



December 2002

**ASSESSMENT REPORT FOR MODIFICATION
PROPOSAL P95 - Transitional Amelioration
of Barriers to Licence Exempt Generators'
Market Participation**

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

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I DOCUMENT CONTROL

a Authorities

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b Distribution

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Each BSC Agent	Various
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Each BSC Panel Member	Various
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c References

Ref	Document	Owner	Issue Date	Version
1	Modification Proposal P95		12/07/02	1.0
2	P95 Initial Written Assessment (P95IR10)	ELEXON	17/07/02	1.0
3	P95 Definition Report (P95DR10)	ELEXON	06/09/02	1.0
4	P95 Requirements Specification (P095AS10)	ELEXON	11/10/02	1.0
5	P95 Assessment Consultation (P095AC10)	ELEXON	08/11/02	1.0

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1 SUMMARY AND RECOMMENDATIONS

1.1 Recommendations

On the basis of the analysis, consultation and assessment undertaken in respect of this Modification Proposal during the Assessment Procedure, and the resultant findings of this report, the P95 Modification Group recommends that the BSC Panel should:

- **NOTE the contents of the P95 Assessment Report and the recommendations of the P95 Modification Group;**
- **AGREE that the draft Modification Report contain a provisional recommendation that the Alternative Modification P95 should not be made;**
- **In the event that the Authority determines that the Alternative Modification should be made AGREE an Implementation Date of 5 November 2003 if a decision is received from the Authority prior to 1 February 2003; or 25 February 2004 if a decision is received on or after 1 February 2003 and prior to 1 May 2003;**
- **AGREE that the draft Modification Report contain a provisional recommendation that the Proposed Modification P95 should not be made;**
- **In the event that the Authority determines that the Proposed Modification P95 should be made AGREE an Implementation Date of 5 November 2003 if a decision is received from the Authority prior to 1 February 2003; or 25 February 2004 if a decision is received on or after 1 February 2003 and prior to 1 May 2003;**
- **ENDORSE the recommendation of the P95 Modification Group and proceed to the Report Phase in accordance with Section F2.7 of the Code;**
- **NOTE that no Legal Text has been prepared with respect to the Proposed Modification;**
- **CONSULT with the Authority to determine if they would like the draft Modification Report to contain such text; and**
- **AGREE that the draft Modification Report be issued for consultation and submitted to the Panel Meeting on 16 January 2003.**

1.2 Background

Slough Energy Supplies Ltd submitted Modification Proposal P95 'Transitional Amelioration to Licence 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 to be carried out by a new Modification Group, the P95 Modification Group (P95MG), with a Definition Report to be presented at the September Panel meeting. At the September 2002 Panel meeting the Panel agreed to submit P95 to a 3-month Assessment Procedure.

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 (SSP) and System Buy Price (SBP) should be applied to all imbalances attributable to each LEG.

The Proposer suggests that there are currently barriers to LEGs' market participation and that allowing a 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 its portfolio. The result would be to ameliorate the

effects of the barriers for LEGs therefore better facilitating competition in the generation and supply of electricity.

Details of the consultation and assessment undertaken during the 3-month Assessment Procedure can be found in the following sections of this report:

- Section 4 provides a description of P95, the issues discussed by the P95MG and defines the extent to which the proposal would better facilitate the achievement of the Applicable Balancing and Settlement Code Objectives (Applicable BSC Objectives);
- Sections 5 to 9 assess the impact of P95 on the Code and Code Subsidiary Documents, BSC Agents, Core Industry Documents, ELEXON, Parties and Party Agents;
- Sections 11 and 12 summarises the representations made by industry participants to the consultation undertaken during the Assessment Procedure and the views and comments of the P95MG in respect thereof.

1.3 Rationale for Recommendations

The majority of the P95MG agreed that the Proposed Modification did not better facilitate achievement of the Applicable BSC Objectives. The P95MG believed that the Neutral Price defined within the Proposed Modification, the average of SSP and SBP, was no longer cost reflective under the current baseline recognising the approval of the Proposed Modification P78. The change in BSC baseline during the Assessment Procedure led to the P95MG identifying a better Alternative Modification.

The P95MG agreed that the Alternative Modification does better facilitate the Applicable BSC Objectives as compared to the Proposed Modification. The rationale for this was:

- the P78 Reverse Price as a Neutral Price is more appropriate as it is more cost reflective and the P95MG believed it was more neutral than the average price;
- the Exemptable Generating Plant Neutral Band implementation approach is less complex for BSC Parties and less costly overall (£430 000 versus £570 000 for BSC Agent development); and
- the Exemptable Generating Plant Neutral Band implementation approach retains the portfolio effect for BSC Parties.

However, the majority of the P95MG agreed that when compared to the current BSC baseline the Alternative Modification did not better facilitate achievement of the Applicable BSC Objectives. The majority of the P95MG believed that:

- unless it was reasonably clear that P78 would produce significantly non-cost reflective charges for Exemptable Generating Plant as compared to other Parties, then P95 would potentially introduce a cross subsidy between Parties, therefore not facilitating BSC Objective (c).
- it will decrease the incentive to balance, therefore not facilitating BSC Objective (b) as it does not promote efficient operation of the Transmission System by the Transmission Company.

However, a minority of the P95MG in support of the Proposed Modification and the Alternative Modification believed that cost reflectivity was not the only issue to be considered when considering the benefits to be gained under P95. Additionally they felt that both the Proposed Modification and the Alternative Modification promote competition in generation (BSC Objective (c)) as they address an existing distortion in the market. They believed that the benefit gained by increasing competition offsets other perceived barriers to Exemptable Generating Plant participation and outweighs any disbenefit seen from the cost of implementation, therefore facilitating the Applicable BSC Objectives overall.

In recognition of the divergent views of the Modification Group and the changes in BSC baseline due to approval of the Proposed Modification P78, the P95MG felt it was appropriate to bring the Alternative Modification to the Panel for consideration.

The P95MG agreed that due to the complex nature of the legal drafting for the Proposed Modification, no legal text should be commissioned at this stage. Therefore, the P95MG request that the Panel consult with the Authority on whether the Authority requires the Modification Report to contain legal text for the Proposed Modification.

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.

3 MODIFICATION GROUP DETAILS

This Assessment Report has been prepared by the P95MG. The Membership of the P95MG was as follows:

Member	Organisation
Justin Andrews	ELEXON (Chairman)
Steve Garrett	Slough (Proposer)
Bob Brown	Cornwall Consulting Ltd
Ian Calvert	British Sugar
Nick Dawber	Natural Power Ltd/ENER-G
Paul Dawson	Barclays Capital
Sarah Grimes	BGT
Martyn Hunter	Independent Consultant
Paul Jones	Powergen
Richard Lavender	NGC
Ali Lloyd	Independent Consultant
Martin Mate	British Energy
Bob Nicholson	Alcan
Colin Paine	RWE Trading Direct Ltd
Maurice Smith	Campbell Carr
Alec Thompson	London Electricity
Lisa Waters	Dynegy
Nigel Williams	Summerleaze
Joanne Ellis	ELEXON (Lead Analyst)
Melanie Henry	ELEXON (Legal)
John Lucas	ELEXON
Keith Champion	ELEXON

Additional attendees at the meetings included:

Attendee	Organisation
Tony Doherty / Tony Polack Adam Higginson / Simon Bradbury / Jo Witters	Ofgem
David Lyon / Robert Tudway	Nabarro Nathanson
Bill Reed / Ben Willis	Innogy
Jim Beynon	LE Group

Rachel Ace	British Energy
Rob Barnett	Campbell Carr
Ian Mullins	BP Gas Marketing
Terry Morley	St Clements Services

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 terms of reference is given in Annex 5.

4 DESCRIPTION AND ASSESSMENT AGAINST THE APPLICABLE BSC OBJECTIVES

4.1 The Process Followed

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 exist currently the following barriers to LEGs' market participation and that allowing a 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 its portfolio. The result would be to ameliorate the effects of the barriers for LEGs therefore better facilitating competition in the generation and supply of electricity.

The barriers to market participation suggested by the Proposer are:

- Cost reflectivity, namely, the imbalance charges imposed upon LEGs are excessive in comparison to the imbalance costs which they impose on the system;
- Difficulties in realising the value of embedded benefits;
- Illiquidity/granularity of in the market preventing LEGs from trading small volumes of energy; and
- Administrative burden of trading in the short term markets.

The IWA was presented to the Panel at their meeting on 18 July 2002 and the Panel agreed to submit P95 to the Definition Procedure, with a Definition Report to be presented at the September Panel meeting. During the Definition Procedure the P95MG agreed that the Proposed Modification should be defined as follows:

- P95 should be applied to all Exemptable Generating Plant based on the definition within section K 1.2.2 (c) of the Code, and that the definition should apply to both Central Volume Allocation (CVA) and Supplier Volume Allocation (SVA) Generating Plant. The P95MG believed that this definition was more equitable and was easier to identify than Licence Exempt Generating Plant would be;
- P95 should be seen as an enduring solution and should not have a 'sunset' clause included within it. The P95MG agreed that P95 should be seen as the enduring solution until such time that a different Modification Proposal is raised, should P95 be seen to better facilitate the Applicable BSC Objectives in relation to the current baseline;
- The neutral cash-out price is described within the Modification Proposal as the average of SSP and SBP. The P95MG believed this was a clear definition and noted that the Assessment Procedure was the appropriate phase for other potential alternatives to be considered; and
- The process for implementing P95 would 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 Exemptable Energy Account would then be settled at the neutral price up to a capped limit for each BM Unit. Any imbalance above that limit would be cashed out at SSP or SBP as is currently the case. The business processes for implementing this option and any cap to be applied was to be assessed further during the Assessment Procedure.

At the September meeting the Panel agreed to submit P95 to a 3-month Assessment Procedure. During the Assessment Procedure the P95MG met 8 times to discuss the issues and implementation details of the Proposed Modification and any potential alternative options and details of these discussions are given in section 4.2.

A requirements specification (reference 4), which gave details of the implementation methods for all options considered, was written and issued with the high level impact assessment to BSC Parties and BSC Agents. The responses to the impact assessment were discussed by the P95MG and used in reaching a decision on the preferred alternative option. The P95MG then issued a consultation document (reference 5) detailing the discussions held in the P95MG meetings on the issues identified during the Assessment Procedure and the justification for choosing the preferred alternative option.

At their last meeting on 28 November 2002 the P95MG reviewed the consultation responses and considered whether P95 better facilitates achievement of the Applicable BSC Objectives.

4.2 Potential Alternative Options

During the Definition Procedure the P95MG considered potential implementation methods and agreed on the one that should be considered as the Proposed Modification and one other possible implementation method. The rationale for this was to allow the Assessment Procedure to be carried out in 3-months. The two methods were the Exemptable Energy Account and the Exemptable Neutral Band.

During the Assessment Procedure the P95MG also discussed alternatives to the Neutral Price defined within the Modification Proposal. This led to four options representing the two different implementation methods and two definitions of neutral price. These are shown in the table below and were all assessed by BSC Agents, BSC Parties and the Transmission Company during the high level impact assessment:

		Implementation Method	
		Exemptable Energy Account	Exemptable Neutral Band
Neutral Price calculation	Ave. of SSP & SBP	Proposed Modification	Option A
	"P78 Reverse Price"	Option B	Option C (preferred method)

The two different implementation methods can be summarised as:

Exemptable Energy Account (Proposed Modification)	Creation of a new Energy Account against which a Party can choose to register Exemptable Generating Plant. BM Units registered against this account must only contain Exemptable Generating Plant and may have the imbalance attributable to them settled at the Neutral Price up to the total Exemptable Capacity (EC) of the account. Detailed further in section 4.3.3
Exemptable Neutral Band (alternative option)	Creation of a neutral band that will be settled at a neutral price up to the total registered EC against that Energy Account. This will allow Parties to register the amount of Exemptable Generating Plant that they have in their Production and Consumption Energy Accounts and have the imbalance settled at a neutral price irrespective of which BM Units cause the imbalance. Detailed further in section 4.4.2

The P95MG discussed the benefits and disbenefits of the two implementation methods and these are summarised below.

For Exemptable Energy Account compared to the Exemptable Neutral Band	Against Exemptable Energy Account compared to the Exemptable Neutral Band
The Exemptable Energy Account implementation method only takes into account the imbalance that can be attributed to Exemptable Generating Plant, whereas the Exemptable Neutral Band will settle imbalance up to a Exemptable Capacity at a neutral price, regardless of whether the imbalance can be attributed to an Exemptable Generating Plant.	The BSC Agent implementation cost is higher than that of the Exemptable Neutral Band option, and BSC Party costs are a lot higher than the Exemptable Neutral Band option.
The Exemptable Neutral Band option will reduce BSC Party's incentive to balance, however some P95MG members believed that in a long market it may encourage BSC Parties to be less long. The Exemptable Energy Account option will reduce balancing incentives to a lesser degree.	There will be an increase in the administration needed for the Exemptable Energy Account option compared to the Exemptable Neutral Band as for example new BM Units will need to be registered and Physical Notifications may need to be submitted. It was also noted that both options will lead to increased administration costs to deal with the Exemptable Capacity.
The Exemptable Neutral Band option will be more open to gaming compared to the Exemptable Energy Account option as the Exemptable Neutral Band gives BSC Parties a predictable capacity that will be settled at a neutral price regardless of the Exemptable Generating Plant imbalances.	Additional contract notification will need to take place to ensure that the energy from the Exemptable Energy Account is traded.
	Under the Exemptable Energy Account option BSC Parties trading with Exemptable Generating Plant in their portfolio will lose the benefit of aggregating the Exemptable Generating Plant imbalances with other portfolio imbalances.

4.2.1 Cost and Implementation timescales

A summary of the costs and impacts for all options, identified from the BSC Party, BSC Agent, BSCCo and the Transmission Company responses to the high level impact assessment are detailed below.

	Exemptable Energy Account (Proposed / Option B)		Exemptable Neutral Band (Option A / Option C)	
	Cost	Timescale	Cost	Timescale
BSC Parties	Ave. ~£200k	6 months	Ave. ~£30k	3 months
BSC Agent + BSCCo (implementation)	£570k + 3 months BSCCo man days	9 months (6+3)	£430k + 3 months BSCCo man days	8 months (5+3)
BSC Agent (operational)	£7k / month		£5K / month	
NGC		3 months (after Feb 2003)		3 months (after Feb 2003)
BSCCo operational	60 man-days	3 months	60 man-days	3 months

The P95MG noted that the BSC Party implementation costs were less for the Exemptable Neutral Band option than those for the Exemptable Energy Account option, ~£30 000 compared to ~£200 000. Therefore, the P95MG agreed it would be reasonable to assume that the percentage of benefit that would be passed back to the Exemptable Generating Plant would be greater.

Some members of the P95MG believed that as the overall costs for both implementation options were significant, there was little or no benefit to be gained from the Proposed Modification or Alternative Modification, so therefore there was no cost benefit to doing the changes. However, other members believed that implementation of either the Proposed Modification or one of the alternative options would introduce extra competition in generation and supply and this was not a benefit that could easily be identified.

The P95MG noted that the benefits from facilitating competition should be weighted against the other Applicable BSC Objectives when reaching their recommendations.

The P95MG also acknowledged that as P78 was due to be implemented in February 2003 no experience of cash-out prices under this mechanism had been obtained. Therefore, a more thorough cost benefit analysis could not be undertaken at this time.

4.3 The Proposed Modification

This section describes the Proposed Modification and the various issues discussed by the P95MG in the Assessment Procedure.

4.3.1 To whom does it apply?

The P95MG noted that, based on the experience of some of the members, "spill" energy was treated as a different "product" by BSC Parties when negotiating contracts as compared to a demand site with internal Exemptable generation. However, in order that P95 should be seen to be as fair and equitable as possible, the P95MG agreed it should not be restricted to "spill" plants or "spill" energy but should also include Exemptable Generating Plant embedded within a demand site.

Some members argued against including demand sites with Exemptable Generating Plant and no "spill" energy, on the grounds that it is difficult to determine what makes a demand site with Exemptable generation differently to those without any generation. It was questioned whether the intent of P95 was to treat these two types of site differently or not. It was agreed that any Exemptable Generating Plant should be allowed to be considered for P95.

The P95MG also agreed that P95 should not be restricted by the size of the Export or the Import on the premises and therefore it should address premises in both the CVA and SVA markets (within the SVA market both Half Hourly and Non Half Hourly sites). It was noted that under the current baseline it is not possible to have NHH Export energy taken into account for Settlement purposes. However, Modification Proposal P81 'Removal of the Requirement for Half Hourly Metering on Third Party Generating Plant at Domestic Premises' is currently with the Authority for decision and may address this issue, if approved.

The P95MG agreed that it was not appropriate to distinguish between predictable and unpredictable Exemptable generating plant, and therefore have differential treatment thereof.

A further issue raised by the P95MG was whether an Exemptable Generating Plant should be allowed to participate in the P95 mechanism if they only generate once a year, or only very occasionally. The P95MG agreed that all plants should have the option to be included in the P95 mechanism but that the amount of imbalance that can be settled at a neutral price should be declared by the BSC Party on a seasonal basis and should only include the Exemptable Generating Plant that is expected to generate that season.

4.3.2 Neutral Price Definition

During the Definition Procedure the P95MG discussed the neutral price definition and agreed that as it was clearly described within the Modification Proposal as the average of SSP and SBP, this definition would be used within the Proposed Modification. Any other definition identified would constitute a potential alternative.

During the Assessment Procedure for P95 the BSC baseline changed, as the Proposed Modification P78 'Revised Definition of System Buy Price and System Sell Price' was approved by the Authority (with an implementation date of 25 February 2003). P78 alters the definitions of SSP and SBP such that only one of the energy imbalance prices (i.e. SSP or SBP), depending on Net Imbalance Volume (NIV) of the system, would be calculated from energy balancing actions taken by the Transmission Company. The other price, "P78 reverse price" would be calculated from the forwards and spot markets.

The P95MG sought legal advice on how the change in baseline affected the proposed neutral price definition and whether the definition could be altered. The legal advice indicated that the new definitions of SSP and SBP as altered by P78 should be used for P95 and that it would not be appropriate to change the Proposed Modification definition of neutral price. Any change to the neutral price should be considered as an Alternative Modification.

The P95MG agreed that as P78 significantly changes the prices that will be seen as SSP and SBP the average would no longer be an appropriate neutral price. The rationale for this was that the SSP / SBP average would be higher than a neutral price when the market was short, and lower than a neutral price when the market was long. The P95MG therefore considered an alternative definition of the neutral price to be used by the P95 settlement mechanism to be more appropriate. Details of the alternative neutral price can be found in section 4.4.1.

4.3.3 Exemptable Energy Account

Based on the arguments presented and the costs and impacts associated with the Exemptable Energy Account implementation method (see section 4.2), the P95MG agreed that the preferred implementation method was the Exemptable Neutral Band. The P95MG agreed that this should be considered as a potential Alternative Modification. The details of these discussions and the rationale for the P95MG decision can be found in the following subsections.

4.3.3.1 Implementation Method

During the Definition Procedure the P95MG discussed several implementation methods and agreed that the Exemptable Energy Account option would be taken forwards as the Modification Proposal implementation solution. The rationale for this decision is given in the Definition Report (reference 3).

The P95MG discussed the implementation in further detail during the Assessment Procedure and a full description of the solution is given in the requirement specification (reference 4). The implementation method can be summarised as having the following key aspects:

- Registration of Exemptable Energy Account

If a BSC Party wishes to participate in the P95 mechanism it will be able to register a Exemptable Energy Account and against that account register BM Units that contained Exemptable Generating Plant. The BM Units registered to a Exemptable Energy Account must only contain Metering Systems that are related to premises containing Exemptable Generating Plant, however they can be registered in either SVA or CVA systems.

- Registration of Exemptable Capacity

The Lead Party for a BM Unit registered against the Exemptable Energy Account must provide a value of EC on initial registration, and then again prior to the beginning of each BSC Season. The EC is defined as the meter registrant's estimate (in MW) of the aggregate of the maximum gross generation in a Settlement Period (and not Export from the Premises) expected from each item of Exemptable Generating Plant within that BM Unit during the season. It should be noted that gross generation, unlike Export from premises, is not necessarily metered. For this reason, the Lead Party may have to seek the advice of the generator(s) operating the plant when setting the EC value.

In the case of 'meter splitting' i.e. splitting the energy at an SVA metering system between more than one Metering System Registrant in accordance with BSCP550, it is proposed that the EC should be shared between the BSC Parties. This means that they cannot all claim the full EC, even if they will all be receiving 100% of the generation at some point in the Season.

- Changes to Contract Notification Process

Once a Party has a Exemptable Energy Account, they will be able to authorise agents to submit Energy Contract Volume Notifications (ECVNs) and Metered Volume Reallocation Notifications (MVRNs) to the Energy Contract Volume Aggregation Agent (ECVAA). Under the current rules, an ECVN Agent Authorisation can relate to any two Accounts, while an MVRN Agent Authorisation can only relate to two Accounts with the same value of the Production / Consumption flag e.g. two Exemptable Energy Accounts, or two Production Accounts. It should be noted that an MVRN will transfer the energy associated with a BM Unit from one Account to another, but not the Exemptable Capacity associated to that BM Unit.

It should also be noted that the contract volumes notified need not necessarily correspond to the anticipated physical output of the LEG BM Units registered to that Account.

- Changes to Settlement Calculations

For each Exemptable Energy Account, the Settlement Administration Agent (SAA) will sum the EC values of the BM Units registered to that Account, to derive an Account Exemptable Capacity value. The Neutral Price will also be calculated as the average of SSP and SBP. For each Exemptable Energy Account and Settlement Period, the SAA will apply the Neutral Price to any imbalance volume, up until the Account Exemptable Capacity value. Any imbalance on the Exemptable Energy Account greater than the Exemptable Capacity will be settled at the SBP or SSP as currently.

- Changes to Settlement Reports

The following additional data items will be added to the Settlement Report (SAA-I014) and will be used to calculate the overall Party imbalance:

- (i) the Neutral Price that has been used for calculating Exemptable Energy Account imbalances;
- (ii) Account Exemptable Capacity i.e. the maximum amount of imbalance volume to which the neutral price could apply;
- (iii) The amount of Energy Imbalance Volume to which the neutral price was applied, this will always be less than the Account Exemptable Capacity; and
- (iv) The amount of Energy Imbalance Volume to which the neutral price was not applied (i.e. the amount settled at SSP or SBP).

4.4 Alternative Modification

The P95MG discussed the effect of the approval of P78 on P95 and the consequent need for an Alternative Modification, should it be shown to better facilitate the Applicable BSC.

The Alternative Modification is the same as the Proposed Modification, but with changes to the implementation method and Neutral Price as detailed below (referred to as Option C from the discussions in section 4.2).

4.4.1 Neutral Price Definition

During the Assessment Procedure for P95 the BSC baseline changed, as the Proposed Modification P78 was approved by the Authority (with an implementation date of 25 February 2003). P78 alters the definitions of SSP and SBP such that only one of the energy imbalance prices (i.e. SSP or SBP), depending on Net Imbalance Volume (NIV) of the system, would be calculated from energy balancing actions taken by the Transmission Company. The other price, "P78 reverse price" would be calculated from the forwards and spot markets.

The P95MG agreed that as P78 significantly changes the prices that will be seen as SSP and SBP, the average would no longer be an appropriate neutral price. The P95MG therefore considered an alternative definition of Neutral Price (NP_j) that would use the reverse price as calculated under the P78 rules. This will generally be the market price and will be calculated as follows:

- If the market is long (i.e. Net Imbalance Volume NIV_j is zero or negative), then $NP_j = SBP_j$
- If the market is short (i.e. Net Imbalance Volume NIV_j is positive), then $NP_j = SSP_j$

4.4.2 Exemptable Neutral Band Implementation Method

Based on the arguments presented and the costs and impacts associated with the Exemptable Neutral Band implementation method (see section 4.2), the P95MG agreed that this was the preferred implementation method and should be considered as a potential Alternative Modification. The details of these discussions and the rationale for the P95MG decision can be found in the following subsections.

4.4.2.1 Implementation Method

During the Definition Procedure the P95MG discussed several implementation methods and agreed that the Exemptable Neutral Band option would be taken forward as a potential alternative implementation solution. The rationale for this decision is given in the Definition Report (reference 3).

The P95MG discussed the implementation in further detail during the Assessment Procedure and a full description of the solution is given in the requirement specification (reference 4). The main difference between this implementation method and the Exemptable Energy Account option is that it does not create a separate Energy Account for Exemptable Generating Plant. Instead it allows the Neutral Price to be applied to the existing Production and Consumption accounts, if they have Exemptable Generating Plant registered to them. The implementation method can be summarised as having the following key aspects:

- Registration of Exemptable Capacity

As for the Exemptable Energy Account implementation method, values of EC will be provided on initial registration of a BM Unit with Exemptable Generating Plant within it, and then again prior to the beginning of each BSC Season. However, unlike the Exemptable Energy Account option this requirement applies to BM Units registered to the Production and Consumption Accounts, and does not require new BM Units to be registered.

- Changes to Settlement Calculations

The SAA will calculate the total Exemptable Capacity of a BSC Party for each Energy Account and will apply the Neutral Price to any imbalance volume, up until the Account Exemptable Capacity value.

- Changes to Settlement Reports

As for the Exemptable Energy Account option the following additional data items will be added to the Settlement Report (SAA-I014) and will be used to calculate the overall Party imbalance:

- (i) The Neutral Price that has been used for calculating Exemptable Energy Account imbalances;
- (ii) Account Exemptable Capacity i.e. the maximum amount of imbalance volume to which the neutral price could apply;
- (iii) The amount of Energy Imbalance Volume to which the neutral price was applied, this will always be less than or equal to the Account Exemptable Capacity; and
- (iv) The amount of Energy Imbalance Volume to which the neutral price was not applied (i.e. the amount settled at SSP or SBP).

4.5 Further Assessment issues

The P95MG discussed several issues when assessing P95 and the potential alternative options. Details of the discussions and the views expressed are detailed below. These discussions took place before the consultation and also once the consultation responses had been received from industry participants and the Transmission Company (see sections 11 and 12).

4.5.1 Discrimination

The Panel agreed that one of the terms of reference of the P95MG should be to address the issue of whether or not P95 was discriminatory.

The legal advice that the P95MG received indicated that although the Panel must ensure that the Code is given effect without undue discrimination between Parties or classes of Parties, it is not limited in the type of Modification that it can make to the Code. In effect, a Modification can introduce discrimination into the Code, as long as it can be shown to better facilitate one or more of the Applicable BSC objectives. Therefore, assessment of P95 and any alternative should be wholly against whether it better facilitates one or more of the Applicable BSC Objectives as set out in Condition C3 of the Transmission Licence.

Some members of the P95MG felt that the issue of discrimination should still be considered when determining whether or not the Proposed Modification or potential Alternative Modification better met the BSC Objectives, as discriminatory arrangements can distort competition. Other members of the group felt that LEGs were already discriminated against elsewhere in the trading arrangements and that the P95 would compensate for this.

4.5.2 Cost Reflectivity / Competition Issues

The majority of the P95MG agreed the only barrier that would be directly addressed by P95 was the issue of non cost-reflective imbalance prices and that the other barriers, listed in section 4.1, were secondary barriers that make it relatively difficult for Exemptable Generating Plant to manage non cost-reflective imbalance prices.

Other members believed that P95 directly addresses the barrier seen by Exemptable Generating Plant when realising the value of embedded benefits. They also believed that it addresses the effects of illiquidity and

administrative burdens by reducing the need for LEGs to escape the consequences of the first two barriers by trading in the NETA Markets.

The P95MG agreed that in order to assess if P95 better facilitates one or more of the Applicable BSC Objectives, the issue of cost reflectivity had to be first, then agreed a number of other criteria that had to be addressed in a logical sequence. Therefore, the P95MG agreed the following questions and resulting discussions would help assess whether P95 better facilitates the Applicable BSC Objectives.

- Are the baseline cash-out prices likely to be cost reflective under P78?
- Do any non cost-reflective charges differentially and adversely affect Exemptable Generating Plant?
- What will the effect of introducing P95 be on Exemptable Generating Plant and will there be any other, adverse effect on competition?

4.5.2.1 Are the baseline cash-out prices likely to be reasonable cost reflective under P78?

The P95MG believe that the cash-out prices once P78 has been implemented, should be more cost reflective than they currently are. However, it is unlikely that they will be completely cost reflective. They noted that currently the cash-out prices that will be produced under P78 are not exactly known.

Some members of the P95MG argued that as prices neither current, nor Post P78 implementation are or will be not totally cost reflective, something further needs to be done to promote competition in the Exemptable Generation market. Providing a more cost reflective and neutral price for a certain sector of the market would enable such competition to develop. Other members argued that the key issue is size and a 1MW imbalance is a 1MW imbalance irrespective of where it comes from and will cost the System Operator the same amount. Therefore, it was also argued that it was inappropriate to settle imbalances at different prices simply because one was associated with imbalance caused by Exemptable Generating Plant. It was also noted that one of the Applicable BSC Objectives relates to competition in generation and supply. Therefore, the relevant consideration is not whether premises with Exemptable Generating Plant are treated differently to those without, but whether competition between Exemptable Generating Plant and other generating plant is better facilitated.

Some members of the P95MG expressed the view that if the cash-out prices are not cost reflective under P78 then they will be so for all Parties. Therefore, the Code should not be changed to only compensate a certain type of plant. Other members of the P95MG believed that P95 is simply seeking to ensure that the different characteristics of Exemptable Generating Plant, compared to other generating plant are reflected, and changing the cash-out prices for them will recognise these different characteristics. It was suggested that if the issue is one of unfair contract pricing between BSC Parties and Exemptable Generating Plant then this is not an issue to be solved by a modification to the Code. The Proposer believed that the behaviour of Parties reflects the current market structure and P95 seeks to ameliorate the barriers identified. The P95MG noted these views and agreed that the Assessment Procedure should assess the Modification against the applicable BSC Objectives and the P95MG would then reach a decision on if it should be recommended for approval or not.

4.5.2.2 Do any non cost reflective charges differentially and adversely affect Exemptable Generating Plant?

Some members of the P95MG believed that the introduction of NETA has had a differential and adverse effect on smaller generators. DTI statistics were reviewed by the P95MG and the P95MG felt that they do indicate a significant fall in smaller generator output in 2001, compared to the previous year. However the P95MG felt that from the DTI statistics (or Ofgem's survey of NETA's first year) it was difficult to determine what the precise cause was e.g. changes in gas prices, the general impact of NETA on electricity prices or any potential adverse effect specifically focused on smaller generators. Whatever the degree of impact to date, the P95MG recognised that an important issue for assessing P95 was the likely impact of P95 against

the current BSC baseline with P78. As noted above it is believed that P78 will probably be more cost reflective than currently, but may not be completely cost reflective.

Some members of the P95MG expressed the view that even if P78 were to lead to totally cost reflective imbalance prices, the other barriers mentioned in P95 would still cause Exemptable Generating Plant to be disproportionately and adversely affected, as they would still have imbalance risk imposed on them without the means to manage it.

It was suggested by some members, that the other barriers mentioned in P95 are secondary to the effects of cost reflectivity and are not directly addressed by P95. Other members believed that the barriers to directly participate in the market are a function of size, which applies equally to demand. This was why demand is aggregated through a BSC Party in the wholesale market. Some members felt that this approach is also available to Exemptable Generating Plant.

A view discussed by the P95MG was that Energy Accounts (both Production and Consumption) with small contracted energy volumes, are not balanced as closely as Energy Accounts with larger volumes when measured as a proportion of the total Energy Account throughput. Some members felt that it was because such Parties are not able to trade out these small imbalances. This could indicate that there could still be a relative price penalty faced by an Exemptable Generating Plant that sought to trade on its own Energy Account as any lack of cost reflectivity in the cash-out regime could adversely affect such smaller generators when competing with larger ones.

Some members believed that Exemptable Generating Plant currently have an unfair burden placed upon them due to the non cost reflective cash-out prices passed on to them. They therefore believed that by implementing P95, Exemptable Generating Plant will get better energy prices from the BSC Parties with whom they are contracted. Other members believed that the basis on which Parties pass cash-out prices on to Exemptable Generating Plants is a contractual issue that would not be addressed by a change to the cash-out regime.

Other members suggested that as the energy volumes we are talking about are relatively small, and an administrative burden would be created by implementing P95 which could potentially be quite large for a BSC Party, the cost benefit that is passed back to the Exemptable Generating Plant would not be as great as expected.

The other barriers were discussed as follows:

Difficulties in realising the value of embedded benefits

Some members of the P95MG believed that currently there is a high risk associated with trading with Exemptable Generating Plant, as the imbalance prices are not cost reflective. Therefore if P95 were to be implemented this risk would be reduced.

It was also believed by some P95MG members that implementation of P95 would effectively be another embedded benefit for BSC Parties who would have no obligation to pass this benefit back on to the Exemptable Generating Plant.

Other members believed that if P95 were to be implemented there would potentially be an increase in competition, as more BSC Parties would be encouraged to trade with Exemptable Generating Plant in order to realise the benefits. This benefit would then by default be passed on to the Exemptable Generating Plant as it was expected that the contract prices would be better due to the nature of a competitive market.

Illiquidity in the market preventing LEGs from trading small volumes of energy

Some members of the P95MG believed even if Exemptable Generating Plant were to become BSC Parties and were therefore able to trade on the Power Exchanges, the low liquidity and insufficiently fine granularity of the markets would be a barrier.

It was also noted that consolidators provide an alternative to trading on the markets and it was agreed that independent consolidation services had not yet been developed materially in the market. Therefore, some members believed P95 was needed to help the Exemptable Generating Plant in the interim. Other members of the P95MG felt that BSC Parties with a large portfolio are effectively acting as a consolidator when contracting with Exemptable Generating Plant and therefore the service did exist. However, no conclusive evidence of whether the consolidation effects were or were not being passed on to the Exemptable Generating Plant was presented to the P95MG.

It was noted that BSC Parties trading with Exemptable Generating Plant, who are realising this consolidation effect, may lose some of this benefit should the Exemptable Energy Account option be implemented.

Administrative burden of trading in the short term markets

The P95MG agreed that there is cost associated with becoming a BSC Party, which could be seen as high for certain small players. However, it was argued that this is the same for any participant that wishes to be a BSC Party, not just participants that own Exemptable Generating Plant. Several members argued that the position was not the same for Exemptable Generating Plant as for larger generators, as the latter can manage their imbalance risk by trading in NETA markets. Nor was it the same for Exemptable Generating Plant and other parties such as licensed suppliers.

Some members of the P95MG suggested, that allowing BSC Parties with Exemptable Generating Plant to have their imbalance settled at a neutral price would encourage them to change their behaviour when dealing with Exemptable Generating Plant. This would therefore mean that organisations with Exemptable Generating Plant would not need to become BSC Parties and would not be faced with any BSC administrative burden.

4.5.2.3 What will the effect of introducing P95 be on the Exemptable Generating Plant and will there be any other, adverse effect on competition?

Some members believed that if P95 is implemented, although it may benefit smaller generators, it will have an adverse impact on competition because it will benefit some parties and not others. Specifically, it was noted that introducing P95 would have an effect on the Residual Cashflow Reallocation Cashflow (RCRC) which is either paid by or refunded to BSC Parties who have a physical position in a Settlement Period. Implementing P95 would mean that there is potentially less paid into the central system for balancing purposes and therefore the RCRC payments would be affected. This would therefore have an effect on any BSC Party that has a physical position in a Settlement Period.

One of the aims of P95 is to enable Exemptable Generating Plant to be less disadvantaged than they currently are and it has been suggested that currently the contracts that are struck between a BSC Party and an Exemptable Generating Plant pass through unreasonable imbalance prices that are not reflective of the imbalance that the BSC Party is being charged by the system. It was argued that should P95 be implemented the nature of these contract would change as there would be less risk attached to the imbalance attributable to an Exemptable Generating Plant and therefore the terms of the contracts with them would be more favourable. There are three types of commercial contracts that are used:

- **Spill contracts** contracts used when an Exemptable Generating Plant is unable to accurately predict its output. It is assumed that the BSC Party calculates an imbalance risk cost (on the basis of the prevailing SSP/SBP prices) in £/MWh and discounts the currently market price accordingly. The consolidation effect of having a number

of unpredictable Exemptable Generating Plant imbalances netting off each other in a large BSC Party portfolio could lead to a reduction in such discount and potentially a “better” price for the Exemptable Generating Plant.

- Fixed volume contracts contract used when an Exemptable Generating Plant can accurately predict its output could be to generate according to a pre-arranged forecast. Any deviations from this forecast will have to be notified to the BSC Party sufficiently far in advance for the BSC Party to take corrective balancing actions. Failure to notify such changes could cause the BSC Party to pass through the imbalance costs attributable to the unanticipated change. In this type of arrangement the Exemptable Generating Plant would obtain an energy price which is closer to the market price and which is not discounted for imbalance, however the Exemptable Generating Plant would face exposure to SSP/SBP if it is unable to meet its contracted position.
- Demand contracts for those sites where the Exemptable Generating Plant is embedded within the site and will never export any energy. The P95MG did not consider this type of contract during their discussions.

The P95MG investigated how these contracts might change for the implementation options detailed in sections 4.3.3 and 4.4.2 and reached the following conclusions:

Exemptable Energy Account

Under this option the main advantage for BSC Parties is the reduction in imbalance exposure that being cashed out a neutral price on their Exemptable Generating Plants would provide. As a result the Exemptable Generating Plants may find that BSC Parties are more incentivised to contract with them in order to increase the portfolio volume to which the neutral price would apply. Exemptable Generating Plant would potentially receive better prices for their generation, which would be discounted less for imbalance risk than is currently the case.

Exemptable Neutral Band

The BSC Party would know in advance the amount of imbalance, on its whole portfolio that could be settled at the neutral price, regardless of the performance of the Exemptable Generating Plant. The following effects could be seen on the different contract types:

- For spill contracts the contract would therefore potentially not be struck around a neutral price but on a percentage share of the BSC Party's total “rebate pot” e.g. a 10MW Exemptable Generating Plant knows that it will “earn” the BSC Party the neutral price on 10 MW of it's total Exemptable Capacity and will therefore seek a percentage of that “benefit”. This would effectively mean that the neutral price cash-out would effectively become another embedded benefit.
- For fixed volume contracts the Exemptable Neutral Band would diminish the BSC Party incentive to enter into such contracts unless the Exemptable Generating Plant was able to perform in such a way as to provide a tradable product in the BM window. As the BSC Party's neutral price “pot” is fixed by their total registered Exemptable Capacity the performance of the Exemptable Generating Plant to a fixed contract would no longer be relevant unless that volume was to be traded on as an energy product.

Under the Exemptable Neutral Band option, balancing of the Exemptable Generating Plant volumes is not required as the BSC Party is cashed out at the neutral price on the registered volume and not on the actual volume. This could be seen as diminishing the incentive to balance.

4.5.3 Effect of P95 on System Operation

The P95MG discussed the possible effect that implementation of P95 would have on the System Operator's ability to balance the system, and did not agree if there would or would not be an effect. The System Operator was asked to comment on this in their consultation response details of their response and the P95MG discussions are detailed in section 12.

4.5.4 Cross Subsidy

Some members believed that P95 could be seen as a cross subsidy between BSC Parties trading with an Exemptable Generating Plant in their portfolio and a BSC Party trading without an Exemptable Generating Plant in their portfolio. Furthermore the issue of cross subsidy had been highlighted as a reason for rejecting Modification Proposal P26 "Market Driven Trading Neutrality Band" which was similar to the principles of the Exemptable Neutral Band option.

The P95MG recognised that one of the reasons for rejection of P26 was that it did not accurately target imbalance prices at Parties who were out of balance. The P95MG discussed whether an imbalance caused by a Party without Exemptable Generating Plant requires more balancing actions to be taken than an identical imbalance caused by a Party with Exemptable Generating Plant in its portfolio. The P95MG agreed that if this were to be the case then it would be justifiable to target a greater proportion of the cost of those actions at Parties without Exemptable Generating Plant.

Some members of the P95MG commented that they did not see a difference between small imbalances be it from an Exemptable Generating Plant or any other premises and therefore had the view that it would indeed be a cross subsidy between BSC Parties.

Other members of the P95MG commented that as an Exemptable Generating Plant's current imbalance risk, passed on to them by their contracts with BSC Parties, is disproportionate in relation to their ability to manage it, the burden of that risk is currently higher than for Parties who can manage the risk effectively. The reasons that Exemptable Generating Plant cannot manage their own risk is because they cannot easily trade in the Balancing Mechanism and suffer from the barriers previously mentioned. Therefore reducing their imbalance risk will remove an excessive risk and this should not be seen as a cross subsidy.

4.5.5 Cost Recovery Mechanism

The P95MG noted that as the change could be used by all BSC Parties and as it would be a change to the Settlement mechanism. Therefore, they agreed that the costs should be borne by all BSC Parties as this is consistent with current charging mechanisms detailed in section D of the Code.

However, it was noted that most Exemptable Generating Plants are not Parties to the Code and therefore may find that contract prices have a higher administration change within them as the BSC Party they trade with will have to update their systems to trade under the P95 mechanism.

4.6 Assessment against the Applicable BSC Objectives

When reaching a decision on if the Proposed Modification and / or the Alternative Modification better facilitated achievement of the Applicable BSC Objectives the P95MG members took into account the discussions held during the Assessment Procedure (detailed in section 4.5), the impact assessment responses and the consultation responses.

The majority of the P95 Modification Group agreed that the Proposed Modification did not better facilitate achievement of the Applicable BSC Objectives. The P95MG believed that the Neutral Price defined within the Proposed Modification, the average of SSP and SBP, was no longer cost reflective under the current baseline

recognising the approval of the Proposed Modification P78. The change in BSC baseline during the Assessment Procedure lead to the P95MG identifying a better Alternative Modification.

The P95MG agreed that the Alternative Modification does better facilitate the Applicable BSC Objectives as compared to the Proposed Modification. The rationale for this was:

- the P78 Reverse Price as a Neutral Price is more appropriate as it is more cost reflective and the P95MG believed it was more neutral than the average price;
- the Exemptable Generating Plant Neutral Band implementation approach is less complex for BSC Parties and less costly overall (£430 000 versus £570 000 for BSC Agent development); and
- the Exemptable Generating Plant Neutral Band implementation approach retains the portfolio effect for BSC Parties.

However, the majority of the P95MG agreed that when compared to the current BSC baseline the Alternative Modification did not better facilitate achievement of the Applicable BSC Objectives. The majority of the P95MG believed that:

- unless it was reasonably clear that P78 would produce significantly non-cost reflective charges for Exemptable Generating Plant as compared to other Parties, then P95 would potentially introduce a cross subsidy between Parties, therefore not facilitating BSC Objective (c).
- it will decrease the incentive to balance, therefore not facilitating BSC Objective (b) as it does not promote efficient operation of the Transmission System by the Transmission Company.

However, a minority of the P95MG in support of the Proposed Modification and the Alternative Modification believed that cost reflectivity was not the only issue to be considered when considering to the benefits be gained under P95. Additionally they felt that both the Proposed Modification and the Alternative Modification promote competition in generation (BSC Objective (c)) as they address an existing distortion in the market. They believed that the benefit gained by increasing competition offsets other perceived barriers to Exemptable Generating Plant participation and outweighs any disbenefit seen from the cost of implementation, therefore facilitating the Applicable BSC Objectives overall.

In recognition of the divergent views of the P95MG and the changes in BSC baseline due to approval of the Proposed Modification P78, the P95MG felt it was appropriate to bring the Alternative Modification to the Panel for consideration and it is for this reason that it is included within the report.

5 IMPACT ON BSC AND BSCCO DOCUMENTATION

5.1 The Balancing and Settlement Code

Depending on whether the Alternative Modification or the Proposed Modification is implemented there are changes to different sections of the Code. A summary of the changes is given below for both the Modification Proposal and the Alternative Modification Proposal, and a detailed red lined version of the legal text for the Alternative Modification is included in Annex 6. The legal drafting is with the P95MG for final review and may need changes prior to being issued with the draft Modification Report.

If the baseline of the Code changes prior to implementation of P95, or if other Modification Proposals are to be implemented at the same time as P95, the legal text may need to be amended.

5.1.1 Proposed Modification

SECTION A: Parties and Participation

The P95MG agreed that the new Exemptable Energy Account should be optional and that Parties would have to request it to be able to benefit from the P95 arrangements. The P95MG also agreed that a Party should

only be able to have one Exemptable Energy Account and that the Transmission Company / Interconnector Users / Interconnector Error Administrator should not have an Exemptable Energy Account.

SECTION D: ANNEX D-1: Funding Shares

The P95MG agreed that the Main Funding Share calculation should be updated to include the Exemptable Energy Account. The P95MG agreed that ELEXON should investigate if the SVA Production Funding Share should be altered and what effect this would have on embedded benefits.

SECTION K: Classification and Registration of Metering Systems and BM Units

This section will need to be amended to give details of the "Exemptable Capacity" of a BM Unit along.

SECTION M: Credit cover and credit default

The P95MG agreed that the calculations defined for Production and Consumption Energy Accounts should be extended to include the Exemptable Energy Account.

SECTION P: Energy Contract Volumes and Metered Volume Reallocations

The P95MG agreed that the Exemptable Energy Account should have the same obligations as are already defined for the Production and Consumption Energy Accounts.

SECTION T: Settlement and Trading Charges

The P95MG agreed that Neutral Price definition should be $(SSP + SBP)/2$ and should be defined within Section T.

A new "Account Exemptable Imbalance Volume" should be determined from the Exemptable Capacity and should be applied only to the Exemptable Energy Account.

The P95MG also agreed that changes should be made to the calculation of Energy Imbalance Cashflow for the Exemptable Energy Accounts. These changes will mean any amount up to the Account Exemptable Imbalance Volume is cashed out at the neutral price and anything over that at SSP or SBP as is currently the case.

ANNEX X-1: General Glossary and ANNEX X-2: Technical Glossary

The P95MG agreed that any new definitions used in the sections mentioned above should be defined in Annex X. The changes as discussed for the potential Alternative Modification will also be required for the Proposed Modification.

5.1.2 Alternative Modification

SECTION K: Classification and Registration of Metering Systems and BM Units

This section will need to be amended to give details of the "Exemptable Capacity" of a BM Unit along with details of how it can be changed and to which Plant it applies.

SECTION T: Settlement and Trading Charges

The P95MG agreed that neutral price definition should be defined within section T and that the changes should be drafted in line with the P78 changes. A new "Account Exemptable Imbalance Volume" should be determined from the Exemptable Capacity.

The P95MG also agreed that changes should be made to the calculation of Energy Imbalance Cashflow for all Energy Accounts. These changes will mean any amount up to the Account Exemptable Imbalance Volume is cashed out at the neutral price and anything over that at SSP or SBP as is currently the case.

ANNEX X-1: General Glossary

The P95MG agreed that the Exemptable Generating Plant that should be allowed to take part in the P95 arrangements should be limited to plant that is connected in parallel to the Distribution System. This may mean that the Exemptable Generating Plant definition will need to be changed.

ANNEX X-2: Technical Glossary

The P95MG agreed that the Neutral price, Exemptable Capacity, Account Exemptable Imbalance Volume and Exemptable Generation Quantity should be defined in tables X2 and X3. The ELEXON Legal department will consider the exact details of these definitions.

5.2 Code Subsidiary Documents

The detailed changes necessary for the Proposed Modification have not been highlighted as without the legal drafting it has not been possible to identify all the changes that would be necessary to the Balancing and Settlement Code Procedures (BSCPs).

For the Alternative Modification changes have been identified to the following Code Subsidiary Documents;

BSCP15 'BM Unit Registration'	This will need to be updated to detail the process for registering and updating the Exemptable Capacity of a BM Unit. The BSCP will also need to specify the timescales needed for notification of Exemptable Capacity prior to the start of the BSC Season.
BSCP550 'Shared SVA Meter Arrangement of Half Hourly Import and Export Active Energy'	This will need to be updated to detail the process for assigning Exemptable Capacity to Parties trading a shared SVA Metering System.
NETA Data File Catalogue (NDFC)	Any changes to the data flows will need to be highlighted in the NDFC.
Business Process Model (BPM)	The BPM will need to be updated to reflect the changes to the Settlement and Registration processes.
CRA Service Description	The Central Registration Agent (CRA) Service Description will need to be updated in line with the changes to the business processes.
SAA Service Description	The SAA Service Description will need to be updated in line with the changes to the business processes.

5.3 BSCCo Memorandum and Articles of Association

No impact has been identified on the BSCCo Memorandum and Articles of Association.

5.4 Other Configurable Items

Impacts have been identified on the following configurable items and changes to them will be progresses should either the Proposed Modification or the Alternative Modification be approved.

SAA User Requirements Specification	The SAA user requirements specification will need to be updated to reflect the changes to the business processed necessary for either the Proposed Modification or the Alternative Modification.
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CRA User Requirement Specification	The CRA user requirements specification will need to be updated to reflect the changes to the business processed necessary for either the Proposed Modification or the Alternative Modification.
ECVAA User Requirement Specification	The ECVAA user requirements specification will need to be updated to reflect the changes to the business processed necessary should the Proposed Modification be approved. No changes are necessary for the Alternative Modification.

6 IMPACT ON BSC SYSTEMS

The BSC Systems and the BSC Agent processes have been assessed and the systems impacted are detailed below. Full details of the HLIA carried out by the BSC Agents can be found in Annex 1. The response indicated that the Proposed Modification or Option B would take 6 months (plus BSCCo management time) and would cost approximately £570 000 to develop plus £7 000 per month to operate. It also indicated that Options A or C (the Alternative Modification) would take 5 months and cost £430 000 to develop plus £5 000 per month to operate.

6.1 Registration

For the Proposed Modification or option B, the Central Registration Agent (CRA) systems will need to be updated to take account of the 'Exemptable Capacity' that should be registered for BM Units registered against the 'Exemptable Energy Account'.

The system will also need to be updated to assign an 'Exemptable Energy Account' to those Parties that apply to have one.

For option A or C the CRA systems will need to be updated to accept the 'Exemptable Capacity' for any BM Unit that the Lead Party wishes to use the P95 settlement arrangements for.

A new manual flow will need to be created for all options to allow the 'Exemptable Capacity' to be registered.

6.2 Contract Notification

The Proposed Modification and option B will have an impact on the Energy Contract Volume Aggregation Agent (ECVAA) systems as it will need to accept and handle both Energy Contract Volume Notifications and Meter Volume Reallocation Notifications for those Parties that hold 'Exemptable Energy Accounts'.

Changes will be required to several reports that are sent and received by the ECVAA, further details are given in the impact assessment.

No changes will be needed for options A and C.

6.3 Balancing Mechanism Activities

There will be no impact on the Balancing Mechanism Reporting Agent systems, as the neutral price will not be reported for any of the options considered.

6.4 Settlement

The Settlement Aggregation Agent (SAA) systems will need to be updated to change the cash out prices to take account of the neutral price and the amount of imbalance the should be settled at that price.

The SAA-I014 report will be changed to show the Neutral Price and the volume settled at the Neutral Price for all options. In the case of the Proposed Modification and option B the report will be modified to show the additional Energy Account.

7 IMPACT ON CORE INDUSTRY DOCUMENTS AND SUPPORTING ARRANGEMENTS

The core industry documents and other relevant documents have all been assessed and no impacts have been identified.

8 IMPACT ON ELEXON

An impact assessment has been carried out by ELEXON and has identified the following impacts on internal systems and processes.

Operational impact: impacts have been identified on the Settlement software used by the ELEXON Service Delivery team, TOMAS. This will require 3 months implementation and 60 man-days of effort.

Finance impact: if the Proposed Modification is implemented there will be an impact on the funding share calculations to be able to take account of the Exemptable Energy Account. The amount of work needed to change the systems and processes has not been assessed further, as the legal drafting has not been produced to detail the equations.

9 IMPACT ON INDUSTRY PARTICIPANTS

A high level impact assessment was issued with the P95 Requirements Specification (reference 4) to BSC Parties on 11 October 2002 with responses due by 25 October 2002. Responses were received from 8 BSC Parties. The detailed responses received are attached in Annex 2 and the impacts are summarised below.

The responses indicated that there will be a significant impact on BSC Party systems and that P95 should only be implemented if it can be achieved in the least costly manner. Some Parties also noted that the implementation of P95 has a substantial risk associated with it and that this should be taken into account when the P95MG consider if P95 should be implemented or not.

The responses also indicated that implementing any of the options would increase the overheads associated with dealing with Exemptable Generating Plant.

The timescales and cost identified in the responses are show in the table below.

	P95 Original / Option B		Option A / Option C	
	Timescale	Cost	Timescale	Cost
Response 1	3 months		3 months	
Response 2	6 months	~£22k	3 months	~£6k
Response 3	6 months	£200k +	3 months	£50k +
Response 4	6 months	£150K	6 months	£40k
Response 5	6 months	£250k – £500k	3 months	£50k - £75k
Response 6	5 – 6 months		3 –4 months	

Note that the two responses that indicated “no comment” or “no issues” have not been included.

10 LEGAL ISSUES

The P95MG agreed that due to the complex nature of the legal drafting for the Proposed Modification, no legal text should be commissioned at this stage. Therefore, the P95MG request that the Panel consult with the Authority on whether the Authority requires the Modification Report to contain legal text for the Proposed Modification.

11 SUMMARY OF REPRESENTATIONS

A consultation questionnaire seeking BSC Party and other interested industry participants opinions on whether or not the Proposed Modification and / or the potential Alternative Modification would better facilitate achievement of the Applicable BSC Objectives was issued on 11 October 2002, with a deadline for receipt of responses of 22 November 2002. The responses were then discussed by the P95MG at their meeting of 28 November 2002 and were used to help reach a view on whether the Proposed Modification or the potential Alternative Modification better facilitates achievement of the Applicable BSC Objectives.

Eighteen responses were received (58 BSC Parties and 6 non BSC Parties). The majority of responses indicated that they did not believe that implementing either the Modification or the Alternative Modification would better facilitate achievement of the BSC Objectives. The following table gives an indication of spread of responses. The P95MG noted that it was not the number of responses that should be taken into account but that it was the weight of argument that should be used when reaching a decision.

Q	No		Yes		No Comment		
	Responses	BSC Parties (Non BSC Parties)	Responses	BSC Parties (Non BSC Parties)	Responses	BSC Parties (Non BSC Parties)	
1	4	10	10	35 (5)	3	4 (1)	1 Neither (9 BSC Parties)
2	6	15	7	28 (5)	4	6 (1)	1 Neither (9 BSC Parties)
4	6	40	5	4 (5)	7	14 (1)	
5	8	44	4	2 (5)	4	6 (1)	2 not indicated (6 BSC Parties)
6	7	42	7	9 (5)	3	4 (1)	1 Depends (3 BSC Parties)
7	3	2 (4)	12	52 (1)	3	4 (1)	
8	12	55	4	2 (5)	2	1 (1)	
9	11	53	5	4 (5)	2	1 (1)	

Q	A		B		C		
	Responses	BSC Parties (Non BSC Parties)	Responses	BSC Parties (Non BSC Parties)	Responses	BSC Parties (Non BSC Parties)	
3	2	1 (1)	8	18 (4)	4	26	1 None (9 BSC) 3 No Comment (4 BSC & 1 Non)

Note: Bold shows the majority response.

Most of the issues raised in the consultation responses had previously been debated by the P95MG, the only new issue raised was one on P98 "Dual Notification of Contract Positions".

The P95MG noted that P98 is currently in the Assessment Procedure and would potentially ameliorate the barrier of illiquidity and granularity seen by Exemptable Generating Plant, should it be implemented. P98 will potentially reduce short-term imbalance and notification risk and promote shorter-term trading, thereby

enhancing market liquidity. The P95MG recognised that they should not consider other Modifications that have not yet been approved or rejected by the Authority and therefore noted the comment.

The questions asked during the consultation were:

1. Do you agree that the P78 Reverse Price is more appropriate as a Neutral Price for P95 than the SSP/SBP average defined in the Modification Proposal, under the P78 baseline? Please give rationale.
2. Do you agree that the Exemptable Neutral Band is a more appropriate implementation method for P95 than the Exemptable Energy Account method? Please give rationale.
3. Do you believe that the baseline cash-out prices, once P78 has been implemented, are likely to be (compared with the pre-P78 cash-out prices):
 - a) totally, or nearly totally cost reflective?
 - b) more cost reflective?
 - c) no change in cost reflectivity?
 - d) less cost reflective?Please give rationale.
4. If you believe that prices will not be cost reflective, do you believe that non-cost reflective charges differentially and adversely affect the Exemptable Generators P95 is intended to assist, to a significant degree? Please give rationale.
5. Do you believe that implementation of P95 or the potential alternative will ameliorate:
 - (i) any effects identified in Q3 and Q4?
 - (ii) the other barriers detailed in the Modification Proposal? Please give rationale.
6. Do you believe that Exemptable Generating Plant have special difficulty in managing their imbalance? If so, has that had an adverse effect on their ability to sell their output? Please give rationale.
7. Do you believe the implementation of P95 or the potential alternative would have an adverse impact on any parties? If so who and why?
8. Do you believe that the Modification Proposal P95 better facilitates achievement of the Applicable BSC Objective(s)? Please give rationale and Objective(s)
9. Do you believe that the potential alternative Modification as detailed in the consultation document better facilitates achievement of the Applicable BSC Objectives? Please give rationale and Objective(s)
10. Do you have any further comments on P95 that you wish to make?

18 responses, representing a total of 58 BSC Parties and 6 non-BSC Party, were received. The responses are attached as part of Annex 3 of this report and are summarised below.

The majority of the responses agreed with the P95MG view that the P78 reverse price should be used as the Neutral Price definition. The majority of responses also believed that prices would be more cost reflective after the implementation of P78.

The responses showed a split between supporting the Exemptable Neutral Band implementation method and the Exemptable Energy Account. However the P95MG noted that some respondents had indicated a response that did not support either of the implementation methods and therefore the majority actually supported the Exemptable Neutral Band as the better of the two implementation methods.

The P95MG also noted that the majority of responses indicated that they did not believe that implementation of P95 would ameliorate the effects of the barrier however most of these response were conditional on the response to a previous question.

There was a split view in the response to the question on if it was believed that Exemptable Generating Plant have special difficulty in managing imbalance. Some members of the P95MG noted that some

responses had not made a difference between the imbalance that a BSC Parties are exposed to and the “contractual” imbalance that non BSC Party Exemptable Generating Plant are exposed to.

12 SUMMARY OF TRANSMISSION COMPANY ANALYSIS

The P95 consultation was issued to the Transmission Company on 8 November 2002 with a response due back by the 22 November 2002.

In addition to the consultation questions detailed in section 11 the Transmission Company were asked to provide a response to the following questions:

A: What effect will the implementation of P95 or the preferred alternative option have on the ability of the System Operator to balance the system? Please give rationale

B: If you believe that implementing P95 may increase net imbalances then by what order of magnitude compared to current experience? Please give rationale.

The Transmission Company indicated that they agreed with the P95MG view that the P78 reverse price should be used as the Neutral Price and that they also believe that the Neutral Band implementation option is the more appropriate implementation method. However, they did express concerns that it did not target the “benefit” directly at the Exemptable Generating Plant.

The Transmission Company believe that P78 will more correctly target the cost of energy balancing actions at those causing the imbalance and that the prices will be more cost reflective as compared to the current operational baseline.

The Transmission Company does not believe that P95 will better facilitate achievement of the Applicable BSC Objectives as it will not incentivise Parties to balance their position. The Proposed Modification will, due to the Neutral Price definition, give parties the incentive to hold a position opposite to the market length, whereas the Alternative Modification has the potential to increase the volume of imbalance.

The Transmission Company also indicated that given an estimate of 6GW of Exemptable Generating Plant capacity there is a potential of 3GWh of imbalance being subjected to the Neutral Price. They also believe that some form of asymmetry will encourage participants to maximise the benefit of the neutral band and therefore estimate that most of the neutral band will translate into imbalance.

The P95MG discussed this view and agreed with the Transmission Company view. However, the P95MG also agreed that in a ‘long’ market participants could be incentivised to go ‘less long’ under the Alternative Modification.

13 PROJECT BRIEF

13.1 Proposed Modification

The implementation timescales required for the Proposed Modification have been given by BSC Agents, BSC Parties, the Transmission Company and ELEXON are given below:

Name	Implementation Timescale	Cost
Central Services Agent	6 months BSC Agent + 3 months ELEXON	£570k + 60 man days + £7k per month operational costs
ELEXON	3 months	60 man days

Total BSC Costs / Timescale	9 months	£570k + 120 ELEXON man days + £7k per month operational costs
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Name		Implementation Timescale	Cost
Transmission Company		3 months after February 2003	
BSC Parties	Minimum	3 months	~£20k
	Maximum	6 months	£250k +

This would therefore mean that the minimum timescale for implementation would be 9 months based on these estimates. As P95 requires complex changes and also will be implemented as part of a BSC Systems Release, the following Implementation Dates are recommended:

- 5 November 2003 if a decision is received from the Authority prior to 1 February 2003; or
- 25 February 2004 if a decision is received on or after 1 February 2003 and prior to 1 May 2003.

13.2 Potential Alternative Modification

The implementation timescales required for the Proposed Modification have been given by BSC Agents, BSC Parties, the Transmission Company and ELEXON are given below:

Name		Implementation Timescale	Cost
Central Services Agent		5 months BSC Agent + 3 months ELEXON	£430k + 60 man days + £5k per month operational costs
ELEXON		3 months	60 man days
Total BSC Costs / Timescale	9 months	£430k + 120 ELEXON man days + £5k per month operational costs	

Name		Implementation Timescale	Cost
Transmission Company		3 months after February 2003	
BSC Parties	Minimum	3 months	£7k
	Maximum	6 months	£50 - £75k

This would therefore mean that the minimum timescale for implementation would be 8 months based on these estimates. As P95 requires complex changes and also will be implemented as part of a BSC Systems Release, the following Implementation Dates are recommended:

- 5 November 2003 if a decision is received from the Authority prior to 1 February 2003; or
- 25 February 2004 if a decision is received on or after 1 February 2003 and prior to 1 May 2003.