August 2002

FIRST CONSULTATION DOCUMENT FOR MODIFICATION PROPOSAL P95 TRANSITIONAL AMELIORATION OF BARRIERS TO LICENCED EXEMPT GENERATORS' MARKET PARTICIPATION

Prepared by ELEXON on behalf of the P95 Modification Group

Document Reference	P095DC
Version no.	1.0
Issue	Final
Date of Issue	14 August 2002
Reason for Issue	For Consultation
Author	ELEXON Limited

I DOCUMENT CONTROL

a Authorities

Version	Date	Author	Signature	Change Reference
0.1	10/08/02	J Ellis		Peer Review
0.2	12/08/02	J Ellis		Modification Group Review
1.0	14/08/02	J Ellis		Update with Modification Group comments and issued for consultation

Version	Date	Reviewer	Signature	Responsibility
0.1	10/08/02	J Andrews		Change Delivery
0.2	12/08/02	P95MG		Modification Group

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	ELEXON	17/07/02	1.0

d Intellectual Property Rights and Copyright

II CONTENTS TABLE

1 INTRODUCTION

This consultation document has been prepared by ELEXON Ltd, on behalf of the P95 Modification Group (P95MG), 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 Balancing and Settlement Code Company (BSCCo), as defined in the Code.

An electronic copy of this document can be found on the BSC website, at www.ELEXON.co.uk.

The document supports the first consultation on the issues raised in Modification Proposal P95 and is aimed at BSC Parties and other interested industry participants. It is based on the discussions at the first two P95MG meetings, held on 31 July 2002 and 7 August 2002. P95 is currently in the Definition Procedure with a Definition Report due to be presented to the September Balancing and Settlement Code Panel ('the Panel) meeting.

The aim of the Definition Procedure is to clarify the issues raised in the Modification Proposal and clearly define the Modification to enable the Panel to determine how to progress P95. The consultation responses will be used by the P95MG to clarify the issues in sufficient detail so as to allow the Panel to determine the next steps.

1.1 Structure of Document

The document is structured as follows:

- Section 2 provides background to the Modification Proposal;
- Section 3 provides details of the Modification Group membership;
- Section 4 provides an overview of the Modification Proposal;
- Section 5 provides a summary of the issues discussed at the first two Modification Group meetings; and
- Section 6 contains the consultation questions.

2 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 imbalances attributable to each LEG.

3 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, and a copy of the specific Definition Procedure terms of reference is given in Annex 2.

Membership of the group is as follows:

Member	Organisation
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
Michael Wilks	Williams Energy Marketing and Trading
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

Attendee	Organisation
Bill Reed	Innogy
David Lyon	Nabarro Nathanson
Simon Bradbury	Ofgem
Tony Doherty	Ofgem
Tony Polack	Ofgem

4 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 Licence Exempt Generators (LEGs). It is suggested that a neutral cash-out price, calculated as an average of System Sell Price and System Buy Price 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

- 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. Which Parties / BM units / Metering Systems P95 will apply to and how it will be applied to LEGs who change ownership or status;
- Further definition is required of the two implementation options detailed within P95 and which should be progressed as the Modification;
- 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 have discussed P95 and the above (see section 5). The questions in section 6 of this report seek BSC Party and other industry participant's views on these issues to aid the P95MG to reach a decision on the definition of P95 and recommend to the Panel the procedure for progressing this Modification Proposal.

5 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 on 31 July and 7 August 2002. Details of the discussions can be found in this section. These issues will be consulted on using the questions in section 6 of this report.

Consultation questions have been asked in section 6 to determine if any of the possible alternatives discussed in this section should be carried forward to the Assessment Procedure, should the Panel decide to submit P95 to the Assessment Procedure.

5.1 Definition of "LEG" for P95

The P95MG noted that the definition of Licence Exempt Generator (LEG) to be used in the context of P95 is 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 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 would be limited by the physical capacity of the generation on that premise.

The P95MG also discussed a potential alternative definition, which would be to extend the scope of the Modification to include all Licence Exemptable plant. This may be seen as more equitable and would also enable easier identification (and policing thereof) under the Code, especially when a transfer of ownership occurs. This would be in line with an existing definition of Exemptable Generating Plant in section K 1.5 of the Code.

It was also discussed if an alternative definition should include either Licence Exempt Suppliers or small Suppliers (size to be defined). The P95MG believe this is outside the scope of P95, but agreed that the consultation should seek views on this issue.

5.2 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 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 group noted that a further Modification Proposal could be raised at a future date to better address the perceived defect if a Party wished to do so.

The P95MG agreed to seek views from market participants on:

(i) if it would be appropriate to have a "sunset" clause in the Code; and

(ii) what criteria should be used to set an end for the P95 arrangements should such a clause be inserted.

5.3 Implementation Solutions

P95 detailed two possible implementation solutions, the P95MG discussed both options and have also defined two others. The options to be consulted on are detailed below. Further details and example calculations of how the implementation options may be implemented are given in Annex 1.

- Options A and B were suggested by the Proposer as ways of avoiding any impact on existing central systems, in the belief that this might allow an earlier implementation;
- Option C was proposed by the P95MG as an option that does require changes to central systems as it would allow a third account per Party, but is similar in principle to Option B.
- Option D was proposed by the P95MG as a simpler solution that entirely avoids the need to calculate imbalance volumes for each LEG, but arguably 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. It has also been assumed that any benefit that the BSC Party gains from registering for the new treatment will, directly or indirectly, be passed to the LEG itself. It has further been assumed that there will be a cap to the amount of imbalance that can be settled for each meter but this cap has yet to be defined.

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.

5.3.1 Option A: LEG Rebate Agent

BSC Parties associated with a LEG would be given the option of registering any LEG meters for which the imbalance volume would be settled at a neutral price with a "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.

5.3.2 Option B: LEG Trading party

A new LEG Trading Party would be created 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 it's 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 is carried out has not been agreed by the P95MG and would be subject to

further assessment 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 LEGs BM 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.

The actual implementation of the charging mechanism has not been discussed in detail by the P95MG however there are potentially two options:

- 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 doesn't handle the actual financial transactions.

An additional issues associated with this implementation option is the issue of cost recovery for the LEG Trading Party, an additional trading charge would perhaps be needed for anyone trading with the Party. There is also 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 from consolidating the imbalances. This raises the issue of 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.

5.3.3 Option C: LEG Account

Under this option BSC Parties wishing to trade with a LEG would have the option to register an additional 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 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 registered Generation Capacity 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 this will be assessed further should this option be progressed in the Assessment Procedure.

5.3.4 Option D: LEG Neutral Capacity Band

Having discussed the other implementation options 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. However one possible approach could be to use the capacity of the generation unit 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 processes for achieving this have not been defined but would be investigated in further detail should the P95MG decide to progress this solution in 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 1 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.

5.4 Discrimination 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 wished to seek views to enable further discussion at the next meeting.

It was noted that the P95MG would need to demonstrate that the Code is the best place to solve the issues noted in the Modification Proposal if P95 were to be progressed further. A concern was raised at the P95MG meetings whether the Code is the 'best' place to try and solve what could potentially be seen as an issue concerning the competitive position of LEGs in the generation market.

6 CONSULTATION QUESTIONS

BSC Parties and other interested parties are invited to respond to this consultation expressing their views with respect to the matters contained within this document. In particular views are sought in respect of the following questions. Parties are invited to supply the rationale for their responses.

Respondent name	
BSC Party	**YES / NO**[1]
Responding on Behalf of	Please list all Parties responding on behalf of (including the respondent company if relevant).
Role of Respondent	(Licensed Generator/Licence Exempt Generator/Supplier/Distribution Business/Other)[1]

Q	Question	Response[1]	Rationale
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?	Yes/No	Please give rationale
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?	Yes/No	Please give details
3	Do you agree with the Modification Group definition of Licence Exempt Generator to be used for P95.	Yes/No	Please give rationale
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)	 Yes/No	Please give rationale for each a)

[1] Delete as appropriate

4 b)	Licence Exempt Suppliers in addition to Licence Exempt Generators	Yes/No	b)
4 c)	Small suppliers in addition to Licence Exempt Generators, if so what level should the cut off point be and why?	Yes/No	c)
4 d)	Other	Yes/No	d)
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?	Yes/No	Please give criteria
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.	Yes/No	Please give evidence
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)?	Yes/No	Please give rationale
8	Do you believe that P95 actually addresses the perceived defects listed in the Modification?	Yes/No	Please give rationale
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?	Yes/No	Please give rationale
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	Yes/No	Please give views on each option:
10 b)	Option B: LEG Trading Party	Yes/No	
10 c)	Option C: LEG Account	Yes/No	
10 d)	Option D: LEG Neutral Capacity Band	Yes/No	

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?	Yes/No	If YES please give details
12	Are there any further comments on Modification Proposal P95 that you wish to make?	Yes/No	Please give your comments

Please send your responses by **12:00 on Tuesday 27 August 2002** to Modifications@elexon.co.uk and please note that the next modification group meeting is on Wednesday 28 August 2002 and therefore the group will not be able to consider any late responses.

Please entitle your email 'P95 Definition Consultation'

Any queries on the content of the consultation pro-forma should be addressed to Joanne Ellis (020 7380 4316), email address Joanne.ellis@elexon.co.uk.

ANNEX 1: FURTHER IMPLEMENTATION OPTION DETAILS

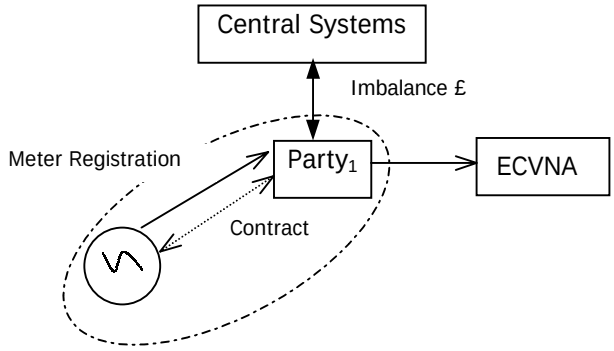
A1.1 Current Situation

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_1 = £20/MWh, SBP_2 = £70/MWh

LEG Balanced		***LEG Under generates***		***LEG Over generates***	
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_1	£500 (LEG Pays BSC Party)	LEG Imbal @SSP	£250 (BSC Party pays LEG)
		LEG Imbal @SBP_2	£1750 (LEG Pays BSC Party)		
BSC Party NET pos	**+£1000**	**BSC Party NET pos 1**	**£1250**	**BSC Party NET pos**	**£1000**
		BSC Party NET pos 2	**£2500**		
SAA NET pos.	**-£1000**	**SAA NET pos.**	**-£750**	**SAA NET pos.**	**-£1250**

LEG Balanced		***LEG Under generates***		***LEG Over generates***	
BSC Party Imbalance	100 MWh short	BSC Party Imbalance	125 MWh short	BSC Party Imbalance	75 MWh
Imbal £ @ SBP_1	£2000 (BSC Party pays SAA)	Imbal £ @ SBP_1	£2500 (BSC Party pays SAA)	Imbal £ @ SBP_1	£1500 (BSC Party pays SAA)
		LEG Imbal	25 MWh under	LEG Imbal	25 MWh extra
		LEG Imbal @SBP_1	£500 (LEG Pays BSC Party)	LEG Imbal @SSP	£250 (BSC Party pays LEG)
BSC Party NET pos	**-£2000**	**BSC Party NET pos 1**	**-£2000**	**BSC Party NET pos.**	**-£1750**
SAA NET pos.	**£2000**	**SAA NET pos.**	**£2500**	**SAA NET pos.**	**£1500**

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

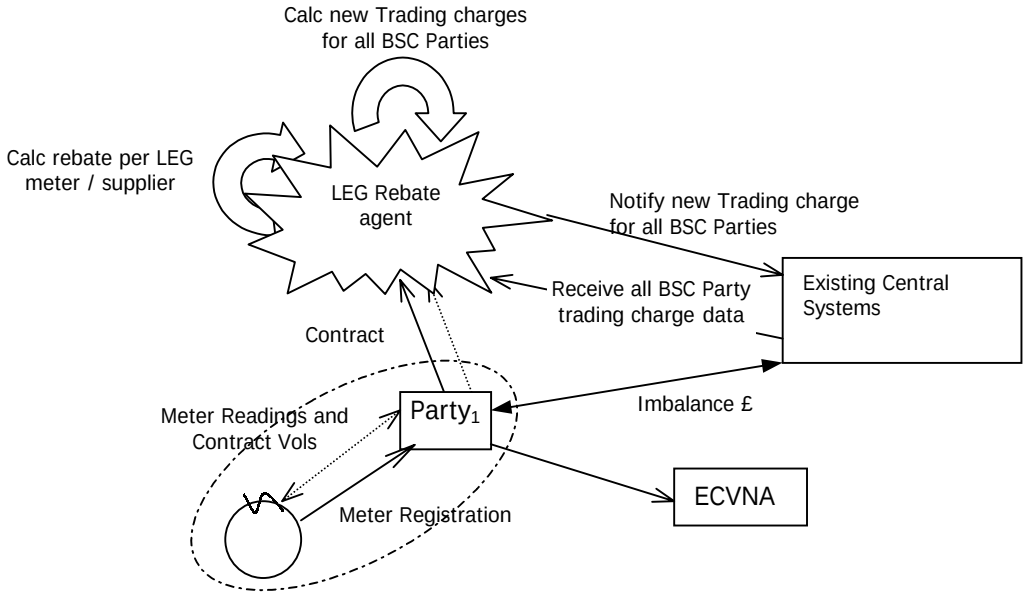
BSC Party is the registrant of the metering system. BSC Party receives imbalance charges for any imbalances over the whole of their portfolio, charged at SSP/SBP.

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_1 = £20/MWh, SBP_2 = £70/MWh, SNP_1 = £15/MWh, SNP_2 = £40/MWh

LEG Balanced		***LEG Under generates***		***LEG Over generates***	
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 $SBP_1 – SNP_1$ (£5)	£125 (SAA pays BSC Party)	Rebate from SAA at SNP_1 – SSP (£5)	£125 (SAA Pays BSC Party)
		Rebate from SAA at $SBP_2 – SNP_2$ (£30)	£750 (SAA pays BSC Party)	Rebate from SAA at SNP_2 – SSP (£30)	£750 (SAA pays BSC Party)
		LEG Imbal	25 MWh under	LEG Imbal	25 MWh extra
		LEG Imbal @SNP_1	£375 (LEG Pays BSC Party)	LEG Imbal @SNP_1	£375 (BSC Party pays LEG)
		LEG Imbal @SNP_2	£1000 (LEG Pays BSC Party)	LEG Imbal @SNP_2	£1000 (BSC Party pays LEG)
BSC Party NET pos	**+£1000**	**BSC Party NET pos 1**	**+£1250**	**BSC Party NET pos 1**	**+£1000**
		BSC Party NET pos 2	**+£2500**	**BSC Party NET pos. 2**	**+£1000**
SAA NET pos.	**-£1000**	**SAA NET pos. 1**	**-£875**	**SAA NET pos. 1**	**-£1375**
		SAA NET pos. 2	**-£1500**	**SAA NET pos. 2**	**-£2000**

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_1	£2500 (BSC Party pays SAA)	Imbal £ @ SSP	£1500 (BSC Party pays SAA)
		Rebate from SAA at SBP_1 – SNP_1 (£5)	£125 (SAA pays BSC Party)	Rebate from SAA at SNP_1 – SSP (£5)	£125 (SAA Pays BSC Party)
		LEG Imbal	25 MWh under	LEG Imbal	25 MWh extra
		LEG Imbal @SNP_1	£375 (LEG Pays BSC Party)	LEG Imbal @SNP_1	£375 (BSC Party pays LEG)
BSC Party NET pos	**-£2000**	**BSC Party NET pos 1**	**-£2000**	**BSC Party NET pos 1**	**-£1750**
SAA NET pos.	**+£2000**	**SAA NET pos. 1**	**+£2375**	**SAA NET pos. 1**	**+£1375**

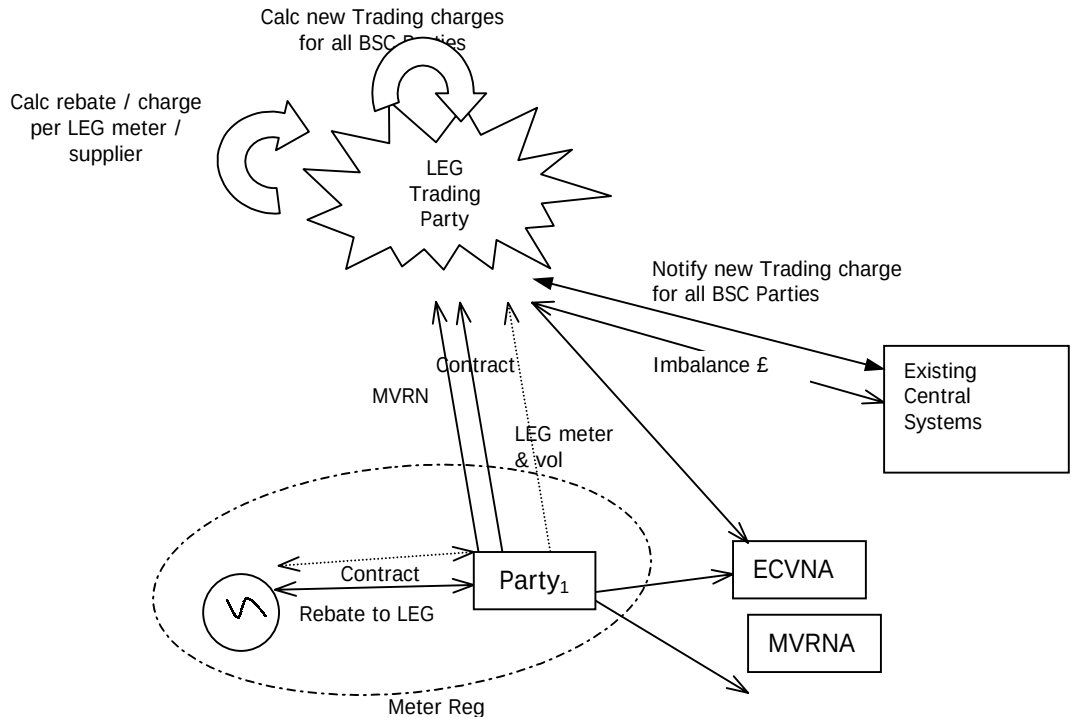
The BSC Party is given a rebate on the imbalance volume of each LEG volume notified to the rebate agent and the actual metered volume of that LEG. Assuming that the rebate is passed on to the LEG, the consequences are as follows:

- 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 ECVAA 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_1 = £20/MWh, SBP_2 = £70/MWh, SNP_1 = £15/MWh, SNP_2 = £40/MWh

LTP Balanced (2 LEGs)		***LTP / single LEG Under generates***		***LTP / single LEG Over generates***	
LTP Imbal	0MWh	LTP / LEG Imbal	25 MWh under	LTP / LEG Imbal	25 MWh extra
Imbal £ @ SSP	£0	Imbal @SBP_1	£500 (paid by LTP)	Imbal £ @ SSP	£250 (paid to LTP)
LEG 1 / BSC Party 1 Under generates	25MWh	Rebate from SAA to LTP @ $SBP_1 – SNP_1$	£125 (paid to LTP)	Rebate from SAA to LTP @ $SNP_1 – SSP$	£125 (paid to LTP)
Rebate from BSC Party / LEG to LTP @ SNP_1	£375 (paid to LTP)	Rebate from BSC Party / LEG to LTP @ SNP_1	£375 (paid to LTP)	Rebate from LTP to BSC Party / LEG @ SNP_1	£375 (paid by LTP to BSC Party)
LEG 2 / BSC Party 2 Over generates	25MWh	Imbal £ @ SBP_2	£1750 (paid by LTP)	Imbal £ @ SSP	£250 (paid to LTP)
Rebate from LTP to BSC Party / LEG @ SNP_1	£375 (paid by LTP to BSC Party)	Rebate from SAA to LTP @ $SNP_2 – SSP$	£750 (paid to LTP)	Rebate from SAA to LTP @ $SNP_2 – SSP$	£750 (paid to LTP)
		Rebate from BSC Party / LEG to LTP @ SNP_2	£1000 (paid to LTP)	Rebate from LTP to BSC Party / LEG @ SNP_2	£1000 (paid by LTP to BSC Party)

BSC Party spills	**100 MWh**	**BSC Party spills**	**100 MWh**	**BSC Party spills**	**100 MWh**
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
BSC Party long	**100 MWh**	**BSC Party long**	**100 MWh**	**BSC Party long**	**100 MWh**
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

Supplier Spills		***Supplier Short***	
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)
BSC Party NET pos	**+£1125**	**BSC Party NET pos**	**-£1875**
SAA NET pos.	**-£1125**	**SAA NET pos.**	**£1875**

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.

1.1 The Modification Group will carry out a Definition Procedure in respect of Modification Proposal P95 pursuant to section F2.5 of the BSC.

1.2 The Modification Group will produce a Definition Report for consideration at the BSC Panel Meeting on 12 September 2002.

1.3 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 regarding 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.