

MODIFICATION REPORT for Modification Proposal P147**Introduction of a Notified Contract Capacity to limit Party liability in the event of erroneous contract notifications**

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RECOMMENDATIONS

Having considered and taken into due account the contents of the P147 draft Modification Report, the Balancing and Settlement Code Panel recommends:

- **That Proposed Modification P147 should not be made; and**
- **The P147 Implementation Date (in the event that the Authority determines that the Proposed Modification P147 should be made) of 23 February 2005 should an Authority determination be received before or on 28 May 2004, or 29 June 2005 should an Authority determination be received after 28 May 2004 but before or on 30 July 2004.**

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¹ The current version of the Balancing and Settlement Code (the 'Code') can be found at www.elexon.co.uk/ta/bscrel_docs/bsc_code.html

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SUMMARY OF IMPACTED PARTIES AND DOCUMENTS

The following Parties/documents have been identified as being impacted by Proposed Modification P147.

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

X = Identified in Report for last Procedure
N = Newly identified in this Report

1 DESCRIPTION OF PROPOSED MODIFICATION AND ASSESSMENT AGAINST THE APPLICABLE BSC OBJECTIVES

1.1 Modification Proposal P147

Modification Proposal P147 'Introduction of a Notified Contract Capacity to limit Party liability in the event of erroneous contract notifications' (P147) was raised by Npower Ltd ('the Proposer') on 19 November 2003. P147 seeks to introduce a new parameter, the 'Notified Energy Contract Capacity', into the Balancing and Settlement Code ('the Code') such that a Party can specify an upper limit on its contract notification volumes per Energy Account, and thus effectively limit the potential exposure to imbalance, specifically aimed at limiting the imbalance liability resulting from erroneous or malicious contract notifications. Furthermore, P147 proposes to put in place a warning mechanism whereby Parties are alerted when they reach a certain percentage (for example 80% and/or 90%) of the Notified Energy Contract Capacity.

The Proposer asserted that P147 would better facilitate achievement of the Applicable BSC Objectives because "P98² was approved on the grounds that by removing the risk of unlimited Settlement liability as the result of malicious or erroneous notifications it would encourage new entry by traders and thereby promote competition in generation and supply. By replacing Dual Notification with a voluntary limit on Settlement liability, the modification will replicate the benefits in the promotion of competition under BSC Objective (c). However, P98 was approved with a substantial cost attached, and was deemed to be neutral when assessed against BSC Objective (d). This modification will markedly reduce these costs, thus providing greater efficiency within the market and a benefit to customers, thus better fulfilling BSC Objective (d)."

On submission of the Modification Proposal, the Proposer requested that P147 be treated as an Urgent Modification (more detail about the rationale for the request, and the process followed, is provided in the Initial Written Assessment for P147 (Reference 2)). However, the Authority, on 21 November 2003, determined that P147 should not be granted urgent status, on the grounds that it did not exhibit any of the requisite characteristics (detailed in the Initial Written Assessment) for urgency to be granted. Therefore P147 was required to undergo the normal Modification Procedure.

The Panel considered the Initial Written Assessment for P147 at its meeting of 11 December 2003. The Panel agreed to submit P147 to a two month Assessment Procedure, with the assessment to be undertaken by the Settlement Standing Modification Group (SSMG). Furthermore, the Panel directed that P147 should not be considered to be replacing Approved Modification P98, and instructed the SSMG to assess P147 accordingly.

The SSMG met three times to consider P147, on 18 December 2003, 13 January 2004 and 3 February 2004. The SSMG, at its meeting of 18 December 2003, defined the requirements for the solution to the Proposed Modification and undertook a BSC Agent impact assessment on this solution. The SSMG also identified two potential alternatives to P147, namely a time constraint on the ability to submit notifications and a post event notification error rectification process which were also impact assessed by the BSC Central Service Agent.

The SSMG considered the Proposed Modification and the two potential alternatives at its meeting of 13 January 2004, and agreed that, pending the views of the industry consultation, the Proposed Modification should not be made, and that neither of the potential alternatives should be progressed.

The industry consultation was issued on 16 January 2004, allowing eleven Business Days for responses. The consultation comprised the detail of the solution for the Proposed Modification and the potential alternatives, and the SSMG deliberations thereon. The BSC Central Service Agent impact assessment

² Approved Modification P98 'Dual Notification of contract positions'.

was also provided for further information. The remaining impact assessments (Parties / Party Agents, Funds Administration Agent and BSCCo) were obtained in parallel with the consultation.

The SSMG considered the results of the consultation and the remaining impact assessments at its meeting of 3 February 2004, and agreed the recommendations to be made to the Panel in respect of the Proposed Modification and agreed the way forward for the potential alternatives.

The SSMG, whilst expressing sympathy with the issue that P147 was raised to address (namely the mitigation of the risk associated with the potential exposure to unlimited liability as a result of erroneous or malicious notifications), unanimously agreed to recommend to the Panel that Proposed Modification P147 should not be made, mainly as a consequence of the 'unworkability' of the mechanism, and to a lesser degree, the magnitude of the development and implementation costs associated with the Proposed Modification. Furthermore, the SSMG noted that only two responses were made in respect of the Party impact assessment, and proposed that this could be interpreted as indicating the potential for a low take up of the Modification, which would further limit the benefits of P147.

Given the unanimous lack of support for the Proposed Modification, the SSMG agreed that legal drafting should not be undertaken at this time in order to avoid incurring further expense. It should be noted that the Proposer did not support the Proposed Modification and furthermore, supported the decision not to obtain legal drafting.

Furthermore, the SSMG agreed that neither of the potential alternatives would better facilitate achievement of the Applicable BSC Objectives than the Proposed Modification, and that therefore neither should be progressed, resulting in there not being an Alternative Modification presented for P147. The SSMG noted the support from the consultation responses in respect of the post event notification error rectification process, and, in recognition of the general consensus that P147 is not the appropriate vehicle for progression of this process, agreed that it would be more appropriate to raise this issue with the relevant Standing Modification Group, outside of the P147 process. The SSMG finalised the Assessment Report by correspondence in the week ending 6 February 2004.

The Panel considered the Assessment Report for P147 (Reference 1) at its meeting of 12 February 2004. The Panel agreed with the recommendation of the SSMG, namely that Proposed Modification P147 should not be made. Furthermore, the Panel agreed the Implementation Dates for P147 in the event that the Authority should determine that Proposed Modification P147 should be made, namely 23 February 2005 should an Authority determination be received before or on 28 May 2004, or 29 June 2005 should an Authority determination be received after 28 May 2004 but before or on 30 July 2004.

As the SSMG had recommended to the Panel that no legal drafting be prepared for the Proposed Modification, the Authority was requested to indicate whether such legal drafting would be required. The Authority stated that legal drafting would not be required for the Proposed Modification, and therefore none is provided with this draft Modification Report.

The draft Modification Report was issued for consultation on 16 February 2004, with responses requested by close of play 1 March 2004, i.e. allowing 10 Business Days for responses. Seven responses were received in respect of the consultation on the draft Modification Report. With the exception of one 'no comment' response, the respondents were unanimous in supporting the provisional recommendation of the Panel that P147 should not be made, and were also unanimous in supporting the proposed Implementation Dates for P147 (in the event that the Authority determines that P147 should be made). The consultation responses contained no new, substantive arguments.

The Panel considered the draft Modification Report containing its provisional recommendations, and the consultation responses made thereon, at its meeting of 11 March 2004.

The Panel, having considered and taken into due account the contents of the P147 draft Modification Report, unanimously confirmed its provisional recommendations, namely that Proposed Modification P147 should not be made. However, the Panel agreed that, in the event that the Authority determines that P147 should be made, the Implementation Date for P147 should be 23 February 2005 should an Authority determination be received before or on 28 May 2004, or 29 June 2005 should an Authority determination be received after 28 May 2004 but before or on 30 July 2004.

The Modification Report was finalised and submitted to the Authority for determination on 16 March 2004.

1.2 Proposed Modification P147

The detail of the mechanism is provided as an Annex to the Assessment Report (Reference 1, Annex 7). However, the P147 mechanism can be summarised as follows:

1. A Party (optionally) registers its Notified Energy Contract Capacity, in MWh, for each of its Energy Accounts with the Central Registration Agent (CRA) or the Energy Contract Volume Aggregation Agent (ECVAA). The Notified Energy Contract Capacity is a Settlement Period value, representing the maximum aggregate contract volume for the specified Energy Account.

The Notified Energy Contract Capacity will be registered via a new automated report, such that the values can be amended by the Party at any time (not just within operational hours). Confirmation of the registered Notified Energy Contract Capacity values will be received either via the CRA – I014 Registration Report (where the registration takes place within the CRA) or via the ECVAA – I022 Forward Contract Report (where the registration takes place within the ECVAA).

2. The ECVAA will, on receipt of each notification, where the notification becomes effective within the next [48] Settlement Periods, calculate the aggregate contract volume for both counterparties and Energy Accounts, and where the aggregate contract volume (including volume(s) from the latest notification) breaches the Notified Energy Contract Capacity for either of the Parties, reject the notification to the submitting notification agent, and copy the rejection to both counterparties to the notification, specifying which Party has breached its Notified Energy Contract Capacity. Where the aggregate contract volume initially breaches 80% of the Notified Energy Contract Capacity, and / or where the aggregate contract volume has breached 90% of the Notified Energy Contract Capacity, a report will be sent to the affected Party detailing the percentage breach and the relevant Energy Account and the Settlement Period to which it applies.
3. At Gate Closure, the ECVAA will calculate the aggregate contract volume for each Party and Energy Account for Settlement Period j through Settlement Period $j + [48]$. Where the aggregate contract volume initially breaches 80% of the Notified Energy Contract Capacity, and / or where the aggregate contract volume has breached 90% of the Notified Energy Contract Capacity, a report will be sent to the affected Party detailing the percentage breach and the relevant Energy Account and the Settlement Period to which it applies. Notifications will not be rejected, as it will be the responsibility of the Party to take appropriate action on receipt of the warning.

As noted in section 1.1, with the agreement of the Authority there is no legal drafting provided for the Proposed Modification.

1.3 Issues raised by the Proposed Modification

The following issues were considered during the Assessment of Proposed Modification P147:

1. Terms of Reference for the Assessment of P147;

The SSMG considered the P147 specific Terms of Reference (provided in the Assessment Report) and noted the direction of the Panel that P147 should not be considered to be seeking to replace

Approved Modification P98 'Dual Notification of Contract Positions'. The SSMG therefore assessed P147 as a Modification, which, if approved, would be implemented alongside Approved Modification P98.

2. Proposed Modification P147 Mechanism and Workability;

During the discussion and the definition of the P147 mechanism, the SSMG uncovered a large number of complex issues specifically in terms of making the mechanism sufficiently flexible and useable such that it was possible to deliver the proposed benefits. The SSMG discussed these issues at some length, with its discussions summarised below, and concluded that the mechanism, (under any definition), offers limited benefit as it is unlikely that the mechanism could be used meaningfully by Parties. Consequentially, the SSMG believe that the mechanism proposed under P147 does not fully address the defect set out in the Modification Proposal, namely the mitigation of the potential exposure to unlimited liability as the result of malicious or erroneous notifications.

3. Proposed Modification P147 Development and Implementation Costs

The SSMG considered the Proposed Modification and the BSC Central Service Agent development and implementation costs associated with P147 (section 2). The SSMG noted that the change specific cost (and therefore the total cost) includes approximately £1.5 million attributable to additional hardware required to mitigate any ECVA performance degradation as a result of the increased processing.

The SSMG expressed the opinion that the BSC Central Service Agent development and implementation costs are of a magnitude that, even were the £1.5 million hardware costs to be removed, the costs of implementing P147 would outweigh the benefits, especially given the limitations of the mechanism, however the cost of implementing Proposed Modification P147, whilst a significant issue against supporting the Modification, was a second order issue compared to the infeasibility of the mechanism, but contributes to a degree to the decision to recommend that P147 should not be made.

These issues are discussed in detail in the Assessment Report and are not covered further here.

1.4 Assessment of how the Proposed Modification will better facilitate the Applicable BSC Objectives

In summary, the Panel unanimously supported the view of the SSMG in respect of P147 and the Applicable BSC Objectives. Therefore the Panel and SSMG do not believe that P147 is better at facilitating the Applicable BSC Objectives (c) and (d) than the current baseline. It should be noted that P147 is considered to be neutral to the remaining Applicable BSC Objectives. The Assessment Report (section 1.4) sets out the detailed rationale of the SSMG, which can be summarised as follows:

1.4.1 Applicable BSC Objective (c)

The inadequacies (i.e. 'unworkability' and complexity, section 1.3 (2)) of the mechanism proposed means that P147 would be unlikely to have the effect of removing the risk of unlimited Settlement liability resulting from malicious or erroneous notifications. Therefore P147 cannot be said to better facilitate achievement of Applicable BSC Objective (c), as where the risk is not removed the benefits, namely encouragement of new entrants, are not achieved.

Therefore the SSMG concluded, with the conclusion supported by the Panel, that P147 does not better facilitate achievement of Applicable BSC Objective (c).

1.4.2 Applicable BSC Objective (d)

The development and implementation costs associated with Proposed Modification P147 are material, and considering the dubious benefits of the proposed mechanism, far outweigh the delivered benefit of the Modification.

Therefore the SSMG concluded, with the conclusion supported by the Panel, that P147 does not better facilitate achievement of Applicable BSC Objective (d).

It should be noted that the SSMG, supported by the Panel, concluded that the (significant) costs associated with P147 are a second order issue, as the 'unworkability' and complexity of the mechanism mean that, even were the development and implementation costs minimal, the benefit offered by P147 would still be doubtful.

1.5 Consideration of an Alternative Modification

The SSMG considered two potential alternatives to Proposed Modification P147, a system based time constraint limit on submissions and a manual post event notification error rectification process (similar in application to Section P6 of the Code, only on a prospective basis). The SSMG determined that neither option should be progressed to form an Alternative Modification to P147, the detailed rationale for this is provided in section 1.5 of the Assessment Report, however, it can be summarised as follows:

1. The SSMG considered the first potential alternative comprising the time constraint on notification submission, and believe that this potential alternative does not fully address the defect that P147 identified (namely the mitigation of the risks of exposure to unlimited liability from erroneous or malicious notifications), as it will not prevent erroneous or malicious notifications being made during business hours which then cannot be rectified; and
2. The SSMG considered the second potential alternative comprising the post event notification error rectification process, and believe that this solution deviates significantly from the intent of the Proposed Modification, and goes further than the Proposed Modification in addressing the defect.

The SSMG therefore believe that a modification with the significance of a post event notification error rectification process should have a wider consideration than the SSMG, and therefore question the appropriateness of considering such a process without a wider audience. A number of the SSMG believe that there may be merit in a post event notification error rectification process, but believe that it should be raised as an issue to the Standing Modification Groups, or as a Modification in its own right, such that it gets an appropriate audience, rather than progressed as an alternative to P147.

1.6 Governance and regulatory framework assessment

It is envisaged that, were Proposed Modification P147 to be approved, potential consequential amendment to the Grid Trade Master Agreement (GTMA) would be required to reflect the amended liabilities where a notification is rejected as a result of a breach of the Notified Energy Contract Capacity, and the contract is not notified.

2 COSTS³

PROGRESSING MODIFICATION PROPOSAL

Demand Led Cost	£0
ELEXON Resource	40 Man days (equating to approximately £9600)

IMPLEMENTATION COSTS

* These tolerances are not available. Tolerances were not provided by the BSC Central Service Provider as a consequence of the size of the development required and the uncertainty surrounding the strategy for replacing the live hardware.

		Stand Alone Cost	P147 Incremental Cost	Tolerance
Service Provider⁴ Cost	Change Specific Cost	£1,924,631 **	£1,924,631 **	+/-*%
	Release Cost	£334,150		+/-*%
	Incremental Release Cost	£22,886	£22,886	+/-*%
	Total Service Provider Cost	£2,281,667 **	£1,947,517 **	+/-*%
Implementation Cost	External Audit	£182,500	£155,000	+/-20%
	Design Clarifications	£115,000	£97,500	+/-100%
	Additional Resource Costs	£0	£0	
	Additional Testing and Audit Support Costs	£40,000		+/-25% (£10,000)
Total Demand Led Implementation Cost	£2,619,167	£2,200,017	+/- *%	

³ Clarification of the meanings of the cost terms in this section can be found in annex 2 of this report

⁴ BSC Agent and non-BSC Agent Service Provider and software Costs

ELEXON Implementation Resource Cost		500 Man days (equating to approximately £200,000 per annum)	260 Man days (equating to approximately £104,000 per annum)	+/- 35%
Total Implementation Cost		£2,819,167	£2,304,017	+/- *%

** These costs include an indicative £1.5 million allocated to the implementation of new hardware required to prevent the degradation of the ECVAAs service as a result of the increased processing. The BSC Central Service Agent estimations of the hardware required to support P147 are based on a 'worse case' scenario, and therefore there may be some scope for assessing the assumptions made in respect of the hardware required, with a view to reducing it should the take up of P147 be less than that assumed.

ONGOING SUPPORT AND MAINTENANCE COSTS

	Stand Alone Cost	P147 Incremental Cost	Tolerance
Service Provider Operation Cost	£ Not provided	£ Not provided	
Service Provider Maintenance Cost	£59,448 per annum	£59,448 per annum	+/-*%
ELEXON Operational Cost	100 man days (equating to approximately £40,000 per annum)	100 man days (equating to approximately £40,000 per annum)	+/-*%

3 RATIONALE FOR PANEL'S RECOMMENDATIONS

In summary, the Panel have recommended that:

1. Proposed Modification P147 should not be made;

The Panel have unanimously agreed to recommend that Proposed Modification P147 should not be made as it does not better facilitate achievement of the Applicable BSC Objectives (for the rationale set out in section 1.4), namely that the Proposed Modification is not considered to fully mitigate the risk of erroneous or malicious notifications, as a consequence of the 'unworkability' and complexity of the mechanism, and therefore does not deliver the benefits associated with the risk mitigation. Furthermore, the costs associated with the development and implementation of P147 are material and outweigh the limited benefits delivered by P147.

2. The Implementation Dates should be 23 February 2005 (should an Authority determination be received before or on 28 May 2004) or 29 June 2005 (where an Authority determination is received after 28 May 2004 but before or on 30 July 2004), in the event that the Authority determines that Proposed Modification P147 should be made.

4 IMPACT ON BSC SYSTEMS AND PARTIES

An assessment has been undertaken in respect of BSC Systems and Parties and the following areas have been identified as potentially being impacted by the Proposed Modification and any Alternative Modification.

4.1 BSCCo

The BSCCo impact assessments (provided in full in Annex 6 of the Assessment Report) indicate that there are the following impacts:

- Development and implementation of P147. The materiality of the development incurs ELEXON resource of approximately 500 man days for a standalone implementation and development (i.e. worst case scenario), comprising approximately 445 man days of CVA Programme resource, 30 man days of Systems Assurance resource, and 22 days Service Delivery resource for changes to their systems and processes. Development and implementation as part of a BSC Systems release incurs incremental ELEXON resource of approximately 260 man days (comprising 205 man days of CVA Programme resource, 16 man days systems Assurance resource, and 22 man days of Service Delivery resource);
- The introduction of P147 has an impact on BSCCo, from the potential amendment to the CRA – I020 Operations Registration Report, to include the Notified Energy Contract Capacity. Furthermore, amendments to the ECVA – I022 Forward Contract Report to include the Notified Energy Contract Capacity have an impact on the ELEXON operational system TOMAS;
- BSCCo is also impacted by the potential extension of the scope of Trading Queries and Disputes to encompass disputes arising from the incorrect application of the Notified Energy Contract Capacity by the ECVA. It should be noted that it is envisaged that the process currently utilised for rectification following an ECVA System Failure could be used to make any rectifications following resolution of such a Trading Query or Dispute, with little amendment, since it is a manual process; and
- Supporting these Trading Queries / Disputes, and managing the Notified Energy Contract Capacity process, is envisaged to require a material amount of ELEXON resource, expected to have an approximate equivalence with the amount of effort required to support the Energy Indebtedness and Credit Default processing, approximated at 100 man days per annum operational support. Furthermore, supporting the queries / disputes raised under the P147 process will require access to ECVA information (for example Energy Account level aggregated contract volumes) in real time that is not currently available, which will need to be made available / obtained.

4.2 BSC Systems

The BSC Central Service Agent Impact Assessment is provided in full in Annex 3 of the P147 Assessment Report. It should be noted that the BSC Central Service Agent Impact Assessment comprises a number of potential options and the SSMG have chosen option 4 as the final solution for Proposed Modification P147.

System / Process	Potential Impact of Proposed Modification P147
Registration	The registration processes are impacted by the requirement for Parties to (optionally) register the Notified Energy Contract Capacity (via an automated interface) for each Energy Account. The Central Registration Agent (CRA) would be required to implement a new process and amend system functionality to enable this registration, and to notify the Energy Contract Volume Aggregation Agent (ECVA) of the relevant values.

System / Process	Potential Impact of Proposed Modification P147
Contract Notification	<p>The ECVAA will be required to put a process in place to derive the aggregate volume of contract notifications for each Energy Account when processing received notifications, thus ensuring that notifications that would have the effect of exceeding the Notified Energy Contract Capacity are rejected.</p> <p>ECVAA is impacted by the requirement for a new rejection reason code for notifications rejected because they would have the effect of increasing the aggregate contract volume on an Energy Account such that it exceeds the Notified Energy Contract Capacity.</p>
Credit Checking Systems	<p>The ECVAA will be required to implement a process which, at Gate Closure, checks the net aggregated contract volume for each Energy Account where there is a Notified Energy Contract Capacity registered, looking [n] Settlement Periods forward, and which warns the Party, via an automated e-mail where the aggregate contract volume reaches 80% and 90% of the Notified Energy Contract Capacity for any of the Settlement Periods checked.</p>
Reporting	<p>Additional reporting would be required to support the process of warning Parties where the aggregate volume of contract notifications is approaching the Notified Energy Contract Capacity.</p> <p>The rejection reason codes in the Rejection Feedback Reports for notifications require amendment, although it should be noted that the format of the report will not change.</p> <p>Furthermore, the Registration reports from the CRA (the CRA – I014 to Parties, and the CRA – I020 to BSCCo) / Forward Contract Report (ECVAA – I022) would require amendment to include the Notified Energy Contract Capacity variable, as would registration request reports into CRA (the CRA – I005 or a new automated and dedicated equivalent).</p>
Dispute Resolution	<p>It is envisaged that the scope of disputes would have to be extended / amended to reflect disputes raised where notifications that had the effect of exceeding the Notified Energy Contract Capacity have been erroneously accepted by the ECVAA.</p>

4.3 Parties and Party Agents

The introduction of P147 potentially has an impact on the systems of Parties and notification agents:

System / Process	Potential Impact of Proposed Modification P147
Party registration processes	<p>Parties are impacted by the requirement to register, if required, the Notified Energy Contract Capacity, and to receive amended registration reports (CRA – I014) / Forward Contract Report (ECVAA – I022) confirming the registered values.</p>
Party notification processes / systems	<p>Parties are impacted by the requirement to recognise that there is a new reason for notifications to be rejected by the ECVAA and therefore to implement processes to deal with such rejection.</p> <p>Furthermore, Parties will be impacted by the new rejection reason code in</p>

System / Process	Potential Impact of Proposed Modification P147
	the Rejection Feedback Reports from the ECVAA.
Party commercial arrangements Grid Trade Master Agreement (Commercial Agreement)	Parties may have to amend existing commercial agreements (such as the Grid Trade Master Agreement (GTMA)) to reflect the possibility for notifications to be rejected as a consequence of a breach of Notified Energy Contract Capacity, and to address any liability arising from such rejection where the counterparty to the rejected notification is consequentially exposed to imbalance.
Party Agent (ECVNA and potentially MVRNA) notification processes / systems	Notification Agents may be impacted by the requirement to recognise that there is a new reason for notifications to be rejected by the ECVAA and therefore to implement processes to deal with such rejection. Furthermore, notification agents will be impacted by the new rejection reason code in the Rejection Feedback Reports from the ECVAA.

5 IMPACT ON CODE AND DOCUMENTATION

5.1 Balancing and Settlement Code

The SSMG recommended to the Panel, as part of the P147 Assessment Report, that no legal drafting be prepared for the Proposed Modification. The Authority was therefore requested, at the Panel meeting of 12 February 2004, to indicate whether such legal drafting would be required. The Authority stated that legal drafting would not be required for the Proposed Modification, and therefore none is provided with this draft Modification Report.

Section	Potential Impact of Proposed Modification P147
Section M	M 'Credit Cover and Credit Default' may require amendment as it seems to be the most appropriate section for including the obligations surrounding the registration of the Notified Energy Contract Capacity, and the reporting whereby the aggregate contract volume is approaching the Notified Energy Contract Capacity.
Section P	P 'Energy Contract Volumes and Metered Volume Reallocations' may require amendment to cover the rejection process, where a notification is rejected as it has breached the Notified Energy Contract Capacity.
Section V	V 'Reporting' may require amendment to reflect the warning reports, where a warning message is issued to indicate that the aggregate contract volume is approaching the Notified Energy Contract Capacity.
Section W	W 'Trading Queries and Trading Disputes' may require amendment to reflect that the scope of disputes would have to be extended to incorporate disputes raised where notifications that had the effect of exceeding the Notified Energy Contract Capacity have been erroneously accepted by the ECVAA.
Section X, Annex X-1/X-2	Annex X-1 'Technical Glossary' and / or Annex X-2 'Technical Glossary' requires amendment to include a definition of Notified Energy Contract Capacity, and other definitions required to support P147.

5.2 Code Subsidiary Documents

Proposed Modification P147 would potentially impact the following Code Subsidiary Documents:

Item	Potential Impact of Proposed Modification P147
CRA Service Description	The CRA Service Description requires amendment to reflect the process for registering the Notified Energy Contract Capacity.
ECVAA Service Description	The ECVAA Service Description requires amendment to reflect the process for determining the aggregate contract volume, checking notifications received against the Notified Energy Contract Capacity, providing warning messages to Parties where the aggregate contract volume is approaching the Notified Energy Contract Capacity and rejecting notifications where the notification would have the effect of breaching the Notified Energy Contract Capacity.
BSCP71 'ECVNA and MVRNA Registration, Authorisation and Termination'	BSCP71 requires amendment to include the registration process for registering the Notified Energy Contract Capacity (as it seems the most appropriate BSCP to include this process in).
NETA Data File Catalogue (NDFC)	The NDFC requires amendment to reflect the new and amended reporting for P147, i.e. inclusion of the Notified Energy Contract Capacity in the registration reports (CRA – I014 and CRA – I020) / Forward Contract Report (ECVAA – I022), and potentially the new warning messages to Parties where the Notified Energy Contract Capacity is being approached.
Reporting Catalogue	The Reporting Catalogue requires amendment to reflect the new and amended reporting for P147, i.e. inclusion of the Notified Energy Contract Capacity in the registration reports (CRA – I014 and CRA – I020) / Forward Contract Report (ECVAA – I022), and potentially the new warning messages to Parties where the Notified Energy Contract Capacity is being approached.

5.3 Impact on Core Industry Documents and supporting arrangements

No impact identified.

6 SUMMARY OF CONSULTATIONS

Consultation question	Respondent agrees	Respondent disagrees	Opinion unexpressed
Do you agree with the Panel's views on P147 and the provisional recommendation to the Authority contained in the draft Modification Report that P147 should not be made?	6	0	1
Do you agree with the Panel's provisional recommendation concerning the Implementation Dates for P147?	6	0	1
Are there any further comments on P147 that you wish to make?	Yes 2	No 4	No comment 1

6.1 Summary of the consultation responses

Seven responses, on behalf of thirty one Parties, were received in respect of the consultation on the draft Modification Report.

With the exception of one 'no comment' response, all respondents agreed with the provisional recommendation of the Panel that Proposed Modification P147 should not be made. A number of these respondents re-iterated the rationale, provided by the SSMG and supported by the Panel, for not supporting P147, namely that:

- The solution is unworkable and overly complex, thus offering limited benefit; and
- The development and implementation costs of P147 outweigh the benefits delivered by the Modification.

It should be noted that one respondent expressed the opinion that the mechanism proposed by P147 could have the effect of limiting the risk of exposure to imbalance liability from erroneous or malicious notifications, and furthermore indicated that P147 should have been considered promptly as a way of avoiding the costs of implementing dual notification (Approved Modification P98). However, this respondent agreed with the Panel recommendation that P147 should not be made on the grounds that the cost of implementation outweighs the benefit.

All respondents, again with the exception of the 'no comment' response, supported the recommended Implementation Dates for P147.

Two respondents made further comments on P147, as follows:

1. One respondent indicated that there should be no changes to the notification procedure until the real impact of dual notification is understood. The respondent asserts that currently there appears to be little or no interest in dual notification and therefore, in its opinion, it would be sensible to wait and determine the benefit that Parties get from investment in dual notification before developing more solutions to potential problems; and
2. The other respondent raised concerns in respect of the costs associated with P147. The respondent noted that, in its opinion, the changes required to support P147 are relatively minor, but are incurring 'excessive' costs. The respondent raises the concern that other minor

amendments could be precluded on the grounds of cost, and suggests that measures to further control costs should be considered.

However, it should be noted that the consultation responses contained no new substantive arguments.

6.2 Comments and views of the Panel

The Panel, at its meeting of 11 March 2004, considered the consultation responses, and noted that the respondents to the consultation on the draft Modification Report unanimously supported the provisional recommendations of the Panel in respect of P147, namely that:

1. Proposed Modification P147 should not be made;
2. No legal drafting should be provided for Proposed Modification P147, as agreed by the Authority; and
3. The Implementation Date for P147, in the event that the Authority determines that P147 should be made, should be 23 February 2005 should an Authority determination be received before or on 28 May 2004, or 29 June 2005 should an Authority determination be received after 28 May 2004 but before or on 30 July 2004.

The Panel noted the concerns raised by one respondent in respect of the costs associated with the development and implementation of P147 (bullet (2) in section 6.1 above), but noted that BSCCo believe that the P147 development and implementation costs are commensurate with the magnitude of the BSC System changes required. The Panel also noted that BSCCo endeavour to ensure that the development and implementation costs associated with any change are cost-reflective and represent the most effective and efficient solution.

7 DOCUMENT CONTROL

7.1 Authorities

Version	Date	Author	Reviewer	Change Reference
0.1	13/02/04	Mandi Francis	Thomas Bowcutt	Initial draft for review
0.1	13/02/04	Mandi Francis	Sarah Parsons	Initial draft for review
0.2	16/02/04	Change Delivery		For Industry Consultation
0.3	04/03/04	Mandi Francis	Sarah Parsons	For Internal Review, incorporating consultation responses
0.4	04/03/04	Mandi Francis	Martin Thompson	For Internal Review
0.5	05/03/04	Change Delivery		For Panel Decision
0.6	16/03/04	Mandi Francis	Dena Harris	For Internal Review
1.0	16/03/04	Change Delivery		For Authority determination

7.2 References

Ref	Document	Owner	Issue date	Version
1	Assessment Report for Modification Proposal P147 (P147AR)	ELEXON	6 February 2004	FINAL V1.0
2	Initial Written Assessment for Modification Proposal P147 (P147IR)	ELEXON	5 December 2003	FINAL V1.0

ANNEX 1 CONSULTATION RESPONSES

The consultation was issued on 16 February 2004. Representations were received from the following Parties:

No	Company	File Number	No. BSC Parties Represented	No. Non-Parties Represented
1.	Powergen UK plc	P147_DR_001	14	0
2.	National Grid Company plc	P147_DR_002	1	0
3.	British Energy Power & Energy Trading Ltd	P147_DR_003	3	0
4.	Scottish Power UK plc	P147_DR_004	6	0
5.	Midlands Electricity plc	P147_DR_005	1	0
6.	British Gas Trading	P147_DR_006	1	0
7.	Scottish and Southern Energy	P147_DR_007	5	0

P147_DR_001 – Powergen UK plc

Respondent:	Powergen UK plc
No. of BSC Parties Represented	14
BSC Parties Represented	Powergen UK plc, Powergen Retail Limited, Cottam Development Centre Limited, TXU Europe Drakelow Limited, TXU Europe Ironbridge Limited, TXU Europe High Marnham Limited, Midlands Gas Limited, Western Gas Limited, TXU Europe (AHG) Limited, TXU Europe (AH Online) Limited, Citigen (London) Limited, Severn Trent Energy Limited (known as TXU Europe (AHST) Limited), TXU Europe (AHGD) Limited and Ownlabel Energy
No. of Non BSC Parties Represented	0
Role of Respondent	Supplier, Generator, Trader, Consolidator, Exemptable Generator and Party Agent

Q	Question	Response	Rationale
1.	Do you agree with the Panel's views on P147 and the provisional recommendation to the Authority contained in the draft Modification Report that P147 should not be made? Please give rationale.	Yes	We consider the original proposal to be unworkable, and the changes required to make it usable introduce unsustainable complexity. The relatively high cost is an additional reason to reject
2.	Do you agree with the Panel's provisional recommendation concerning the Implementation Dates for P147? Please give rationale.	Yes	

Q	Question	Response	Rationale
3.	Are there any further comments on P147 that you wish to make?	Yes	No changes should be contemplated to the ECVN processes until the real impact of P98 can be understood. Whilst there currently appears to be little or no interest in using Dual Notification it would be sensible to wait and see what benefit the trading community can get from its investment in P98 before developing more solutions to potential problems.

P147_DR_002 – National Grid Company plc

Respondent:	Louise Wilks
No. of BSC Parties Represented	1
BSC Parties Represented	National Grid Company plc
No. of Non BSC Parties Represented	
Non BSC Parties represented	
Role of Respondent	Transmission Company

Q	Question	Response	Rationale
1.	Do you agree with the Panel's views on P147 and the provisional recommendation to the Authority contained in the draft Modification Report that P147 should not be made? Please give rationale.	Yes	We do not believe that P147 better meets the BSC's applicable objectives, particularly in light of the estimated costs to implement and the ongoing implementation of P98.
2.	Do you agree with the Panel's provisional recommendation concerning the Implementation Dates for P147? Please give rationale.	Yes	Limited impact on Transmission Company
3.	Are there any further comments on P147 that you wish to make?	No	

P147_DR_003 – British Energy Power & Energy Trading Ltd

Respondent:	<i>Martin Mate</i>
No. of BSC Parties Represented	3
BSC Parties Represented	British Energy Power & Energy Trading Ltd, British Energy Generation Ltd, Eggborough Power Ltd
No. of Non BSC Parties Represented	
Non BSC Parties represented	
Role of Respondent	(Supplier/Generator/Trader/Consolidator)

Q	Question	Response	Rationale
1.	Do you agree with the Panel's views on P147 and the provisional recommendation to the Authority contained in the draft Modification Report that P147 should not be made? Please give rationale.	No/Yes	Please avoid putting two or more questions into one! We disagree with the SSMG and Panel view that the mechanism proposed would be unlikely to remove the risk of unlimited Settlement liability resulting from malicious or erroneous notifications. We consider it could effectively limit such liability, and ideally should have been considered promptly as a potential means of avoiding the costs of P98 (dual notification). However, we agree with the SSMG and Panel view that the claimed costs of implementing P147 would outweigh the benefits, and that the modification should not be made.
2.	Do you agree with the Panel's provisional recommendation concerning the Implementation Dates for P147? Please give rationale.	Yes	If approved, this modification should be implemented at minimum cost. Experience indicates that, for BSC services, allowing a long period for implementation best achieves this.
3.	Are there any further comments on P147 that you wish to make?	Yes	The costs associated with implementation are excessive, for what is functionally a relatively minor change. This suggests that many future minor changes to Trading Arrangements could be precluded because of prohibitive cost. Elexon and Ofgem should seek to establish more competition in service provision, or other measures, in order to control costs.

P147_DR_004 – Scottish Power UK plc

Respondent:	<i>David Finnigan</i>
No. of BSC Parties Represented	<i>6</i>
BSC Parties Represented	<i>Scottish Power UK plc; ScottishPower Energy Management Ltd; Scottish Power Generation Ltd; ScottishPower Energy Retail Ltd; SP transmission Ltd; SP Manweb PLC.).</i>
No. of Non BSC Parties Represented	<i>0</i>
Non BSC Parties represented	<i>N/A</i>
Role of Respondent	<i>Consolidator on behalf of Supplier/Generator/ Trader / Consolidator / Exemptable Generator / Party Agent</i>

Q	Question	Response	Rationale
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Q	Question	Response	Rationale
1.	Do you agree with the Panel's views on P147 and the provisional recommendation to the Authority contained in the draft Modification Report that P147 should not be made? Please give rationale.	Yes	We agree with the Panel's views and recommendation that the Proposed Mod P147 should not be made. On the basis that the excessive estimated costs for such an arrangement rendered the Proposed P147 inefficient.
2.	Do you agree with the Panel's provisional recommendation concerning the Implementation Dates for P147? Please give rationale.	Yes	
3.	Are there any further comments on P147 that you wish to make?	No	

P147_DR_005 – Midlands Electricity plc

Midlands Electricity PLC (Formally Aquila Networks PLC) would like to return a response of 'No Comment'.

Distribution Support Office & Deregulation Control Group, Aquila Networks plc

P147_DR_006 – British Gas Trading

Re: Modification Proposal P147 – Introduction of a Notified Contract Capacity to limit Party liability in the event of erroneous contract notifications

Thank you for the opportunity of responding to this draft modification report considering Modification Proposal P147. British Gas Trading (BGT) agrees with the Panel's provisional recommendation that P147 should not be made.

BGT do not believe the modification proposal better facilitates either Applicable BSC Objective (c) or (d). The intent of the proposal has some merit, however the solution appears to be unworkable and would not necessarily prevent an occurrence of the defect identified in the proposal. Furthermore the cost of implementing the proposed solution is significant and is not justified in view of the very limited benefits that could be delivered by this proposal.

BGT agrees with the proposed implementation dates as detailed in the draft modification report.

P147_DR_007 – Scottish and Southern Energy

This response is sent on behalf of Scottish and Southern Energy, Southern Electric, Keadby Generation Ltd., Medway Power Ltd. and SSE Energy Supply Ltd.

Further to your note of 16th February 2004, and the three questions listed in the Modification Report consultation for P147, we have the following comments to make:-

Q1 Do you agree with the Panel's views on P147 and the provisional recommendation to the Authority contained in the draft Modification Report that P147 should not be made? Please give rationale.

Yes, we agree with the proposed BSC Panel recommendation to the Authority that the Modification Proposal P147 should not be made.

Q2 Do you agree with the Panel’s provisional recommendation concerning the Implementation Dates for P147? Please give rationale.

If the Proposed or Alternative Modification Proposal P147 is approved, we agree with the proposed BSC Panel recommendation on the timing for the Implementation Date, as outlined in the Modification Report.

Q3 Are there any further comments on P147 that you wish to make?

Nothing further at this time.

ANNEX 2 CLARIFICATION OF COSTS

There are several different types of costs relating to the implementation of Modification Proposals. ELEXON implements the majority of Approved Modifications under its CVA or SVA Release Programmes. These Programmes incur a base overhead which is broadly stable whatever the content of the Release. On top of this each Approved Modification incurs an incremental implementation cost. In order to give Stakeholders a feel for the estimated cost of implementing an Approved Modification the templates shown in Attachment 1 have three columns:

- **Stand Alone Cost** – the cost of delivering the Modification as a stand alone project outside of a CVA or SVA Release, or the cost of a CVA or SVA Release with no other changes included in the Release scope. This is the estimated maximum cost that could be attributed to any one Modification implementation.
- **Incremental Cost** - the cost of adding that Modification Proposal to the scope of an existing release. This cost would also represent the potential saving if the Modification Proposal was to be removed from the scope of a release before development had started.
- **Tolerance** – the predicted limits of how certain the cost estimates included in the template are. The tolerance will be dependent on the complexity and certainty of the solution and the time allowed for the provision of an impact assessment by the Service Provider(s).

The cost breakdowns are shown below:

PROGRESSING MODIFICATION PROPOSAL	
Demand Led Cost	This is the third party cost of progressing a Modification Proposal through the Modification Procedures in accordance with Section F of the Code. Service Provider Impact Assessments are covered by a contractual charge and so the Demand Led cost will typically be zero unless external Legal assistance or external consultancy is required.
ELEXON Resource	This is the ELEXON Resource requirement to progress the Modification Proposal through the Modification Procedures. This is estimated using a standard formula based on the length of the Modification Procedure.

SERVICE PROVIDER⁵ COSTS	
Change Specific Cost	Cost of the Service Provider(s) Systems development and other activities relating specifically to the Modification Proposal.
Release Cost	Fixed cost associated with the development of the Service Provider(s) Systems as part of a release. This cost encompasses all the activities that would be undertaken regardless of the number or complexity of changes in the scope of a release. These activities include Project Management, the production of testing and deployment specifications and reports and various other standard release activities.
Incremental Release Cost	Additional costs on top of base Release Costs for delivering the specific Modification Proposal. For instance, the production of a Test Strategy and Test Report requires a certain amount of effort regardless of the number of changes to be tested, but the addition of a specific Modification Proposal may increase the scope of the Test Strategy and Test Report and hence incur additional costs.

IMPLEMENTATION COSTS	
External Audit	Allowance for the cost of external audit of the delivery of the release. For CVA BSC Systems Releases this is typically estimated as 8% of the total Service Provider Costs, with a tolerance of +/- 20%. At present the SVA Programme does not use an external auditor, so there is no External Audit cost associated with an SVA BSC Systems Release.
Design Clarifications	Allowance to cover the potential cost of making any amendments to the proposed solution to clarify any ambiguities identified during implementation. This is typically estimated as 5% of the total Service Provider Costs, with a tolerance of +/- 100%.
Additional Resource Costs	<p>Any short-term resource requirements in addition to the ELEXON resource available. For CVA BSC Systems Releases, this is typically only necessary if the proposed solution for a Modification Proposal would require more extensive testing than normal, procurements or 'in-house' development.</p> <p>For SVA BSC Systems Releases, this will include the management and operation of the Acceptance Testing and the associated testing environment.</p> <p>This cost relates solely to the short-term employment of contract staff to assist in the implementation of the release.</p>
Additional Testing and Audit Support Costs	Allowance for external assistance from the Service Provider(s) with testing, test environment and audit activities. Includes such activities as the creation of test environments and the operation of the Participant Test Service (PTS). For CVA BSC Systems Releases, this is typically estimated as £40k per release with at tolerance of +/-25%. For SVA BSC Systems

⁵ A Service Provider can be a BSC Agent or a non-BSC Agent, which provides a service or software as part of the BSC and BSC Agent Systems. The Service Provider cost will be the sum of the costs for all Service Providers who are impacted by the release.

	Releases this is estimated on a Modification Proposal basis.
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TOTAL DEMAND LED IMPLEMENTATION COSTS

This is calculated as the sum of the total Service Provider(s) Cost and the total Implementation Cost. The tolerance associated with the Total Demand Led Implementation Cost is calculated as the weighted average of the individual Service Provider(s) Costs and Implementation Costs tolerances. This tolerance will be rounded to the nearest 5%.

ELEXON IMPLEMENTATION RESOURCE COSTS

Cost quoted in man days multiplied by project average daily rate, which represents the resources utilised by ELEXON in supporting the implementation of the release. This cost is typically funded from the "ELEXON Operational" budget using existing staff, but there may be instances where the total resources required to deliver a release exceeds the level of available ELEXON resources, in which case additional Demand Led Resources will be required.

The ELEXON Implementation Resource Cost will typically have a tolerance of +/- 5% associated with it.

ONGOING SUPPORT AND MAINTENANCE COSTS

ELEXON Operational Cost	Cost, in man days per annum multiplied by project average daily rate, of operating the revised systems and processes post implementation.
Service Provider Operation Cost	Cost in £ per annum payable to the Service Provider(s) to cover staffing requirements, software or hardware licensing fees, communications charges or any hardware storage fees associated with the ongoing operation of the revised systems and processes.
Service Provider Maintenance Cost	Cost quoted in £ per annum payable to the Service Provider(s) to cover the maintenance of the amended BSC Systems.