



SEPTEMBER 2002

## **DEFINITION REPORT**

# **MODIFICATION PROPOSAL P95 Transitional Amelioration of Barriers to Licenced Exempt Generators' Market Participation**

**Prepared by the P95 Modification Group on behalf  
of the Balancing and Settlement Code Panel**

<b>Document Reference</b>	P095DR
<b>Version no.</b>	1.0
<b>Issue</b>	Final
<b>Date of Issue</b>	6 September 2002
<b>Reason for Issue</b>	For Panel decision
<b>Author</b>	ELEXON Limited

## I DOCUMENT CONTROL

### a Authorities

Version	Date	Author	Signature	Change Reference
0.1	30/08/02	J Ellis		Peer / Modification Group Review
0.2	05/09/02	J. Lucas		Incorporating P95MG comments
1.0	6/9/02	J Andrews		Panel decision

Version	Date	Reviewer	Signature	Responsibility
0.1	30/08/02	P95MG / Change Delivery		Initial review
0.2	05/09/02	C. Rowell		Panel paper review

### b Distribution

Name	Organisation
Each BSC Party	Various
Each BSC Agent	Various
The Gas and Electricity Markets Authority	Ofgem
Each BSC Panel Member	Various
Energywatch	Energywatch
Core Industry Document Owners	Various

### c References

Ref.	Title	Owner	Issue date	Version
1	Modification Proposal P95	ELEXON	12/07/02	1.0
2	P95 Initial Written Assessment (P95IR01)	ELEXON	17/07/02	1.0
3	First Consultation Document for P95 (P95DC10)	ELEXON	14/08/02	1.0

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## 1 SUMMARY AND RECOMMENDATIONS

On the basis of the analysis, consultation and assessment undertaken in respect of Modification Proposal P95 during the Definition Procedure, and the resultant findings of this Definition Report, the P95 Modification Group (P95MG) recommends that the Balancing and Settlement Code Panel should:

- **NOTE the P95 Definition Report and the recommendations of the P95MG;**
- **ENDORSE the recommendation of the P95MG and proceed to the Assessment Procedure in accordance with Section F2.6 of the Code;**
- **AGREE the Assessment Procedure timetable such that an Assessment Report should be completed and submitted to the Panel for consideration at their meeting of 12 December 2002;**
- **AGREE that an Interim Report should be submitted to the Panel meeting on 14 November 2002; and**
- **AGREE any refinement to the Modification Group Terms of Reference.**

### 1.1 Structure of Document

The document is structured as follows:

- Section 3 provides background to P95;
- Section 4 provides details of the P95MG membership and terms of reference;
- Section 5 provides an overview of P95;
- Section 6 provides a summary of the issues discussed at the P95MG meetings and during the consultation, and gives the conclusions of the P95MG on the definition of P95;
- Section 7 contains details of the issues to be taken forwards for further assessment during the Assessment Procedure and also contains justification of the recommended timescale for the Assessment Procedure; and
- Section 8 contains a summary of the responses received to the consultation.

## 2 INTRODUCTION

This Report has been prepared by ELEXON Ltd., on behalf of the Balancing and Settlement Code Panel ('the Panel'), in accordance with the terms of the Balancing and Settlement Code ('the Code'). The Code is the legal document containing the rules of the Balancing Mechanism and imbalance settlement process and related governance provisions. ELEXON is the company that performs the role and functions of the BSCCo, as defined in the Code.

An electronic copy of this document can be found on the BSC website, at [www.elexon.co.uk](http://www.elexon.co.uk).

## 3 BACKGROUND

Slough Energy Supplies Ltd submitted Modification Proposal P95 'Transitional Amelioration of Barriers to Licenced Exempt Generators' Market Participation' (P95) on 12 July 2002 (reference 1). The Initial Written Assessment (IWA), reference 2, was submitted to the Panel at their meeting on 18 July 2002. The Panel agreed to submit P95 to the Definition Procedure in accordance with section F2.5 of the BSC, with a Definition Report to be presented at the September Panel meeting.

P95 seeks to ameliorate perceived failings in the market that the Proposer believes are damaging the economic viability of both existing and potential Licence Exempt Generators (LEGs). It is proposed that a neutral cash-out price, calculated as an average of System Sell Price (SSP) and System Buy Price (SBP) should be applied to all imbalance volumes attributable to each LEG.

#### 4 MODIFICATION GROUP DETAILS

A new Modification Group was formed by the Panel to discuss P95, the P95 Modification Group (P95MG). Membership was sought from existing Pricing Issues Modification Group members and interested industry participants with experience of Licence Exempt Generation.

The Terms of Reference for the P95MG can be found on the BSC website at [www.elexon.co.uk](http://www.elexon.co.uk), and a copy of the specific Definition Procedure terms of reference is given in Annex 2.

The P95MG has met three times during the Definition Procedure to discuss P95, the meetings were held on 31 July, 7 August and 28 August 2002. Membership of the group is as follows:

<b>Member</b>	<b>Organisation</b>
Justin Andrews	ELEXON (Chairman)
Steve Garrett	Slough (Proposer)
Alec Thompson	London Electricity
Ali Lloyd	Independent Consultant
Bob Brown	Cornwall Consulting Ltd
Bob Nicholson	Alcan
Colin Paine	RWE Trading Direct Ltd
Danielle Lane	BGT
Ian Calvert	British Sugar
Lisa Waters	Dynegy
Martyn Hunter	St Clements
Martin Mate	British Energy
Maurice Smith	Cambell Carr
Nick Dawber	Natural Power Ltd / ENER-G
Nigel Williams	Summerleaze
Nicola Roberts	TXU
Paul Dawson	Barclays Capital
Paul Jones	Powergen
Richard Lavender	NGC
Joanne Ellis	ELEXON (Lead Analyst)
John Lucas	ELEXON

#### 5 MODIFICATION PROPOSAL

Modification Proposal P95 seeks to ameliorate perceived failings in the market that the Proposer believes are damaging the economic viability of both existing and potential LEGs. It is suggested that a neutral cash-out price, calculated as an average of SSP and SBP should be applied to all imbalances attributable to each LEG.

The Proposer suggests that there are currently the following barriers to LEGs market participation and that allowing the LEGs imbalance to be treated at a neutral price will reduce the balancing risk associated with the LEGs output that a BSC Party faces when trading with a LEG in it's portfolio. The result would be to ameliorate the effects of the barriers for LEGs and would therefore better facilitate competition in the generation and supply of electricity.

The barriers to market participation suggested by the Proposer are:

- Cost reflectivity;
- Illiquidity in the market and so LEGs are unable to trade small volume of energy;
- Embedded Benefits; and
- Administrative costs of becoming a BSC Party and so able to trade in the Balancing Mechanism.

An IWA was presented to the July Panel meeting which identified the following potential areas of impact and issues to be considered:

- How should the term "Licence Exempt Generator" be applied for P95, as it is not currently defined under the Code;
- Further definition is required of the two implementation options detailed within P95 and which should be progressed as the Modification; and
- P95 suggests that the solution is seen as an interim solution, however as no enduring solution is identified should the Modification Proposal will be treated as an enduring solution to the perceived defect until such time that a further Modification Proposal is implemented?

The P95MG met three times during the definition procedure to discuss P95 and the issues detailed above. In order to aid the P95MG in reaching a conclusion on the definition of P95 and a recommendation on how P95 should be progressed, a consultation document was issued to BSC Parties and interested industry members. The details of the discussions and the conclusions reached are detailed in section 6 of this report.

## **6 ISSUES RAISED BY THE MODIFICATION PROPOSAL**

The issues raised in the IWA and the terms of reference set by the Panel, were discussed at the P95MG meetings, these issues were then consulted on. Details of the P95MG discussions before and after the consultation can be found in this section.

The P95MG have discussed each of the issues and have agreed that the definition of P95 to be taken forward for further assessment should be as follows:

- P95 should be applied to all Exemptable plant based on the definition within section K 1.2.2 (c) and K 1.5 of the Code, but that it will be extended to apply to both CVA and SVA Generating Plant. The P95 Modification Group believed that this definition fitted more easily with the Modification Proposal, it was a more equitable solution and was easier to identify than Licence Exempt Generation plant would be;
- P95 should be seen as an enduring solution and should not have a 'sunset' clause included within it. The P95 Modification Group agreed with the Proposer that P95 should be seen as the enduring solution until such time that a different Modification is raised;
- The neutral cash-out price is described within the Modification Proposal as the average of SSP and SBP. The P95 Modification Group believed this was a clear definition and note that the Assessment Procedure was the appropriate phase for other potential alternatives to be considered; and
- The process for implementing P95 will be to allow BSC Parties to have the ability to register Exemptable BM Units against a LEG energy account in addition to a Production or Consumption energy account in central systems. The imbalance of the LEG account will then be settled at the neutral price up to the capped limit for each BM Unit. Any imbalance above that limit will be cashed out at the SSP or SBP as is currently the case. The business processes for implementing this option and any cap to be applied will be assessed further during the Assessment Procedure.

Further details of the issues are discussed further in this section. The P95MG also discussed the issues highlighted during the Definition Procedure that require further assessment, these issues are detailed in Section 7.

## 6.1 Definition of “LEG” for P95

The P95MG discussed and consulted on if the definition of Licence Exempt Generator (LEG) to be used in the context of P95 should be “any person who generates electricity and who is legally permitted to generate electricity on a premise, and who does not already hold a Generation Licence”. The majority of the consultation responses suggested that P95 should be applied to all Exemptable plant based on the definition within section K 1.2.2 (c) and K 1.5 of the Code, but that it will be extended to apply to both CVA and SVA Generating Plant. The P95 Modification Group believed that this definition fitted more easily with the Modification Proposal, it was a more equitable solution and was easier to identify than Licence Exempt Generation plant would be.

The P95MG agreed that any LEG benefits should be applied to the LEG premises regardless of whether the premise was net Import or net Export.

The P95MG also agreed that the application of the Neutral Price to an energy volume should be capped and that this cap would be related to the physical capacity of the generation on that premise. However the actual determination of this cap will be discussed further during the Assessment Procedure.

In their first two meetings the P95MG discussed potential alternative definitions of how P95 might be applied. This included extending the scope to include Licence Exempt Suppliers, small suppliers, and small generators. The P95MG agreed with the majority of consultation responses which stated that P95 should only be applied to Generators and not small or Licence Exempt Suppliers as P95 was clearly defined as applying only to generation. The P95MG agreed that a potential alternative was a size or class exemption restriction in addition to the Exemptable status of the Generating Plant.

## 6.2 Enduring or Interim solution

The Modification Proposal specifies that P95 should be seen as an interim solution but does not define when it should end or how it should be superseded. The P95MG discussed this issue and agreed that the most appropriate solution would be to consider P95 as an enduring solution, if it is shown that it better facilitates the applicable BSC objectives in comparison to the existing situation. The P95MG noted that any Party could raise a Modification Proposal in the future to better address the perceived defect.

The majority of consultation responses agreed with the P95MG view that P95 should be seen as an enduring solution until such time that a different Modification Proposal is raised and that a ‘sunset’ clause was inappropriate.

## 6.3 Implementation Solutions

P95 detailed two possible implementation solutions, the P95MG discussed both options and have also defined two others. All four options were consulted on to establish market participants’ views on the implementation methods that should be carried forward to the Assessment Procedure. The four options are described below and further details (and example calculations) of how the implementation options may be implemented are given in Annex 1. The four options are:

- Options A and B were suggested by the Proposer as ways of minimising the impact on existing central systems, with the view of reducing the implementation timescales;
- Option C was proposed by the P95MG as an option that will require changes to central systems as it would allow a third energy account per Party to be registered. The P95MG developed this method as it was envisaged to be similar in principle to Option B but not requiring the complex Code and contractual changes that Option B would require.

- Option D was proposed by the P95MG as a simpler solution to Option A that removes the requirement to calculate imbalance volumes for each LEG, but has a similar overall effect.

It should be noted that all implementation options have been written and discussed on the assumption that:

- the BSC Party associated with a LEG can choose whether to register the LEG for the new treatment or whether to continue to treat the LEG as now;
- any benefit the BSC Party gains from registering for the new treatment will, directly or indirectly, be passed to the LEG itself; and
- there will be a cap to the amount of imbalance that can be settled for each metering system (the cap will be defined during the Assessment Procedure).

It should also be noted that the impact on embedded benefits that a BSC Party is currently entitled to when trading with a LEG would need to be investigated further during the Assessment Procedure.

At their final meeting the P95MG agreed the process for implementing P95 will be to allow BSC Parties to have the ability to register Exemptable BM Units against a LEG energy account in addition to a Production or Consumption energy account in central systems as described in Option C. The imbalance of the LEG account will then be settled at the neutral price up to the capped limit for each BM Unit. Any imbalance above that limit will be cashed out at the SSP or SBP as is currently the case. The business processes for implementing this option and any cap to be applied will be assessed further during the Assessment Procedure.

The consultation responses indicated that all options discussed should be carried forward to the Assessment Procedure for further assessment. Concern was also raised that the implementation of P95 could lead to large administrative burdens being placed on the BSC Parties acting as registrants for the LEG metering systems and that this should be investigated as the options were progressed.

The P95MG agreed that only 2 options should be carried forward into the Assessment Procedure:

- Option C: "LEG Account" should be considered as the Modification Proposal;
- Option D: "LEG Neutral Capacity Band" as a potential alternative.

This decision was based on the P95MG recognising the urgency of the modification and the work involved in progressing P95 should all the options be carried forward.

### **6.3.1 Option A: LEG Rebate Agent**

The P95MG discussed the business processes involved in the first option detailed within P95. This method would allow BSC Parties associated with a LEG to be given the option of registering any LEG meters for which they are the registrant, with a Rebate Agent. The imbalance volume attributable to those meters would be settled at a neutral price with the Rebate Agent. Upon registration the BSC Party would be required to submit the details of the generation capacity available on site and this capacity would be subject to policing.

The BSC Party would be required to submit an anticipated LEG metered volume for each settlement period, (either for a 'net import' or a 'net export' premise) prior to gate closure for each LEG meter and the actual metered volume after gate closure.

The BSC Party will then be settled on their overall portfolio imbalance at the normal imbalance price (SSP or SBP). Then they will also receive a rebate for the imbalance due to their individual registered LEG meters. In order to calculate the individual LEG's imbalance, the rebate agent would subtract the LEG's expected output with that BSC Party from the actual metered volume for that BSC Party. The P95MG discussed the need to consider whether there can be any objective definition of the LEGs anticipated metered volume (or contract



volume), or whether it is essentially an arbitrary number that the LEG and the BSC Party can set to any value they like. The P95MG agreed that an obligation should be placed on the BSC Party to ensure that the BSC Party is “prudent and reasonable when submitting anticipated metered volume” and that this would be subject to policing. It was also agreed that the maximum imbalance volume that could be considered would be capped at the maximum generation capacity of the generation unit on the LEG premises e.g. if the site has 20 MW (max 10 MWh) of generation, any LEG imbalance greater than +10 MWh would be set to +10 MWh, and any imbalance volume less than -10 MWh would be set to -10 MWh. This would ensure that P95 applies only to the LEG generation.

Under this option if the BSC Party were to spill onto the system, the BSC Party would be paid SSP on the overall imbalance as currently. In addition, the BSC Party would receive a rebate of:

- (SBP-Neutral Price) on the LEG’s imbalance, if the LEG were to under-generate with respect to the anticipated metered volume notified to the rebate agent prior to gate closure; or
- (Neutral Price – SSP) if the LEG were to over generate with respect to the notified volume. This calculation would be repeated for each LEG meter registered for that BSC Party.

It should be noted that the rebate is not linked to the actual BSC Party’s imbalance position but the rebate is for each individual LEG meter imbalance position. The Proposer believes this type of rebate is justified, because the LEG is exposed to SBP (under the terms of his contract with the BSC Party), regardless of the actual imbalance position of the BSC Party, and the rebate / neutral price cash-out is therefore appropriate.

The intention of P95 is that the rebates paid to LEG registrants should be funded from the Total System Energy Imbalance Cashflow (TCEI) i.e. they should be funded by all BSC Parties in proportion to their Residual Cashflow Reallocation Cashflow (RCRC) payments. In addition to calculating the rebates, the Rebate Agent would therefore also calculate a new Trading Charge, to be paid by all BSC Parties, equal to the sum of all the rebates paid in that Settlement Period, multiplied by the Residual Cashflow Reallocation Proportion (RCRP) for each Party. Both the rebates and the charges required to fund them would be notified by the Rebate Agent to the FAA, to allow rebates to be paid, and charges to be collected from Parties.

### **6.3.2 Option B: LEG Trading party**

The P95MG discussed the business processes involved in the second option detailed within P95. This method would involve the creation of a new “LEG Trading Party”, to deal only with LEG metered volumes. The P95MG view was that the new Trading Party would be seen as a centrally funded non-profit making organisation rather than a commercial organisation and that its activities would be governed by the Code.

Any BSC Party with a LEG contract would be able to trade with the LEG Trading Party and notify a contract between them and the LEG Trading Party through an Energy Contract Volume Notification Agent (ECVNA) as under the current arrangements. When notifying the contract the LEG Trading Agent would be told by the BSC Party which BM Unit the contract applies to and would also reallocate the metered volume through a Meter Volume Reallocation Notification Agent (MVRNA) for that BM Unit. This would ensure that the BSC Party holding the LEG contact would still be seen as the Registrant of the metering system.

The LEG Trading Party would then be settled at a neutral price for its consolidated imbalance up to the total registered generation capacity and at SSP or SBP, as currently, for any imbalance volume above that amount. How this process is implemented would be subject to further discussion during the Assessment Procedure. The options that have been considered are either to change the Central Systems to allow this Party to be cashed out at the neutral price or to use a similar rebate and recovery system to that described under Option A.

The LEG Trading Party would then be obliged by the Code to settle each of the contracts it has with individual BSC Parties. The BSC Parties would be paid at the neutral price for any imbalance volumes for their Leg's BMA Units that had over generated, up to the generation capacity and then at SSP for any additional imbalance volume. If the LEG BM Unit had under generated with respect to the contracted volume, the imbalance payable by the BSC Party to the LEG Trading Party would be at the neutral price up to the generation capacity of the BM Unit and at SBP for any additional imbalance volume.

There are two options for implementing the charging mechanism:

- The LEG Trading Party makes payments to and from BSC Parties. In this case it would need to duplicate all the processes for invoicing, bad debt, credit cover etc. that the Funds Administration Agent (FAA) currently carries out; or
- The LEG Trading Party informs the FAA of what money needs to flow, as a new trading charge, but does not handle the actual financial transactions.

The P95MG noted two issues with this option:

- cost recovery for the LEG Trading Party; and
- the potential that as the LEG Trading Party is charging BSC Parties at SBP for any imbalances above the generation capacity threshold, that it could make a "profit" and how this "profit" should be redistributed.

One disadvantage associated with this implementation option is that there would be issues associated with creating the LEG Trading Party as it would be liable to normal Trading Party charges and would not be considered as a BSC Agent unless large parts of the Code were rewritten.

The BSC Party would also lose the consolidation benefits available when trading with LEGs unless the LEGs were registered under one BM Unit.

### **6.3.3 Option C: LEG Account**

Having discussed the implementation of Option B the P95MG agreed that a different method of implementing the same principle would be to change the Central Systems. Under Option C, BSC Parties wishing to trade with a LEG would have the ability to register an additional energy account, a LEG account, with the BSC Central Systems Agent. This would lead to the BSC Party being able to have three accounts, Production, Consumption and a new "LEG" registered in the Central Systems.

The BSC Party would then register any "LEG" BM Units that they wished to trade with under the LEG account. It should be noted that the BM Units could consist of either a CVA LEG BM Unit or an SVA BM Unit consisting of as many LEG meters as that BSC Party wished to trade with in a GSP Group. When registering the BM Units the LEG would also be required to register the Generation Capacity of each LEG meter within the BM Unit so that the imbalance volume cap could be calculated.

The BSC Party would then trade with the LEG account and would have any imbalance volumes settled at the Neutral Price, up to the total agreed cap of that BM Unit. Any imbalance over this amount would be settled at SSP or SBP as is currently the case.

It is anticipated that this option would lead to large Central System development costs and a long development lead time, however as this would also be the case for the set up of a LEG Trading Party as detailed under option B, the P95MG agreed that this option should be considered as the Modification Proposal and will be assessed further during the Assessment Procedure.

### **6.3.4 Option D: LEG Neutral Capacity Band**

The P95MG agreed that a more simplistic approach in terms of system impact would be to consider a LEG Neutral Capacity Band. The BSC Parties wishing to trade with a LEG would be given the option of registering an energy volume, known as the “LEG neutral capacity”, that they were contracted with, in order to have this capacity settled at the Neutral Price. The mechanism for defining this neutral capacity has not been defined by the P95MG and it will be investigated further in the initial part of the Assessment Procedure. However one possible approach could be to use the capacity of the generation unit (GC) multiplied by a load factor that could be similar to Credit Assessment Load Factor (CALF).

The BSC Party would not need to notify the actual contract or metered volumes for each half-hour, but their total imbalance would be cashed out at a neutral price up to the total of their registered “LEG neutral capacity” and at the usual SSP or SBP for any remaining imbalance.

The business processes for this option have not been defined but the P95MG agreed that they will be investigated in further detail during the Assessment Procedure. Possible options would include an amendment to the SAA software, or to create a Rebate Agent similar to that in Option A, albeit performing a much simpler calculation than that under Option A. The difference between this and Option A is that BSC parties would be cashed out at the neutral price for the full amount of their registered LEG Neutral Capacity and not just for the imbalance attributable to each individual LEG meter. This would remove the issues arising from determining what the imbalance is for a particular LEG premise especially if the premise were a large demand premise with a small generation within the premise.

## **6.4 Other Issues**

The P95MG discussed whether P95 introduced ‘undue discrimination’ to a certain sector of the market. The group did not reach a conclusion on this and sought market participants’ views during the consultation. The majority of the consultation responses suggested that there was an element of discrimination, however whether this is seen as ‘due’ or ‘undue’ discrimination should be considered during the Assessment Procedure. The P95MG noted these responses and proposed that this will be considered further in the Assessment Procedure.

A concern was raised at the P95MG on whether the Code was the ‘best’ place to try and solve the perceived defect raised in P95. It could be seen as an issue concerning the competitive position of LEGs in the generation market which is not within the vires of the Code. A slight majority of the consultation responses believed that this was not an issue for the Code. The P95MG agreed that one of the first issues to be addressed in the Assessment Procedure would be to look at the evidence provided during the Definition Procedure and determine if a Modification to the Code as suggested in P95 better facilitates the Applicable BSC Objectives and whether it would be more appropriate to seek changes outside the Code.

## **7 THE NEED FOR FURTHER ASSESSMENT AND EVALUATION**

The results of the consultation indicated that the majority of respondents did not agree that the principle of P95 better facilitates the Applicable BSC Objectives. Some of the P95MG members shared this view and therefore proposed that P95 should be sent to report with a recommendation to reject the proposal. However, the majority of the P95MG members agreed that it was not clear at this point if P95 better facilitates the Applicable BSC Objectives or not, and therefore requires further assessment.

The P95MG believes that a 3-month Assessment Procedure should be recommended to the Panel, to ensure that a full review of the business processes and impact on BSC Party and Agent systems can be carried out.

The P95MG recognise the amount of work required from the Modification Group members within this timescale, but also recognise the urgency of the issue.

The initial stage of the Assessment Procedure will be used to fully define the business processes of the potential solutions to allow identification of the changes needed, the costs involved in these changes and the pros and cons of each potential solution.

The P95MG also believes that the initial stage of the Assessment Procedure should be used to examine fully the evidence for and against the proposition that NETA creates specific barriers to participation by Licence Exempt Generators. This would involve reviewing both the evidence put forward during the Definition Procedure by the supporters of the proposal, and any other potential evidence (such as the data in Ofgem's review of the first year of NETA). Other key issues that will be assessed further in the Assessment Procedure are:

- assessing whether the Modification Proposal better facilitates the applicable BSC Objectives;
- the cost recovery mechanism for the implementation of P95;
- the interaction with other Modification Proposals (e.g. P74, P78, P90). This may need to include some consideration of whether the reasons that justify a dual imbalance price regime for Parties in general also apply to Legs;
- clarification of what constitutes 'due' and 'undue' discrimination (in the context of the obligation in Section B1.2.1(c) of the BSC to ensure "that the Code is given effect without undue discrimination between Parties or classes of Party");
- determination of whether there are or are not, significant legal constraints with respect to due and undue discrimination;
- allocation of the rebate / RCRC redistribution;
- imbalance information;
- the definition of "Trading Sites";
- non delivery charges;
- meter splitting;
- impact on embedded benefits that implementation of P95 will have;
- administrative burden placed on BSC Parties for choosing to participate in a LEG neutral price settlement mechanism;
- any alternatives to the definition of Neutral Price as defined within P95;
- the effect on RCRC that the implementation of P95 will have; and
- the possible discriminatory effect that implementation of P95 will have on 'predictable' LEGs as opposed to 'unpredictable' LEGs.

The proposed timetable for the Assessment Procedure is in Annex 3. In this timetable the P95MG propose the following reporting to the Panel:

- An update on the progress of P95 will be presented to the Panel at their meeting on 14 November. By this time certain key aspects of the Definition Procedure are likely to be completed e.g. getting legal advice on what constitutes 'due' and 'undue' discrimination, and assessing the evidence of barriers to participation by Licence Exempt Generators.
- Unless the information presented in the interim report causes the Panel to curtail or extend the Assessment Procedure, the Assessment Report will be presented to the Panel at their meeting on 12 December 2002.

## 8 REPRESENTATIONS BY PARTIES & INTERESTED THIRD PARTIES

### 8.1 Summary of Representations

A consultation document and questions were sent out to BSC Parties and other interested industry members on 14 August 2002. Responses were due back on Tuesday 27 August so as to allow the group to discuss the responses during their meeting of 28 August 2002.

Twenty-one responses, representing 60 BSC Parties and 4 non-BSC Parties, were received. The table below shows the responses to the consultation questions. The responses were discussed in detail by the P95MG at their third meeting and their comments were used to reach the decision on the definition of P95 detailed in section 6. Full details of the consultation questions and the responses received can be found in Attachment 1 section 2. In addition the summary used by the P95MG for discussions at their second meeting is given in Attachment 1 section 1.

The results of the consultation indicated that the majority of respondents did not agree that the principle of P95 better facilitates the Applicable BSC Objectives and that it could be seen as discriminatory and could introduce a cross subsidy between market participants. It was suggested that P95 should be sent to report with a recommendation to reject the modification.

The responses supporting P95 agreed with the proposer that it will facilitate competition in the generation and supply of electricity. These responses also noted that the introduction of the Code has lead to LEGs being disadvantaged within the market place and therefore it is not seen to be discriminatory to introduce a neutral cash-out price for one segment of the market. They also agreed that the barriers existed and that they needed to be addressed.

Question	YES			NO			? / N/A		
	Responses	BSC Parties	Non BSC Parties	Responses	BSC Parties	Non BSC Parties	Responses	BSC Parties	Non BSC Parties
1	<b>8</b>	4	4	<b>12</b>	55	0	<b>1</b>	1	0
2	<b>7</b>	3	4	<b>8</b>	17	0	<b>2</b>	11	0
3	<b>10</b>	16	4	<b>7</b>	15	0			
4 a)	<b>11</b>	19	4	<b>4</b>	7	0	<b>2</b>	5	0
4 b)	<b>7</b>	16	1	<b>8</b>	10	3	<b>2</b>	5	0
4 c)	<b>5</b>	2	3	<b>10</b>	24	1	<b>2</b>	5	0
4 d)	<b>2</b>	8	0	<b>14</b>	18	4	<b>2</b>	5	0
5	<b>12</b>	17	4	<b>4</b>	7	0	<b>1</b>	7	0
6	<b>10</b>	6	4	<b>4</b>	22	0	<b>3</b>	3	0
7	<b>7</b>	3	4	<b>9</b>	27	0	<b>1</b>	1	1
8	<b>9</b>	27	0	<b>8</b>	4	4			
9	<b>10</b>	28	0	<b>7</b>	3	4			
10 a)	<b>11</b>	13	4	<b>5</b>	14	0	<b>1</b>	4	0
10 b)	<b>11</b>	13	4	<b>5</b>	14	0	<b>1</b>	4	0
10 c)	<b>10</b>	12	4	<b>5</b>	14	0	<b>2</b>	5	0
10 d)	<b>10</b>	12	4	<b>5</b>	14	0	<b>2</b>	5	0

Note: Shaded grey cells show the majority view for each question.

Question 1 contains the responses from TXU / Aquila Networks / British Energy / Scottish and Southern Energy. These have not been included in other questions.

Question 5: The responses indicated that a sunset clause should not be included.

The following questions were used during the consultation;

Q	Question
1	Do you believe that the principle of allowing imbalance resulting from Licence Exempt Generators to be settled at a neutral price, better facilitates the applicable BSC Objectives?
2	The neutral price is defined within P95 as the average of SSP and SBP. Do you agree that this is the most appropriate definition or is there a different definition that could be considered during the Assessment Procedure?
3	Do you agree with the Modification Group definition of LEG to be used for P95.
4 a)	Of the possible alternatives to the application of this Modification which could be considered during the Assessment Procedure and which are detailed below, please indicate which you think should be assessed further (more than one can be chosen): EXEMPTABLE plant (as defined in section K 1.2.2 (c) of the Code)
4 b)	Licence Exempt Suppliers in addition to Licence Exempt Generators
4 c)	Small suppliers in addition to Licence Exempt Generators, if so what level should the cut off point be and why?
4 d)	Other
5	Do you believe that P95 should be considered as an enduring solution? If a sunset clause were to be used, what criteria should be used to set an end for the P95 arrangements?
6	Do you believe there is evidence of barriers, for or against, LEGs market participation e.g. cost reflectivity, embedded benefits, illiquidity/granularity, administrative burdens, other.
7	Do you believe that a Modification to the Code (be it P95 or a different Modification) is the most appropriate means by which to address the perceived defect(s)?
8	Do you believe that P95 actually addresses the perceived defects listed in the Modification?
9	Do you believe that P95 unduly discriminates for / against a particular sector of the market? If YES is this Modification the best way of or is there an alternative Modification that could be considered?
10 a)	The P95 Modification Group discussed several options, details of which are given in the attached document. Please give your views on the options and if you believe they should be carried forward to the assessment procedure: Option A: Leg Rebate Agent
10 b)	Option B: LEG Trading Party
10 c)	Option C: LEG Account
10 d)	Option D: LEG Neutral Capacity Band
11	Does P95 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure P95, should the Panel decide to submit P95 to the Assessment Procedure?
12	Are there any further comments on Modification Proposal P95 that you wish to make?

## 8.2 Comments and Views of the Modification Group

Some members of the P95 Modification Group agreed with the view of the majority of respondents and therefore proposed that P95 should be sent to report with a recommendation to reject the proposal. However, the majority of the P95 Modification Group members agreed that at this time it was not evidently clear whether P95 does or does not better facilitate the Applicable BSC Objectives. Therefore the Group agreed that P95 required detailed assessment to be undertaken in an Assessment Procedure.

## ANNEX 1 FURTHER IMPLEMENTATION OPTION DETAILS

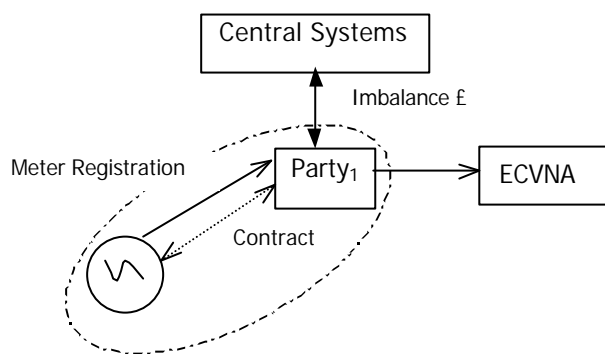
### A1.1 CURRENT SITUATION

#### Under the BSC:

The BSC Party is the registrant of the metering system. The BSC Party receives imbalance charges for any imbalances over the whole of their portfolio, charged at SSP or SBP.

#### Outside of the BSC

It is believed that the BSC Party charges the LEG at SBP if the LEG is short or rebates them at SSP if long, regardless of the BSC Party's actual imbalance position.



SSP = £10/MWh, SBP<sub>1</sub> = £20/MWh, SBP<sub>2</sub> = £70/MWh

<i>LEG Balanced</i>		<i>LEG Under generates</i>		<i>LEG Over generates</i>	
BSC Party Imbalance	100MWh spill	BSC Party Imbalance	75MWh spill	BSC Party Imbalance	125MWh spill
Imbal £ @ SSP	£1000 (SAA pays BSC Party)	Imbal £ @ SSP	£750 (SAA pays BSC Party)	Imbal £ @ SSP	£1250 (SAA pays BSC Party)
		LEG Imbal	25 MWh under	LEG Imbal	25 MWh extra
		LEG Imbal @SBP <sub>1</sub>	£500 (LEG Pays BSC Party)	LEG Imbal @SSP	£250 (BSC Party pays LEG)
		LEG Imbal @SBP <sub>2</sub>	£1750 (LEG Pays BSC Party)		
<b>BSC Party NET pos</b>	<b>+£1000</b>	<b>BSC Party NET pos 1</b>	<b>£1250</b>	<b>BSC Party NET pos</b>	<b>£1000</b>
		<b>BSC Party NET pos 2</b>	<b>£2500</b>		
<b>SAA NET pos.</b>	<b>-£1000</b>	<b>SAA NET pos.</b>	<b>-£750</b>	<b>SAA NET pos.</b>	<b>-£1250</b>

<i>LEG Balanced</i>		<i>LEG Under generates</i>		<i>LEG Over generates</i>	
BSC Party Imbalance	100 MWh short	BSC Party Imbalance	125 MWh short	BSC Party Imbalance	75 MWh
Imbal £ @ SBP <sub>1</sub>	£2000 (BSC Party pays SAA)	Imbal £ @ SBP <sub>1</sub>	£2500 (BSC Party pays SAA)	Imbal £ @ SBP <sub>1</sub>	£1500 (BSC Party pays SAA)
		LEG Imbal	25 MWh under	LEG Imbal	25 MWh extra
		LEG Imbal @SBP <sub>1</sub>	£500 (LEG Pays BSC Party)	LEG Imbal @SSP	£250 (BSC Party pays LEG)
<b>BSC Party NET pos</b>	<b>-£2000</b>	<b>BSC Party NET pos 1</b>	<b>-£2000</b>	<b>BSC Party NET pos.</b>	<b>-£1750</b>
<b>SAA NET pos.</b>	<b>£2000</b>	<b>SAA NET pos.</b>	<b>£2500</b>	<b>SAA NET pos.</b>	<b>£1500</b>

The assumption behind these calculations is that a BSC Party buys spill from the LEG at SSP, and sells top-up to them at SBP, regardless of the BSC Party's own imbalance position. Therefore the BSC Party is retaining any benefit that arises from consolidating the LEG's imbalance with their own.

If they do this, the BSC Party makes a profit of (SBP-SSP) from any LEG imbalance that is in the opposite direction to his own. They are neutral to LEG imbalances in the same direction as their own.

## A1.2 OPTION A: LEG REBATE AGENT

### Under the BSC

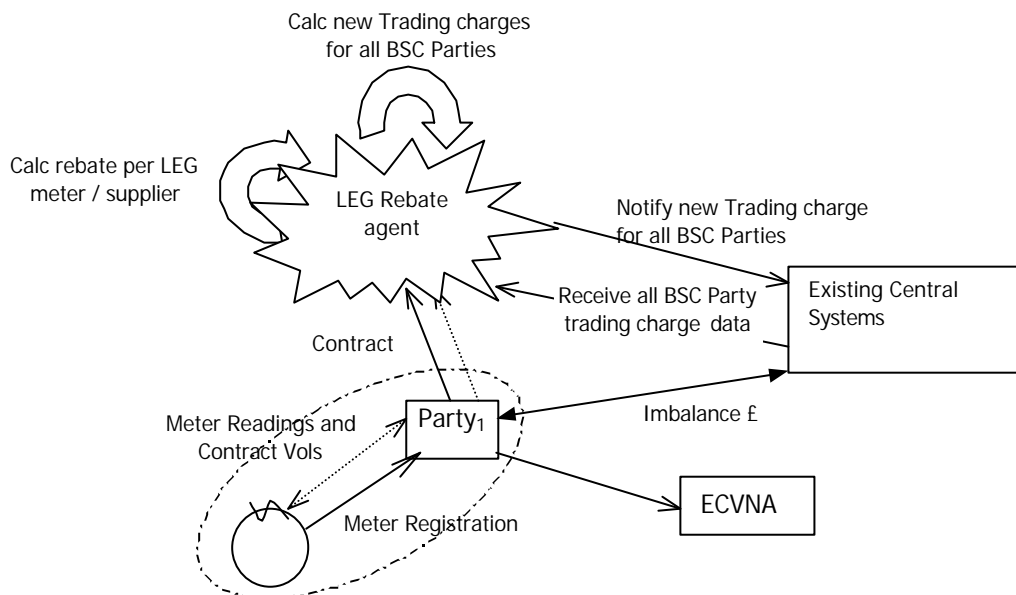
BSC Party is the registrant of the metering system. BSC Party receives imbalance charges for any imbalances over the whole of their portfolio, charged at SSP/SBP.

BSC Party receives a rebate for each registered LEG meter. If the LEG meter has under generated the BSC Party receives a rebate of  $SBP - SNP$  as it is assumed that the imbalance was paid for by the BSC Party at SBP regardless of the BSC Party's actual imbalance position. If the LEG meter has over generated the BSC Party receives a rebate of  $SNP - SSP$  as it is assumed that the imbalance was paid at SSP.

There is no change to the charging / payment mechanism and the rebate process would be fed back into the settlement system to allow FAA to charge accordingly. This would need to be detailed further in the Assessment Procedure.

### Outside the BSC

It is assumed that BSC Parties will pay the LEGs at the System Neutral Price (SNP) for any over generation or charge them at SNP for any under generation.



SSP = £10/MWh, SBP<sub>1</sub> = £20/MWh, SBP<sub>2</sub> = £70/MWh, SNP<sub>1</sub> = £15/MWh, SNP<sub>2</sub> = £40/MWh

<b>LEG Balanced</b>		<b>LEG Under generates</b>		<b>LEG Over generates</b>	
BSC Party Imbalance	100MWh spill	BSC Party Imbalance	75MWh spill	BSC Party Imbalance	125MWh spill
Imbal £ @ SSP	£1000 (SAA pays BSC Party)	Imbal £ @ SSP	£750 (SAA pays BSC Party)	Imbal £ @ SSP	£1250 (SAA pays BSC Party)
		Rebate from SAA at SBP <sub>1</sub> – SNP <sub>1</sub> (£5)	£125 (SAA pays BSC Party)	Rebate from SAA at SNP <sub>1</sub> – SSP (£5)	£125 (SAA Pays BSC Party)
		Rebate from SAA at SBP <sub>2</sub> – SNP <sub>2</sub> (£30)	£750 (SAA pays BSC Party)	Rebate from SAA at SNP <sub>2</sub> – SSP (£30)	£750 (SAA pays BSC Party)
		LEG Imbal	25 MWh under	LEG Imbal	25 MWh extra
		LEG Imbal @SNP <sub>1</sub>	£375 (LEG Pays BSC Party)	LEG Imbal @SNP <sub>1</sub>	£375 (BSC Party pays LEG)
		LEG Imbal @SNP <sub>2</sub>	£1000 (LEG Pays BSC Party)	LEG Imbal @SNP <sub>2</sub>	£1000 (BSC Party pays LEG)
<b>BSC Party NET pos</b>	<b>+£1000</b>	<b>BSC Party NET pos 1</b>	<b>+£1250</b>	<b>BSC Party NET pos 1</b>	<b>+£1000</b>
		<b>BSC Party NET pos 2</b>	<b>+£2500</b>	<b>BSC Party NET pos. 2</b>	<b>+£1000</b>
<b>SAA NET pos.</b>	<b>-£1000</b>	<b>SAA NET pos. 1</b>	<b>-£875</b>	<b>SAA NET pos. 1</b>	<b>-£1375</b>
		<b>SAA NET pos. 2</b>	<b>-£1500</b>	<b>SAA NET pos. 2</b>	<b>-£2000</b>



LEG Balanced		LEG Under generates		LEG Over generates	
BSC Party Imbalance	100MWh short	BSC Party Imbalance	125MWh short	BSC Party Imbalance	75MWh short
Imbal £ @ SBP	£2000 (BSC Party pays SAA)	Imbal £ @ SBP <sub>1</sub>	£2500 (BSC Party pays SAA)	Imbal £ @ SSP	£1500 (BSC Party pays SAA)
		Rebate from SAA at SBP <sub>1</sub> – SNP <sub>1</sub> (£5)	£125 (SAA pays BSC Party)	Rebate from SAA at SNP <sub>1</sub> – SSP (£5)	£125 (SAA Pays BSC Party)
		LEG Imbal	25 MWh under	LEG Imbal	25 MWh extra
		LEG Imbal @SNP <sub>1</sub>	£375 (LEG Pays BSC Party)	LEG Imbal @SNP <sub>1</sub>	£375 (BSC Party pays LEG)
<b>BSC Party NET pos</b>	<b>-£2000</b>	<b>BSC Party NET pos 1</b>	<b>-£2000</b>	<b>BSC Party NET pos 1</b>	<b>-£1750</b>
<b>SAA NET pos.</b>	<b>+£2000</b>	<b>SAA NET pos. 1</b>	<b>+£2375</b>	<b>SAA NET pos. 1</b>	<b>+£1375</b>

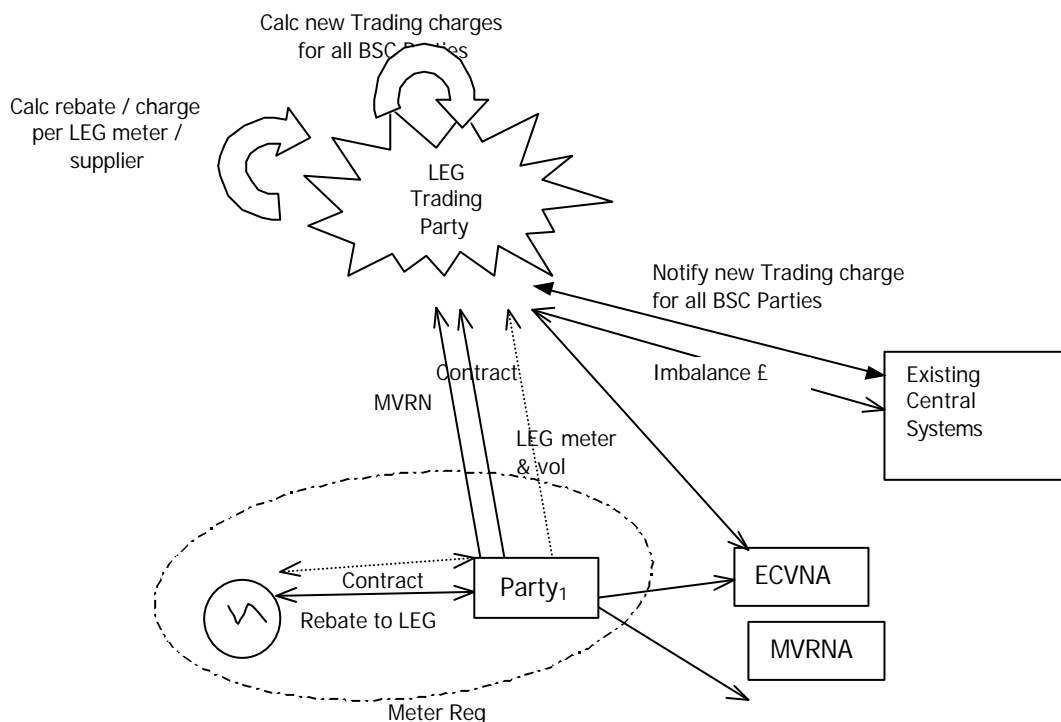
The BSC Party is given a rebate on the imbalance volume of each LEG volume notified to the rebate agent and the actual metered volume of that LEG. Assuming that the rebate is passed on to the LEG, the consequences are as follows:

- From the viewpoint of the LEG, his imbalance volume is now being settled at the neutral cash-out price, rather than dual prices.
- The BSC Party is unaffected. In particular, they still get the profit of (SBP-SSP) whenever the LEG's imbalance is in the opposite direction to their own.

### A1.3 OPTION B: LEG TRADING PARTY

#### Under the BSC

The BSC Party is the registrant for any LEG metering systems they trade with and would MVR any metered volumes to the Leg Trading Party (LTP). The BSC Party trades with the LTP and contracts are notified to ECVA using the current rules. The BSC Party must tell the LTP the volumes and LEG meters for which the contracts apply.



SSP = £10/MWh, SBP<sub>1</sub> = £20/MWh, SBP<sub>2</sub> = £70/MWh, SNP<sub>1</sub> = £15/MWh, SNP<sub>2</sub> = £40/MWh

<b>LTP Balanced (2 LEGs)</b>		<b>LTP / single LEG Under generates</b>		<b>LTP / single LEG Over generates</b>	
LTP Imbal	0MWh	LTP / LEG Imbal	25 MWh under	LTP / LEG Imbal	25 MWh extra
Imbal £ @ SSP	£0	Imbal @SBP <sub>1</sub>	£500 (paid by LTP)	Imbal £ @ SSP	£250 (paid to LTP)
LEG 1 / BSC Party 1 Under generates	25MWh	Rebate from SAA to LTP @ SBP <sub>1</sub> – SNP <sub>1</sub>	£125 (paid to LTP)	Rebate from SAA to LTP @ SNP <sub>1</sub> – SSP	£125 (paid to LTP)
Rebate from BSC Party / LEG to LTP @ SNP <sub>1</sub>	£375 (paid to LTP)	Rebate from BSC Party / LEG to LTP @ SNP <sub>1</sub>	£375 (paid to LTP)	Rebate from LTP to BSC Party / LEG @ SNP <sub>1</sub>	£375 (paid by LTP to BSC Party)
LEG 2 / BSC Party 2 Over generates	25MWh	Imbal £ @ SBP <sub>2</sub>	£1750 (paid by LTP)	Imbal £ @ SSP	£250 (paid to LTP)
Rebate from LTP to BSC Party / LEG @ SNP <sub>1</sub>	£375 (paid by LTP to BSC Party)	Rebate from SAA to LTP @ SNP <sub>2</sub> – SSP	£750 (paid to LTP)	Rebate from SAA to LTP @ SNP <sub>2</sub> – SSP	£750 (paid to LTP)
		Rebate from BSC Party / LEG to LTP @ SNP <sub>2</sub>	£1000 (paid to LTP)	Rebate from LTP to BSC Party / LEG @ SNP <sub>2</sub>	£1000 (paid by LTP to BSC Party)

<b>BSC Party spills</b>	<b>100 MWh</b>	<b>BSC Party spills</b>	<b>100 MWh</b>	<b>BSC Party spills</b>	<b>100 MWh</b>
BSC Party Imbal 1	£1000	BSC Party Imbal	£1000	BSC Party Imbal	£1000
SAA NET pos	-£1000	SAA NET pos 1	-£625	SAA NET pos 1	-£1375
		SAA NET pos 2	£0	SAA NET pos 2	-£2000
<b>BSC Party long</b>	<b>100 MWh</b>	<b>BSC Party long</b>	<b>100 MWh</b>	<b>BSC Party long</b>	<b>100 MWh</b>
BSC Party Imbal 1	-£2000	BSC Party Imbal 1	-£2000	BSC Party Imbal 1	-£2000
SAA NET Pos	+£2000	SAA NET Pos	+£2375	SAA NET Pos	+£1625

From the viewpoint of the LEG, this option is the same as option 1 i.e. it is assumed that he will get paid or charged at the neutral price. The big difference is for the BSC Party, who is no longer assigned the LEG's imbalance volume for settlement purposes, and therefore loses the benefit of consolidating that imbalance with his own (i.e. the profit from LEG imbalances in the opposite direction to his own).

It should be noted that the 'beer fund' could actually gain from option 2 under some circumstances. The fund loses money from LEGs being settled at a neutral price rather than dual prices, but receives more money from BSC Parties, who can no longer net LEG imbalances against their own.

#### A1.4 Option C: LEG Account

##### Under the BSC

The BSC Party is the registrant for any LEG metering systems they trade with trade them on a new "LEG" account just as they trade today on production and Consumption accounts.

The BSC Party must register the total generation capacity of each LEG BM Unit that is traded, to have the imbalance volume settled at the neutral price capped. Any outstanding imbalance amount will then be settled at SSP or SBP as is currently the case.

#### A1.5 Option D: LEG Neutral Capacity Band

##### Under the BSC

The BSC Party is the registrant for any LEG metering systems they trade with. The BSC Party "registers" the total generation capacity of the LEGs that they are trading with. A Neutral Capacity is fixed for each BSC Party. The Party is settled at the Neutral Price up to the cap and then at SSP or SBP for the remainder of the imbalance volume.

Assume: LEG Neutral Capacity = 50MW (25MWh) and SSP = £10/MWh, SBP = £20/MWh, SNP = £15/MWh

<b>Supplier Spills</b>		<b>Supplier Short</b>	
BSC Party Imbalance	100MWh spill	BSC Party Imbalance	100 MWh short
Imbal 25 MWh @ NP	£375 (SAA pays BSC Party)	Imbal 25 MWh @ SBP	£375 (BSC Party pays SAA)
Imbal 75 MWh @ SSP	£750 (SAA pays BSC Party)	Imbal 75 MWh @ SBP	£1500 (BSC Party pays SAA)
<b>BSC Party NET pos</b>	<b>+£1125</b>	<b>BSC Party NET pos</b>	<b>-£1875</b>
<b>SAA NET pos.</b>	<b>-£1125</b>	<b>SAA NET pos.</b>	<b>£1875</b>

## **ANNEX 2 TERMS OF REFERENCE**

Modification Proposal P95 will be considered by the P95 Modification Group in accordance with the P95 Modification Group Terms of Reference.

- 1) The Modification Group will carry out a Definition Procedure in respect of Modification Proposal P95 pursuant to section F2.5 of the BSC.
- 2) The Modification Group will produce a Definition Report for consideration at the BSC Panel Meeting on 12 September 2002.
- 3) The Modification Group shall consider and/or include in the Definition Report as appropriate:
  - The definition of Exemptable Generators in relation to the Modification Proposal. It is not clear whether the suggested special arrangements relate to 'Exempt Export BM Units' as currently defined in the BSC or whether a new definition which addresses the actual licence status of the Lead Party for a given BM Unit is necessary;
  - As the Modification Proposal suggests two solutions to the perceived defect, a determination of the solution that should be considered as the Modification Proposal and consideration of whether the remaining solution should be progressed as an alternative implementation option during the Assessment Procedure;
  - Consideration of whether the Modification Proposal should be regarded as an enduring solution to the perceived defect; and
  - Consideration of whether the implementation of the Modification Proposal would create a subset of trading arrangements that are discriminatory towards other Parties in the market.

### ANNEX 3 TIMETABLE FOR PROGRESSION OF THE MODIFICATION

ID	Task Name	Duration	Start	Finish	October							November							December														
					12	15	18	21	24	27	30	03	06	09	12	15	18	21	24	27	30	02	05	08	11	14	17	20	23	26	29	02	05
1	3 Month Assessment Procedure	65 days	Fri 13/09/02	Thu 12/12/02	[Gantt bar from 13/09 to 12/12]																												
2	Panel Meeting	66 days	Thu 12/09/02	Thu 12/12/02	[Gantt bar from 12/09 to 12/12]																												
7	Modification Group Meeting	1 day	Tue 17/09/02	Tue 17/09/02	◆ 17/09																												
8	Define Assessment Criteria / Investigate Issues (Modification Group)	28 days	Wed 18/09/02	Fri 25/10/02	[Gantt bar from 18/09 to 25/10]																												
9	Update to Panel on P95 Progress	1 day	Thu 14/11/02	Thu 14/11/02	[Gantt bar at 14/11]																												
10	Develop & review Requirements Specification (Modification Group)	15 days	Wed 18/09/02	Tue 08/10/02	[Gantt bar from 18/09 to 08/10]																												
11	Modification Group Meeting	1 day	Tue 24/09/02	Tue 24/09/02	◆ 24/09																												
12	Modification Group Meeting (Agree Requirements Spec)	1 day	Wed 09/10/02	Wed 09/10/02	◆ 09/10																												
13	High Level Impact Assessment - BSC Agents / Industry	10 days	Thu 10/10/02	Wed 23/10/02	[Gantt bar from 10/10 to 23/10]																												
14	Mod Group Review Responses	2 days	Thu 24/10/02	Fri 25/10/02	[Gantt bar from 24/10 to 25/10]																												
15	Modification Group Meeting (review responses / agree way forward)	1 day	Mon 28/10/02	Mon 28/10/02	◆ 28/10																												
16	Prepare Legal Drafting	15 days	Thu 31/10/02	Wed 20/11/02	[Gantt bar from 31/10 to 20/11]																												
17	Prepare Consultation (Modification Group)	4 days	Tue 29/10/02	Fri 01/11/02	[Gantt bar from 29/10 to 01/11]																												
18	Consultation with BSC Parties and Industry	10 days	Mon 04/11/02	Fri 15/11/02	[Gantt bar from 04/11 to 15/11]																												
19	Summarise Consultation	2 days	Mon 18/11/02	Tue 19/11/02	[Gantt bar from 18/11 to 19/11]																												
20	Modification Group Meeting	1 day	Wed 20/11/02	Wed 20/11/02	◆ 20/11																												
21	Write Assessment Report & Agree Recommendations (Modification Group)	10 days	Wed 20/11/02	Tue 03/12/02	[Gantt bar from 20/11 to 03/12]																												
22	Mods Group Agree Legal Drafting & Finalise Recommendations	10 days	Wed 20/11/02	Tue 03/12/02	[Gantt bar from 20/11 to 03/12]																												
23	Issue Report	1 day	Tue 03/12/02	Tue 03/12/02	◆ 03/12																												
24	Panel Paper Review	4 days	Tue 03/12/02	Fri 06/12/02	[Gantt bar from 03/12 to 06/12]																												
25	Panel Paper Issued	1 day	Fri 06/12/02	Fri 06/12/02	◆ 06/12																												
26	December Panel Meeting	1 day	Thu 12/12/02	Thu 12/12/02	◆ 12/12																												