Under the Alternative P215 Modification the CEI of Credit Qualifying BM Units would be calculated using FPN data and, in addition, Metered Volume data available from the Central Data Collection Agent (CDCA) would be used in the calculation of Energy Indebtedness for a sub-set of Credit Qualifying BM Units. The Alternative P215 Modification solution is in essence *the same as the Proposed P215 Modification solution* (as described in section 2.1), with the *addition* that Metered Volume data would be used earlier in the calculation of Energy Indebtedness for Credit Qualifying BM Units registered in CVA, as described in this section. Details of other options previously considered for a P215 Alternative Modification, and the reasons that the Group chose this solution, can be found in section 2.3 of the [second P215 Consultation Document](#).

Under the Alternative solution, CEI would be calculated for all Credit Qualifying BM Units using FPN data, in the same way as in the P215 Proposed Modification. However, in conjunction with this, and for **CVA-registered Credit Qualifying BM Units only**, the CEI period would be shortened to two Working Days; in the interval between the CEI period and AEI period, Metered Volume data would be used to calculate Parties' 'Metered Energy Indebtedness' (MEI). The term MEI is a new concept which would be introduced to

identify the component of Energy Indebtedness calculated using metered data obtained from the CDCA before the II Run.

Metered Volume data for the MEI calculation would be gathered using a 'Credit Cover Run' at Settlement Day+2WD. The results of such a Credit Cover Run would only be used for Credit Cover purposes; it would not be a Settlement Run, and the II Run would remain for all BM Units. The remainder of Credit Qualifying BM Units would continue to use FPN over a five Working Day CEI period. Figure 3 illustrates the calculation of Energy Indebtedness for CVA-registered Credit Qualifying BM Units; Energy Indebtedness for other Credit Qualifying BM Units would be calculated as illustrated in figure 2.

If the Metered Volume data needed to calculate the MEI of a BM Unit is not available (either from the Main or Check meter), then Energy Indebtedness would continue to be calculated using FPN data for the affected Settlement Periods (i.e. revert to CEI).

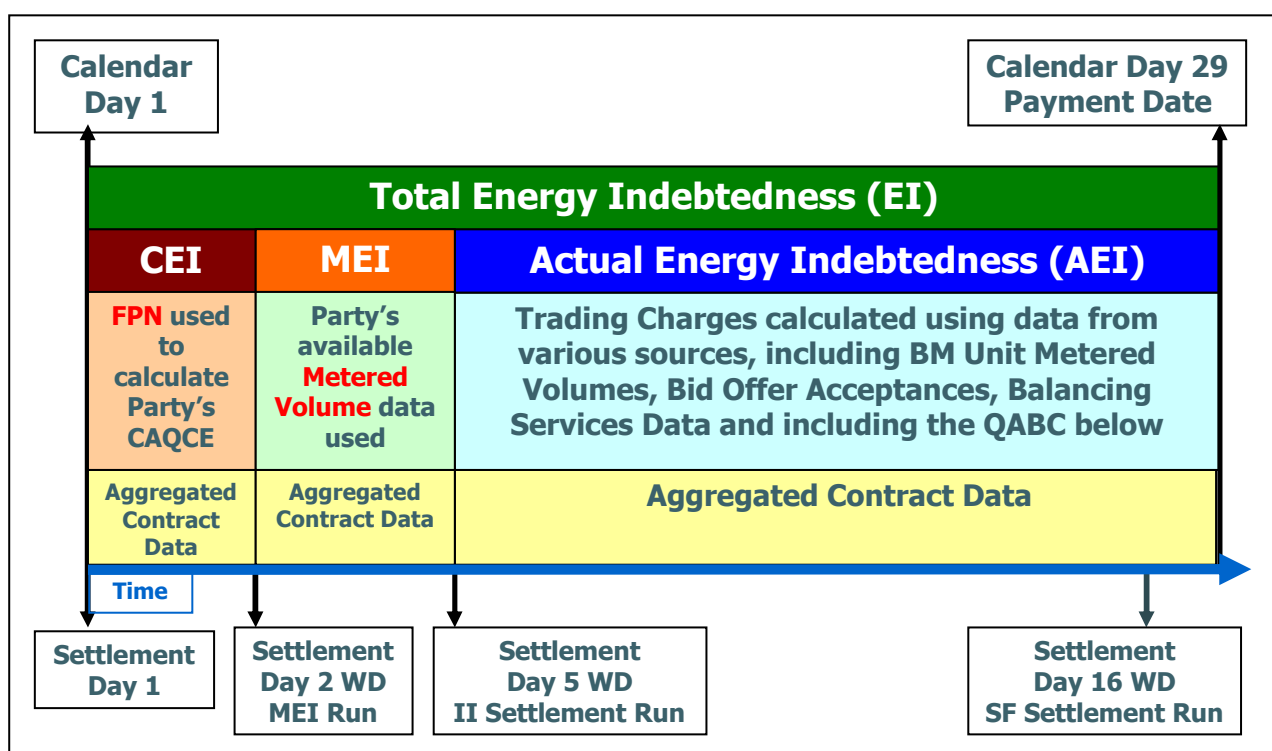


Figure 3: P215 Alternative Energy Indebtedness arrangements for CVA-registered Credit Qualifying BM Units

The P215 Alternative requires the system changes associated with the Proposed, with the following additions:

- The CDCA Aggregation Process and Report and the SAA Settlement Calendar would be modified to incorporate the new Credit Cover Run; and
- The Credit Check would process Credit Qualifying BMUs using Meter Volume data or FPN, and derive an MEI value where appropriate.

A new version of the ECVA-I014 Notification Report would be required, to report CAQCE for Credit Qualifying BM Units. The new ECVA-I014 would require new fields to report MEI values in a similar manner to the current reporting of AEI. Two versions of the ECVA-I014 would be maintained, with National Grid continuing to receive the current version, and the new version being sent to all other recipients. As with the Proposed, two versions of the CRA-I020 would also be maintained. Further details can be found in the BSC Agent IA (Attachment 5).

2 AREAS RAISED BY THE TERMS OF REFERENCE

The following areas were considered by the Modification Group during the Assessment Procedure for P215:

- Cost Benefit of P215
- Additional P215 Assessment and Analysis
- Demonstration of the defect in the existing Code requirements as a result of the current Credit Cover arrangements
- Impact of P215 on the risk of over- and under-collateralisation by Parties due to the BSC Credit Cover arrangements
- Potential discrimination between generating and consuming BM Units
- Any relevant precedents from P140 and interconnector use of FPN in CEI calculation
- Any consequential impact of using FPN instead of CALF and GC/DC on the BSC, Grid Code or other codes and associated processes
- Potential mandatory FPN submission by generating BM Units
- Default P215 provisions if FPNs are not submitted
- Any implications of using FPN data for a purpose other than it was originally intended
- Impact on National Grid of additional FPN data
- Impact of data requirements on Parties and BSC Agents
- Impact on Central Systems
- Accuracy of FPNs compared with actual Metered Volumes

These issues are discussed in the Assessment Report contained in Appendix 3, and are not covered further here.

3 IMPLEMENTATION APPROACH AND COSTS

3.1 Proposed Modification

PROPOSED MODIFICATION IMPLEMENTATION COSTS⁴

		November 2008	June 2009	Tolerance
Service Provider⁵ Cost	Change Specific Cost	£137,850	£137,850	+/- 0%
	Total Service Provider Cost	£137,850	£137,850	+/- 0%
Implementation Cost				

⁴ An explanation of the cost terms used in this section can be found on the BSC Website at the following link:
http://www.elexon.co.uk/documents/Change_and_Implementation/Modifications_Process_-_Related_Documents/Clarification_of_Costs_in_Modification_Procedure_Reports.pdf

⁵ BSC Agent and non-BSC Agent Service Provider and software costs.

	External Audit	£0	£0	+/- 0%
	Design Clarifications	£0	£0	+/- 0%
	Additional Resource Costs	£0	£0	+/- 0%
	Additional Testing and Audit Support Costs	£0	£0	+/- 0%
Total Demand Led Implementation Cost		£137,850	£137,850	+/- 0%
Service Provider Cost	Port and Migrate	£22,000	£0	+/-0%

ELEXON Implementation Resource Cost		88 man days £19,360	88 man days £19,360	+/- 10%
Total Implementation Cost		£179,210	£157,210	+/- 20%

These costs have not changed from those provided in the Assessment Report.

a) BSC Agent Impact

CRA and ECVAAs are affected by the P215 Proposed Modification; a detailed list of impacts is provided in the Assessment Report in Appendix 3. Software changes, process changes, documentation changes and testing would be required.

Total estimated BSC Agent implementation cost for the P215 Proposed Modification is £137,850 with an associated timescale of 20 weeks. The BSC Agent IA (Attachment 5) details the impacts.

b) BSC Party and Party Agent Impact

Parties that act as generators and operate delivering BM Units identified impacts. Impacts include changing credit calculation systems used to validate Credit Cover position and update of internal systems to accept the amended ECVAAs-I014 Notification Report. The Proposed Modification would take a maximum of 6 months for Parties to implement, at a cost of approximately £15,000 for each affected Party (estimated by two IA respondents).

Other respondents identified only minimal impacts to processes and administration.

c) Transmission Company Impact

There is no impact on the Transmission Company because implementation of P215 Proposed would be via maintenance of two versions of the CRA-I020. This avoids significant system impact with large associated cost. The System Operator would seek to amend their systems when opportune, to remove the need to maintain dual versions. Details of the potential impacts and costs, and the options considered to mitigate them, can be found in the [second P215 Consultation Document](#).

d) BSCCo Impact

BSCCo would implement the change and provide operational support for the new process; details of the impact on BSCCo can be found in the Assessment Report in Appendix 3. Additionally, BSCCo would undertake monitoring of FPN accuracy, both ongoing and on an ad-hoc basis as requested by National Grid.

BSCCo FPN monitoring would be in line with existing market monitoring and ELEXON anticipates that it would be absorbed into existing efforts and would have a negligible impact.

3.2 Alternative Modification

ALTERNATIVE MODIFICATION IMPLEMENTATION COSTS⁶

		November 2008	June 2009	Tolerance
Service Provider⁷ Cost	Change Specific Cost	£273,800	£273,800	+/- 0%
	Total Service Provider Cost	£273,800	£273,800	+/- 0%
Implementation Cost	External Audit	£0	£0	+/- 0%
	Design Clarifications	£0	£0	+/- 0%
	Additional Resource Costs	£0	£0	+/- 0%
	Additional Testing and Audit Support Costs	£0	£0	+/- 0%
Total Demand Led Implementation Cost		£273,800	£273,800	+/- 0%
Service Provider Cost	Port and Migrate	£0	£0	+/-0%

ELEXON Implementation Resource Cost		139 man days £30,580	139man days £30,580	+/- 10%
Total Implementation Cost		£304,380	£304,380	+/- 20%

These costs have not changed from those provided in the Assessment Report.

a) BSC Agent Impact

CRA, CDCA and ECVA functions are affected by the P215 Alternative Modification; a detailed list of impacts is provided in the Assessment Report in Appendix 3. Software changes, process changes, documentation changes and testing would be required.

Total estimated BSC Agent implementation cost for the P215 Alternative Modification is £273,800, with an associated timescale of 25 weeks. The BSC Agent IA (Attachment 5) details the impacts.

⁶ An explanation of the cost terms used in this section can be found on the BSC Website at the following link:
http://www.elexon.co.uk/documents/Change_and_Implementation/Modifications_Process_-_Related_Documents/Clarification_of_Costs_in_Modification_Procedure_Reports.pdf

⁷ BSC Agent and non-BSC Agent Service Provider and software costs.

b) BSC Party and Party Agent Impact

Parties that act as generators and operate delivering BM Units identified impacts. Impacts include changing credit calculation systems used to validate Credit Cover position and update of internal systems to accept the amended ECVA-I014 Notification Report. The Alternative Modification would take a maximum of 6 months for Parties to implement with estimated costs ranging from approximately £3,000 (Parties using a User Group system) to £50,000 (large Parties that perform a large amount of forecast and validation).

Other respondents identified only minimal impacts to processes and administration.

c) Transmission Company Impact

There is no impact on the Transmission Company because implementation of P215 Alternative would be via maintenance of two versions of the CRA-I020 and ECVA-I014. This avoids significant system impact with large associated cost. The System Operator would seek to amend their systems when opportune, to remove the need to maintain dual versions. Details of the potential impacts and costs, and the options considered to mitigate them, can be found in the [second P215 Consultation Document](#).

d) BSCCo Impact

BSCCo would implement the change and provide operational support for the new process; details of the impact on BSCCo can be found in the Assessment Report in Appendix 3. Additionally, BSCCo would undertake monitoring of FPN accuracy, both ongoing and on an ad-hoc basis as requested by National Grid. BSCCo FPN monitoring would be in line with existing market monitoring and ELEXON anticipates that it would be absorbed into existing efforts and would have a negligible impact.

4 RATIONALE FOR MODIFICATION GROUP'S RECOMMENDATIONS TO THE PANEL

This section summarises the recommendations of the Modification Group, as detailed in the Assessment Report in Appendix 3.

4.1 Assessment of Proposed Modification Against Applicable BSC Objectives

Modification Group's Conclusions

The **MAJORITY** view of the Modification Group was that the Proposed Modification **WOULD NOT** better facilitate the achievement of Applicable BSC Objective (c) when compared with the existing Code baseline, for the following reasons:

Applicable BSC Objective (C)

The majority view that achievement of Applicable BSC Objective (c) would not be facilitated was based on the following reasons:

- FPNs overestimate the Metered Volumes of some BM Unit types;
- Overestimation of the Metered Volumes of some BM Unit types would cause a move from arbitrary errors in Credit Cover requirements to a situation where the Credit Cover requirement of these BM Unit types may be systematically underestimated;
- Systematic underestimation of Credit Cover requirements could cause a trend of market under-securitisation, which would expose Parties to risk, and therefore discourage new entrants to the market;
- Use of FPNs alone does not secure against cash flows arising from Bids and Offers; and

- Though using FPN to calculate CEI improves accuracy, the benefit is insufficient to justify the proposed change.

The minority view that achievement of Applicable BSC Objective (c) would be facilitated was based on the following reasons:

- Use of FPNs would significantly increase the accuracy of the estimation of BM Unit Metered Volumes in the calculation of CEI; and
- Energy Indebtedness would more accurately reflect the actual value at risk.

The **UNANIMOUS** view of the Modification Group was that the Proposed Modification **WOULD** better facilitate the achievement of Applicable BSC Objective (d) when compared with the existing Code baseline, for the following reasons:

Applicable BSC Objective (d)

- The process of estimating Metered Volumes for use in the Credit Cover would be simplified due to the reduction in CALF appeals; and
- The administrative burden associated with the Credit Cover arrangements would be reduced, due primarily to fewer CALF appeals.

The Group agreed that the Proposed Modification would have a neutral impact on Applicable BSC Objectives (a) and (b). A minority of the Group believed that the Proposed Modification would not better facilitate Objective (b), because an incentive, or perceived incentive, could be introduced for Parties to amend their FPNs for Credit Cover reasons.

The conclusion was therefore that the **MAJORITY** view of the Modification Group was that the Proposed Modification **WOULD NOT** better facilitate the achievement of Applicable BSC Objectives overall when compared with the existing Code baseline.

Group members who believed that the Proposed Modification would better facilitate the achievement of Applicable BSC Objective (d) but not (c) believed that the arguments against (c) outweighed the improvement against (d), leading them to believe that the Proposed Modification would not facilitate the achievement of Applicable BSC Objectives overall.

Views of Respondents to Assessment Procedure Consultation

Respondents to the Assessment Procedure consultation were split as to whether the Proposed Modification would better facilitate the achievement of the Applicable BSC Objectives overall when compared with the existing Code baseline.

The arguments expressed by respondents were aligned with those expressed by the Group.

4.2 Assessment of Alternative Modification Against Applicable BSC Objectives

Alternative Modification compared with Proposed Modification

Modification Group's Conclusions

The **UNANIMOUS** view of the Modification Group was that the Alternative Modification **WOULD** better facilitate the achievement of Applicable BSC Objective (c) when compared with the Proposed Modification, for the following reasons:

Applicable BSC Objective (c)

- More accurate estimation of Metered Volumes than the Proposed Modification because actual Metered Volume data would be used; and

- Energy Indebtedness would more accurately reflect the actual value at risk.

The **MAJORITY** view of the Modification Group was that the Alternative Modification **WOULD** better facilitate the achievement of Applicable BSC Objective (d) when compared with the Proposed Modification, for the following reasons:

Applicable BSC Objective (d)

The majority view was based on the following reasons:

- Administration reduced and the earlier use of Metered Volume data gives comfort regarding the non-inclusion of BOA data in the CEI calculation.

The minority view was based on the following reasons:

- Would not simplify the arrangements in the manner that the Proposed does.

The Group agreed that the Alternative Modification would have a neutral impact on Applicable BSC Objectives (a) and (b) when compared with the Proposed Modification. The minority of the Group who had concerns over potential motives to 'game' FPN submissions under the Proposed Modification believed that this risk was mitigated by the use of Metered Volume data, and therefore the Alternative improved on the Proposed with regard to Objective (b), but the rest of the Group believed the Alternative was neutral in this respect.

The **UNANIMOUS** view of the Modification Group was that the Alternative Modification **WOULD** better facilitate the achievement of Applicable BSC Objectives overall when compared with the Proposed Modification.

Views of Respondents to Assessment Procedure Consultation

The unanimous view of respondents to the Assessment Procedure consultation was that the Alternative Modification would better facilitate the achievement of the Applicable BSC Objectives overall when compared with the Proposed Modification.

The arguments expressed by respondents were aligned with those expressed by the Group.

Alternative Modification compared with Existing Code Baseline

Modification Group's Conclusions

The **UNANIMOUS** view of the Modification Group was that the Alternative Modification **WOULD** better facilitate the achievement of Applicable BSC Objectives (c) and (d) when compared with the existing Code baseline, for the following reasons:

Applicable BSC Objective (c)

- Use of a combination of FPNs and actual Metered Volumes would significantly increase the accuracy of the estimation of BM Unit Metered Volumes in the calculation of CEI; and
- Energy Indebtedness would more accurately reflect the actual value at risk.

Applicable BSC Objective (d)

- The administrative burden associated with the Credit Cover arrangements would be reduced, due primarily to fewer CALF appeals; and
- Use of FPNs and Metered Volume data would increase accuracy, which would increase efficiency.

The Group agreed that the Alternative Modification would have a neutral impact on Applicable BSC Objectives (a) and (b) when compared with the existing Code baseline.

The **UNANIMOUS** view of the Modification Group was that the Alternative Modification **WOULD** better facilitate the achievement of Applicable BSC Objectives overall when compared with the existing Code baseline.

Views of Respondents to Assessment Procedure Consultation

The unanimous view of respondents to the Assessment Procedure consultation was that the Alternative Modification would better facilitate the achievement of the Applicable BSC Objectives overall when compared with the existing Code baseline.

The arguments expressed by respondents were aligned with those expressed by the Group.

4.3 Implementation Date

The Modification Group agreed the following recommended implementation approach for P215:

- An Implementation Date for the Proposed Modification of 6 November 2008 if an Authority decision is received on or before 30 April 2008, or 25 June 2009 if the Authority decision is received after 30 April 2008 but on or before 13 November 2008.
- An Implementation Date for the Alternative Modification of 25 June 2009 if an Authority decision is received on or before 30 October 2008, or 05 November 2009 if the Authority decision is received after 30 October 2008 but on or before 26 March 2009.

The Group agreed both P215 Proposed and Alternative should be implemented in a BSC Release, if approved. Implementation of either P215 Proposed or Alternative would be via maintenance of two versions of the CRA-I020 and (for P215 Alternative only) two versions of the ECVA-I014.

4.4 Legal Text

The Modification Group has reviewed and discussed the text and agreed that it delivers the solutions developed by the Group. A copy of the draft legal text can be found in Appendix 1.

A respondent to the second P215 consultation believed that additional comfort would be provided if the legal text provided explicit provision for the BSC Panel to act in the case of systematic overestimation of FPNs. The Group considered that Grid Code provisions would be the usual recourse for such abuse, but that in any case the broad provisions for default under Section H of the Code enabled the Panel to take any necessary action. The Group therefore concluded that the legal text was satisfactory and that no specific provisions should be added.

5 RATIONALE FOR PANEL'S RECOMMENDATIONS TO THE AUTHORITY

5.1 Panel's Consideration of Assessment Report

The Panel considered the P215 Assessment Report at its meeting on 14 February 2008. This section summarises the Panel's discussions in formulating its provisional recommendation for inclusion in the draft Modification Report. Details of the Report Phase consultation responses, the Panel's discussion of the responses and its final recommendation to the Authority can be found in Sections 5.2, 5.3 and 5.4 respectively.

5.1.1 Cost-benefit of P215

The Panel considered the Group's analysis and assessment of the cost-benefit of P215 Proposed and Alternative. Increased quantification of the cost-benefit of P215 was a factor in the Panel's previous decision to extend the P215 Assessment Procedure by two months. The Panel believed that analysis conducted by the Group could have been further extrapolated to give monetary values (rather than MWh) and a measure

of the benefit per Party of the P215 Proposed and Alternative. The Panel also considered that one of the main benefits of P215 Proposed and Alternative was reduction of the volatility of the error of CEI calculation, and that this had not been sufficiently emphasised.

Panel members also believed that a figure for the saving/benefit per annum should have been produced, based on reasonable stated assumptions if necessary. The Panel noted that neither an estimate of the likely debt that a failing Party would impose on the market nor an estimate of the probability of a Party failing in a given year had been provided. Such estimates could have been used in the calculation of per annum figures. The Group had qualitatively assessed the incidences of Party failures, as documented in the Assessment Report, and had concluded that a generator was likely to fail within the next decade and that, if it was undersecured, the impact on the market due to bad debt could be material. However, the Group did not feel that they could use these past failures to precisely quantify the probability of failure and the expected level of associated bad debt. The Panel noted that direct comparison between the past failures and theoretical failure of an inadequately secured generator was not possible, because the Parties associated with actual past failures had been adequately secured.

Despite these observations, the Panel considered that the risk of the error and volatility of the existing arrangements in the calculation of CEI (and therefore in the determination of Credit Cover requirements) and the relative improvement under P215 Proposed and Alternative had been sufficiently demonstrated to allow the Panel to consider them in determining its provisional recommendations regarding P215. Furthermore, the Panel considered that the risk associated with CEI inaccuracy and volatility of error, and the relative improvement of these factors under P215 Proposed and Alternative, had been shown to be sufficiently material to enable the Panel to weigh them against the estimated cost of implementing P215 Proposed and Alternative.

The Panel concluded that the materiality of CEI inaccuracy had been demonstrated by the CEI modelling analysis performed by the Group, which indicated that for the BM Units modelled, over the period of the analysis, under the baseline CEI methodology the average underestimation of the collective Credit Cover requirement (i.e. the total for all the BM Units) was £16.5M, while the maximum underestimation over the analysis period was £111M. Under P215 Proposed the average underestimation falls to £13.5M and the maximum underestimation to £26.7M; under P215 Alternative the average underestimation falls to £6.7M and the maximum underestimation to £14.7M. These aggregate values are tabulated in Figure 4.

	Baseline: Rolling 8 day CEI (CAQCE) Actual Error (£)	P215 Proposed: Rolling 8 day CEI (FPN) (£)		P215 Alternative: Rolling 4 day CEI (FPN) (£)	
		Actual Error	Difference from Baseline	Actual Error	Difference from Baseline
Minimum	-£110,967,276	-£25,709,005	£85,258,271	-£14,654,371	£96,312,905
Maximum	£60,802,345	-£2,207,833	-£63,010,178	-£687,411	-£61,489,756
Average	-£16,585,980	-£13,543,235	£3,042,745	-£6,750,588	£9,835,392

Figure 4: Impact of varying CEI accuracy on the overall CEI Credit Cover requirement of the BM Units

The Panel noted the risk of volatility in the accuracy of the CEI calculation compared with actual Metered Volumes (illustrated in Figure 5). The risk of large fluctuations in the error of the CEI calculation is that it creates arbitrary periods when the Energy Indebtedness and hence Credit Cover requirement of both the market as a whole and individual Parties is significantly over or underestimated. If a Party fails during a period when its Credit Cover requirement is underestimated it may not have sufficient collateral lodged to cover its debts. Fluctuations in CEI error therefore introduce a risk into the Credit Cover arrangements.

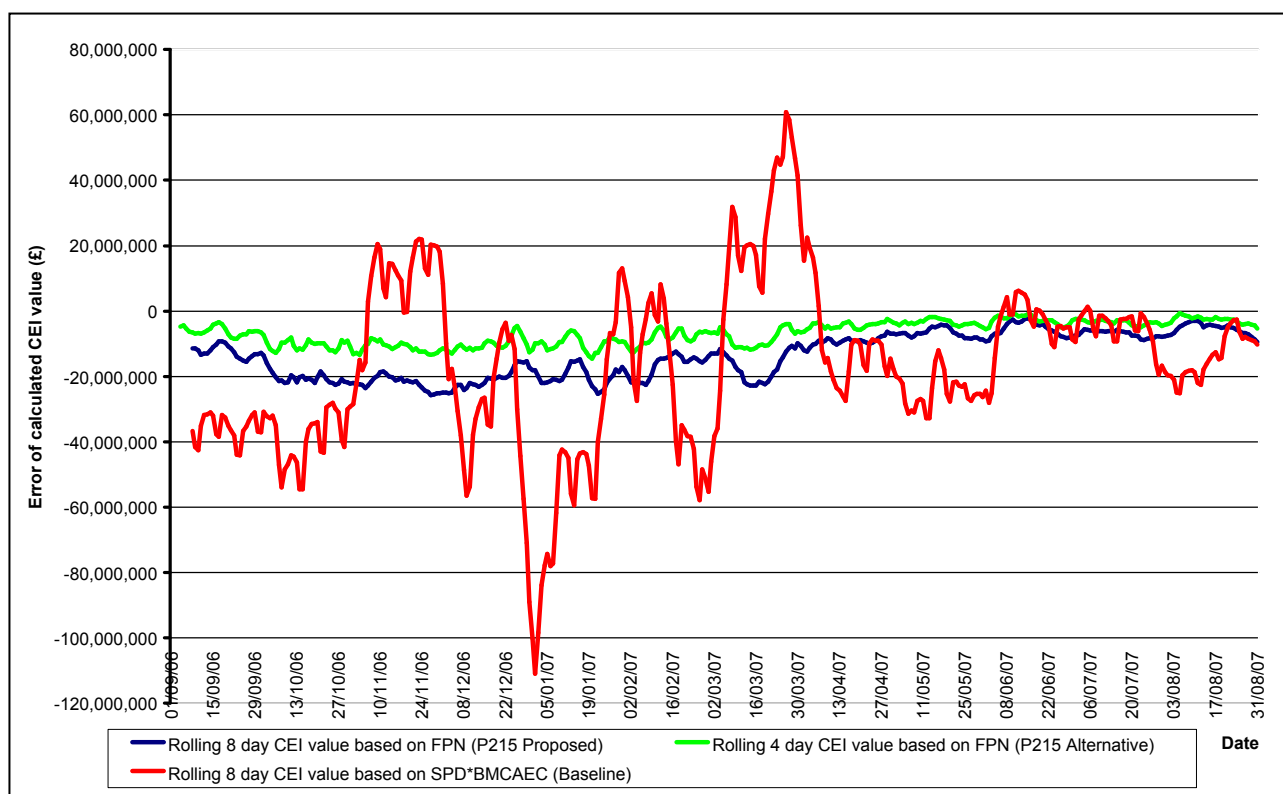


Figure 5: Modelled CEI error (£) of BM Units with GC > 100MW, calculated using different methods

Basic extrapolation of these figures can give a limited indication of the expected benefit to the market each year due to more accurate securitisation of Parties associated with Credit Qualifying BM Units. It is first assumed use of the CAP value prevalent at the date of any given calculated CEI value over the period of the CEI modelling analysis is an appropriate multiplier to use to convert the MWh error to the cash values shown in Figure 4 and Figure 5. The Group had agreed that it could be reasonably expected that the market would experience the significant failure of a Party associated with a Credit Qualifying BM Unit over the course of the following decade. Therefore the chance of a material Party failure in any given year is assumed to be 1 in 10, i.e. 0.1, for the purposes of this estimation.

The materiality of the failure due to inaccuracy of the CEI calculation is assumed to be the total value of the error divided by the number of Parties in the analysis (i.e. 43). As the Credit Cover arrangements must secure against an anticipated worst-case scenario, this estimation has been performed for the maximum Credit Cover requirement underestimation indicated by the CEI modelling analysis, as well as the average.

Figure 6 tabulates the results of this estimation. It can be seen that it is estimated that P215 Proposed would give an annual benefit to the market, due to more accurate Credit Cover requirements, of £7,076 looking at an average Party failure, or £198,275 considering a worst-case scenario. The P215 Alternative would give an annual benefit of £22,873 in the case of an average failure, or £223,984 for a worst-case failure. The real value of the annual benefit of P215 Proposed and Alternative would be expected to lie somewhere between these figures.

A Panel member stated that they would be very uncomfortable managing a failure of maximum anticipated materiality under the current Credit Cover arrangements. The Panel member believed that the P215 Alternative appeared to provide an improved insurance value, significantly reducing the potential materiality.

	Baseline	P215 Proposed	Benefit (Proposed – Baseline)	P215 Alternative	Benefit (Alternative – Baseline)
Average materiality of Credit Qualifying Party failure	£385,720	£314,959	£70,762	£156,990	£228,730
Average materiality per year over whole market (10% chance of failure each year)	£38,572	£31,496	£7,076	£15,699	£22,873
Average maximum materiality of Credit Qualifying Party failure	£2,580,634	£597,884	£1,982,750	£340,799	£2,239,835
Average maximum materiality per year over whole market (10% chance of failure each year)	£258,063	£59,788	£198,275	£34,080	£223,984

Figure 6: Materiality for the market of failure of a Credit Qualifying BM Unit Party (for average and maximum CEI error)

5.1.2 Impact on New Entrants

The Panel believed that the impact of P215 Proposed and Alternate on new entrants to the market should be considered, and noted that this did not form part of the arguments made against the Applicable BSC Objectives. It was confirmed that arguments of this nature had not been specified, but it was expected that the impact would be positive. New entrants to the market would benefit from the general improvement in the securitisation of the market against the risk of bad debt. Furthermore, improved securitisation against bad debt would tend to increase confidence in the market; increased confidence could encourage new entrants. Additionally, there would be no barrier to new entrants due to the introduction of onerous requirements because, though the P215 provisions are based on the use of accurate FPNs, the Grid Code already requires that FPNs submitted are accurate.

A Panel member noted that section 1.1.2 of the Assessment Report detailed the Group's belief that in general the types of Party most likely to benefit from increased efficiency of capital resource allocation are:

- Independent merchant generators with flexible generation assets that operate in response to varying market conditions; and
- Generators that use a single type of fuel.

The member noted that new entrants were likely to be associated with these types of BM Units. Therefore new entrants could in fact be expected to have a larger than average chance of benefiting under P215 due to an increased ability to efficiently manage their capital resources.

5.1.3 Assessment Procedure Consultation Responses

The Panel considered the responses to the P215 Assessment Procedure consultation. The Panel noted that a majority of respondents had indicated that they would expect a saving in terms of operational cost or a reduction in the amount of Credit Cover collateral that they lodge. None of the respondents was able to provide an estimate of the expected saving. A Panel member noted that this appeared to indicate that Parties had found it difficult to conduct precise quantitative analysis of the cost benefit of P215, and that Parties believed a judgement based on intangible or qualitative expected benefits was a feasible approach which was sufficient to base a decision on.

5.1.4 Applicable BSC Objectives

a) Proposed Modification

The **MAJORITY** provisional view of the Panel was that the Proposed Modification **WOULD NOT** better facilitate the achievement of Applicable BSC Objective (c) when compared to the current Code baseline, for the following reasons:

Applicable BSC Objective (c)

- FPNs overestimate the Metered Volumes of some BM Unit types;
- Overestimation of the Metered Volumes of some BM Unit types would cause a move from arbitrary errors in Credit Cover requirements to a situation where the Credit Cover requirement of these BM Unit types may be systematically underestimated;
- Systematic underestimation of Credit Cover requirements could cause a trend of market under-securitisation, which would expose Parties to risk, and therefore discourage new entrants to the market;
- Use of FPNs alone does not secure against cash flows arising from Bids and Offers; and
- Though using FPN to calculate CEI improves accuracy, the benefit is insufficient to justify the proposed change.

The minority Panel view that the Proposed Modification would better facilitate Applicable BSC Objective (c) was based on the following reasons:

- Use of FPNs would significantly increase the accuracy of the estimation of BM Unit Metered Volumes in the calculation of CEI; and
- Energy Indebtedness would more accurately reflect the actual value at risk.

The Panel agreed that the Proposed Modification would better facilitate the achievement of Applicable Objective (d) due to the efficiency benefit put forward by the Group, but did not believe the benefit was material compared with the impact on Objective (c). The Panel also agreed that the Proposed Modification would have a neutral impact on Applicable BSC Objectives (a) and (b).

b) Alternative Modification

The **UNANIMOUS** provisional view of the Panel was that the Alternative Modification **WOULD** better facilitate the achievement of Applicable BSC Objectives (c) and (d) when compared to the Proposed Modification and the existing Code baseline, for the following reasons:

Applicable BSC Objective (c)

- Use of a combination of FPNs and actual Metered Volumes would significantly increase the accuracy of the estimation of BM Unit Metered Volumes in the calculation of CEI;
- More accurate estimation of Metered Volumes than the Proposed Modification because actual Metered Volume data would be used;
- Energy Indebtedness would more accurately reflect the actual value at risk; and
- The reduction of the fluctuation of CEI error for Credit Qualifying BM Units would reduce the risk to the market of a Party failing in a period when its Credit Cover requirement did not adequately reflect its value at risk.

Applicable BSC Objective (d)

- The process of estimating Metered Volumes for use in the Credit Cover would be simplified due to the reduction in CALF appeals; and
- The administrative burden associated with the Credit Cover arrangements would be reduced, due primarily to fewer CALF appeals.

The Panel agreed that the Alternative Modification would have a neutral impact on Applicable BSC Objectives (a) and (b).

c) Provisional recommendation to the Authority

The Panel therefore agreed a unanimous provisional recommendation to the Authority that:

- The Proposed Modification **SHOULD NOT** be made; and that
- The Alternative Modification **SHOULD** be made.

5.1.5 Implementation Date

The Panel agreed with the Modification Group's recommendation regarding the Implementation Dates for the P215 Proposed and Alternative Modifications.

5.1.6 Legal Text

The Panel reviewed the draft text and agreed that it addresses the defect identified by the Modification Proposal.

5.2 Results of Report Phase Consultation

[This section to be completed following the Report Phase consultation]

5.3 Panel's Consideration of Draft Modification Report

[This section to be completed following the Panel meeting at which the draft Modification Report and Report Phase consultation responses are considered]

5.4 Panel's Final Recommendation to the Authority

[This section to be completed following the Panel meeting at which the draft Modification Report and Report Phase consultation responses are considered]

6 TERMS USED IN THIS DOCUMENT

Other acronyms and defined terms take the meanings defined in Section X of the Code.

Acronym/Term	Definition
BMCAEC	BM Unit Credit Assessment Export Capability
BMCAIC	BM Unit Credit Assessment Import Capability
CALF	Credit Assessment Load Factors
CAQCE	Credit Assessment Credited Energy Volume
CDCA	Central Data Collection Agent

CEI	Credit Assessment Energy Indebtedness
CVA	Central Volume Allocation
DC	Demand Capacity
ECVAA	Energy Contract Volume Aggregation Agent
EDT	Electronic Data Transfer
FPN	Final Physical Notifications
GC	Generation Capacity
NG	National Grid
P/C	Production/Consumption
PN	Physical Notification
QABC	Account Bilateral Contract Volume
QM	BM Unit Metered Volume
QME	Period Expected Metered Volume
SAA	Settlements Administration Agent
SPD	Settlement Period Duration
SVA	Supplier Volume Allocation
SVAA	Supplier Volume Allocation Agent

7 DOCUMENT CONTROL

7.1 Authorities

Version	Date	Author	Reviewer	Reason for Review
0.1	19/02/08	Dean Riddell	David Jones	For technical review
0.2	19/02/08	Dean Riddell	Graham Thomas	For quality review
0.3	20/02/08	Change Delivery	BSC Parties and other interested parties	For consultation
0.4				For technical review
0.5				For quality review
0.6		Change Delivery	BSC Panel	For Panel decision
1.0		BSC Panel		For Authority decision

APPENDIX 1: LEGAL TEXT

Draft legal text for the Proposed Modification is attached as a separate document, Attachment 1.

Draft legal text for the Alternative Modification is attached as a separate document, Attachment 2.

APPENDIX 2: PROCESS FOLLOWED

Copies of all documents referred to in the table below can be found on the BSC Website at: [\[insert hyperlink to website page containing all documents relating to the proposal\]](#)

Date	Event
27/07/07	Modification Proposal raised by Uskmouth Power Limited
09/08/07	IWA presented to the Panel
14/08/07	First Definition Procedure Modification Group meeting held
23/08/07	Definition Procedure consultation issued
31/08/07	Definition Procedure consultation responses returned
04/09/07	Second Definition Procedure Modification Group meeting held
13/09/07	Definition Report presented to the Panel
20/09/07	First Assessment Procedure Modification Group meeting held
27/09/07	Second Assessment Procedure Modification Group meeting held
16/10/07	Third Assessment Procedure Modification Group meeting held
24/10/07	Fourth Assessment Procedure Modification Group meeting held
29/10/07	Fifth Assessment Procedure Modification Group meeting held
02/11/07	Request for Party/Party Agent impact assessment issued
05/11/07	Requirements Specification issued for BSC Agent impact assessment
05/11/07	Assessment Procedure consultation issued
15/11/07	Assessment Procedure consultation responses returned
16/11/07	Sixth Assessment Procedure Modification Group meeting held
04/12/07	Seventh Assessment Procedure Modification Group meeting held
13/12/07	Assessment Report presented to the Panel (2 month extension of Assessment)
04/01/08	Eighth Assessment Procedure Modification Group meeting held
17/01/08	Assessment Procedure consultation issued
01/02/08	Ninth Assessment Procedure Modification Group meeting held
14/02/08	Assessment Report presented to the Panel
20/02/08	Draft Modification Report issued for industry consultation

ESTIMATED COSTS OF PROGRESSING MODIFICATION PROPOSAL⁸

Meeting Cost	£4,500
Legal/Expert Cost	£5,000
Impact Assessment Cost	£10,000
ELEXON Resource	130 man days £27,040

These costs are changed from those provided in the Definition Report, due to additional Assessment of P215. The costs have not changed from those provided in the Assessment Report.

APPENDIX 3: ASSESSMENT REPORT

The P215 Assessment Report is attached as a separate document, Attachment 3.

For the purposes of the Report Phase consultation and the Panel's consideration of the draft Modification Report, the P215 Assessment Report can be found on the BSC Website at: <http://www.elexon.co.uk/changeimplementation/ModificationProcess/modificationdocumentation/modProposalView.aspx?propID=235>

The Assessment Report includes:

- The conclusions of the Modification Group regarding the areas set out in the P215 Terms of Reference;
- Details of the Group's membership;
- The full results of the Assessment Procedure impact assessment; and
- Full copies of all responses to the Assessment Procedure consultation.

APPENDIX 4: REPORT PHASE CONSULTATION RESPONSES

[To be attached following Report Phase consultation]

⁸ Clarification of the meanings of the cost terms in this appendix can be found on the BSC Website at the following link: http://www.elexon.co.uk/documents/Change_and_Implementation/Modifications_Process_-_Related_Documents/Clarification_of_Costs_in_Modification_Procedure_Reports.pdf