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Modification Proposal P115 - Assessment Consultation

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d Related Documents

The following documents are referenced from within this document :

- 1 P115 Initial Written Assessment (P115IR) – Version 1.0, 10 January 2003
- 2 SVG Paper 25/351 – 4 March 2003 – P115 (Disapplication of PARMS Supplier Charges) – Feedback from the Volume Allocation Standing Modification Group (VASMG) on generic SVA issues identified.
- 3 SVG Paper 24/335 – 22 January 2003 - D0052 Flow (Affirmation of Metering System Settlement Details & BSC Party Agents obligations) and D0205 (Update Registration Details)

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1. INTRODUCTION

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

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

The document supports the Assessment Procedure of Modification Proposal P115.

2. MODIFICATION PROPOSAL OVERVIEW

2.1 Description of Modification Proposal

Modification Proposal P115 'Disapplication Of Supplier Charges Under Certain Circumstances' (P115) was submitted on 24 December 2002 by Innogy plc.

P115 proposes to allow the Panel to disapply part, or all, of the Menu of Supplier Charges for those periods where the application of such charges may be inconsistent with the status of the charges as "liquidated damages", or it may be otherwise unreasonable to apply them.

The Proposer suggests that such circumstances would include where:

- there is a known defect in the mechanism for calculating the charges and/or their re-distribution;
- the Performance Levels and Serials in respect of which the charges are applied do not take account of a recognised defect in industry process or arrangements;
- performance has been significantly impacted by a failure of a previous Supplier(s) to comply with obligations under the Code.

The Proposer believes that in such circumstances, payments due to "generic problems", combined with a Supplier's Monthly Cap, could dilute the resulting incentive on Suppliers to improve their own performance.

The Proposer believes that the removal of "generic problems" will raise performance to a level where the effect of caps is avoided, and that this would be a positive incentive for Suppliers to investigate the cause of problems due to their own failures.

2.2 Principle of Supplier Charges

One of the issues recognised in the Initial Written Assessment (Reference 1), and supported by the Panel, was to ensure that the Performance Assurance Framework was not compromised or weakened:

Supplier Charges seek to incentivise Suppliers to improve performance and are an important aspect of the Performance Assurance Framework (PAF). Any change to the way these charges are applied would need to ensure the incentive is adequately maintained and also consider the wider aspects of the PAF.

The PAF utilises a number of techniques to deal with under-performance in the Trading Arrangements, of which Supplier Charges are one technique. Poor Supplier Hub Management has been noted as a significant cause of the error in Supplier Volume Allocation. Activity has been instigated by the Panel, Performance Assurance Board (PAB) and ELEXON to address this issue with the industry.

Supplier Charges are an important component of the overall framework and primarily compensate non-Half Hourly (NHH) Suppliers for any energy allocation errors in Supplier Volume Allocation (SVA). In this respect they are expected to represent a genuine pre-estimate of the loss likely to be suffered by other Parties as a result of a failure by a Supplier to meet the applicable Performance Level. It is important to ensure that any

justification to disapply charges for one group of Suppliers also considers any reduction in the compensation for NHH Suppliers.

The chargeable Serials already allow for a percentage of error and the standards are not set at 100%. The work of the PAF Review/P99¹ established that these standards were appropriate and achievable.

Under the BSC the Registrant (Supplier) is responsible for Metering Systems and activities associated with those Metering Systems (Section L). As Registrant the Supplier appoints Agents to Metering Systems and should control these Agents (the 'Supplier Hub' principle) or take the necessary action to deal with issues.

Although the Modification Proposal does not specify the precise Serials to be considered within scope, the alleged defect is primarily about the overall performance of Suppliers, as measured by NHH Serial 1 and Half Hourly (HH) Serials 3, 5 and 7. It is these Serials that measure the quality of Settlement data, rather than the performance of the Supplier in physically submitting Settlement or performance data to the appropriate agents.

Table 2.1 – Current Serials and Performance Levels

Serial	Run	Description	Standard	Charge Apr 01–Mar 02 (£)	Charge Apr 02–Mar 03 (£)
1	R3	NHH Energy settled on Actual Data	78%	0.14	0.14
	RF		97%	1.47	1.49
2	SF	Provision of HH Energy Data (> 100kW)	100%	0.14	0.14
3	SF	HH Energy settled on Actual Data (> 100kW)	98%	0.14	0.14
4	R1	Provision of HH Energy Data (> 100kW)	100%	1.47	1.49
5	R1	HH Energy settled on Actual Data (> 100kW)	99%	1.47	1.49
6	SF	Provision of HH Energy Data (< 100kW)	100%	0.14	0.14
7	RF	HH Energy settled on Actual Data (< 100kW)	99%	1.47	1.49
9	-	Installation of HH Metering		2.76	2.79
10	-	Provision of PARMS Reports		26.19	26.53
11	-	Provision of Drill Down Data		26.19	26.53

Although the approval of P99 will make changes to the Serials, these four Serials remain the backbone to the Supplier Charges and will be combined as SP08.

2.3 Initial Assessment by VASMG

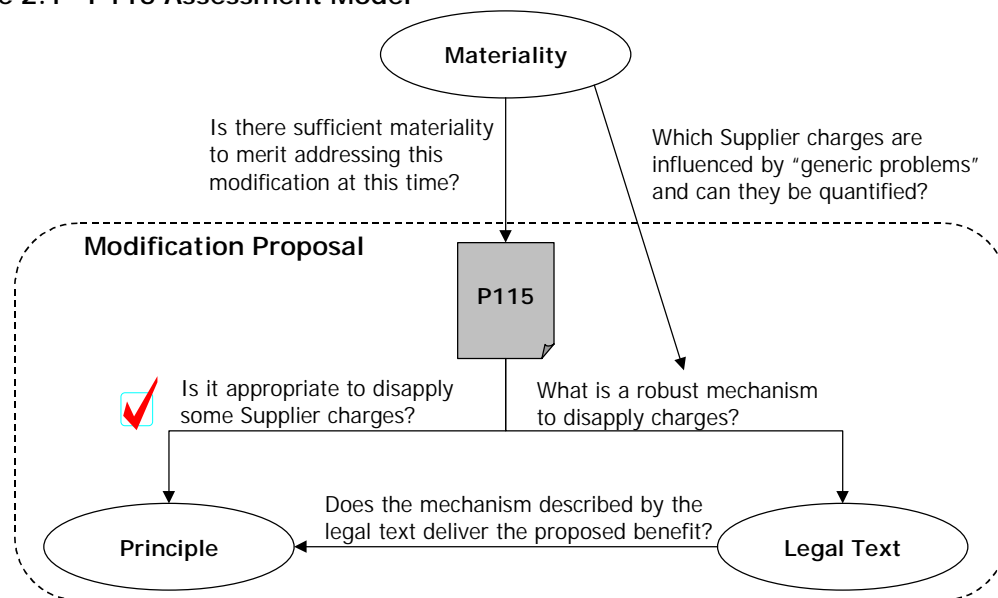
During their initial consideration of this Modification Proposal, the VASMG agreed that the defect identified by the Modification Proposal could lead to Supplier Charges that were not consistent with the status of those charges as "liquidated damages". Furthermore the majority of the VASMG supported the principle that "under such circumstances the Panel (or PAB) should have to ability to disapply part or all of the charges".

However, the VASMG also recognised the difficulties in defining a robust and cost effective mechanism capable of delivering the benefits identified in the Modification Proposal, and hence qualified their support for the principle until a feasible mechanism could be identified, and the Modification assessed against a defined and robust set of rules.

¹ Phase 1 of the PAF Review focused on the techniques of Accreditation, Audit, Entry Processes and the PARMS (Performance Assurance Reporting And Monitoring Service) Serials and Standards and resulted in Modification Proposal P99 'Changes to Accreditation and the PARMS Serials and Standards, resulting from the Performance Assurance Framework (PAF) Review (Phase 1)'.

In considering how this modification should be assessed, the VASMG recognised a wide-range of issues affecting the scope, definition and assessment of the Modification Proposal. They developed the model shown in Figure 2.1 to represent the relationship between these issues and their initial views on P115.

Figure 2.1 –P115 Assessment Model



Based on their qualified support for the principle, the VASMG identified the following as being key to the assessment of the Modification Proposal:

- fully understand what the Modification Proposal attempts to achieve;
- question whether the defect represents sufficient materiality to warrant a Modification at this time;
- determine which Supplier Charges are influenced by “generic problems” and attempt to quantify a way in which this can be measured.

The VASMG believed these were pre-requisites to being able to identify a robust mechanism and legal text to disapply charges. If successful this would allow a requirement specification to be drafted, against which impact assessments could be commissioned. This would then allow the VASMG to assess:

- whether the proposed mechanism was capable of delivering the proposed benefit;
- revisit whether it was appropriate to disapply some Supplier Charges;
- whether the proposed solution would better facilitate the achievement of the Applicable BSC Objectives.

Figure 2.1 also contains a dotted line around the Modification Proposal to indicate the scope of the Modification Proposal. This was added to highlight that the Modification Proposal is itself generic and is not linked to a particular problem, either now or in the future. This could affect how issues, such as the materiality, are considered applicable to the Modification Proposal.

The rest of the document is structured to reflect the initial questions identified by the VASMG:

- **Section 3** - provides a description of the perceived defect in the calculation of Supplier Charges and how the Modification Proposal may improve the application of charges;
- **Section 4** - provides background information related to the assessment of the Modification Proposal, such as how the Implementation Date for P68 may affect the proposal and an analysis of the materiality;
- **Section 5** - provides details of the VASMG's further discussions on the information provided within this document, their findings and views.

2.4 Current View of VASMG

At this stage in the Assessment Procedure the VASMG:

- support the principle that it may be appropriate to disapply Supplier Charges under certain circumstances;
- agree a number of market problems have been identified that could be considered to be generic, addressing these may well reduce the liability of Suppliers to pay charges;
- have not identified a mechanism to quantify the impact of these problems and hence have yet to identify a mechanism to allow charges to be disappplied;
- recognise that any solution is likely to be complicated and hence possibly costly to develop;
- note that other initiatives, such as Change of Supplier/Change of Agent (CoS/CoA), are being considered and that these may address some of the generic problems;
- agree that the materiality, as described in section 5.7, is complex. It does not suggest that Suppliers will face a material risk when Supplier Charges are applied, however, it also does not suggest that there is no merit to the Modification Proposal.

As a consequence the VASMG believe that it would be appropriate at this stage to consult Parties on their views regarding P115.

3. PERCEIVED DEFECT AND MODIFICATION PROPOSAL

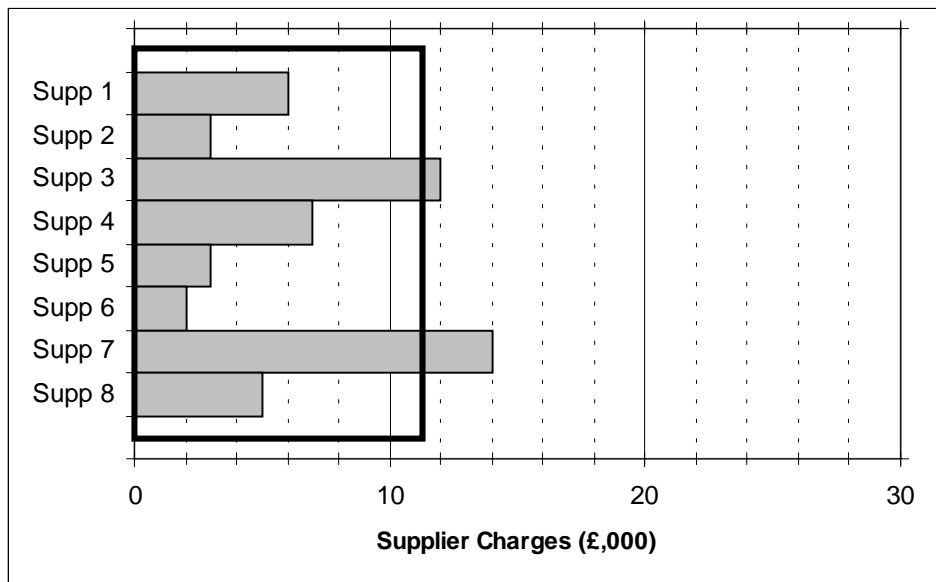
To help illustrate the intent of P115 and why it is proposed that a mechanism to disapply Supplier Charges is required, a series of simple examples are used. These model the basic components of Supplier Charges, namely:

- Suppliers are charged for failure to meet a defined Performance Level within each GSP Group;
- the majority of the collected charges are redistributed to NHH Suppliers in proportion to the NHH energy they take from each GSP Group;
- a small proportion of the collected charges are redistributed to each qualifying Trading Party;
- each Supplier's liability is capped, based on the energy they take from each GSP Group.

For these examples it is assumed that all Suppliers take an equal amount of HH and NHH energy, but have differing levels of performance. It should be noted that these examples have been simplified to allow easy comparisons and that more detail on the precise mechanisms and associated materiality is discussed in Section 4.

Figure 3.1 provides a representation of a simple GSP Group with 8 Suppliers and uses a thick black lined rectangle to bound all the capped charges that will contribute to the overall set of Supplier Charges. In this case it illustrates that only two Suppliers (Supp 3 and Supp 7) will have their charges capped.

Figure 3.1 – Example GSP Group



The collected charges will be distributed back to Trading Parties with 10% going to all Trading Parties (of which Suppliers also represent a proportion) and this reflects that all Trading Parties fund the PAF. The remaining 90% goes to NHH Suppliers primarily to compensate for energy allocation errors in SVA. This document will limit itself to consideration of this 90% as this represents both the majority of charges, and can also cause redistribution from HH to NHH Suppliers.

This redistribution of charges has a different impact depending on whether charges originate from NHH or HH Serials, and also each Supplier's mix of NHH/HH energy. This is illustrated in table 3.1.

Table 3.1 – Differences between HH and NHH Serials and Suppliers

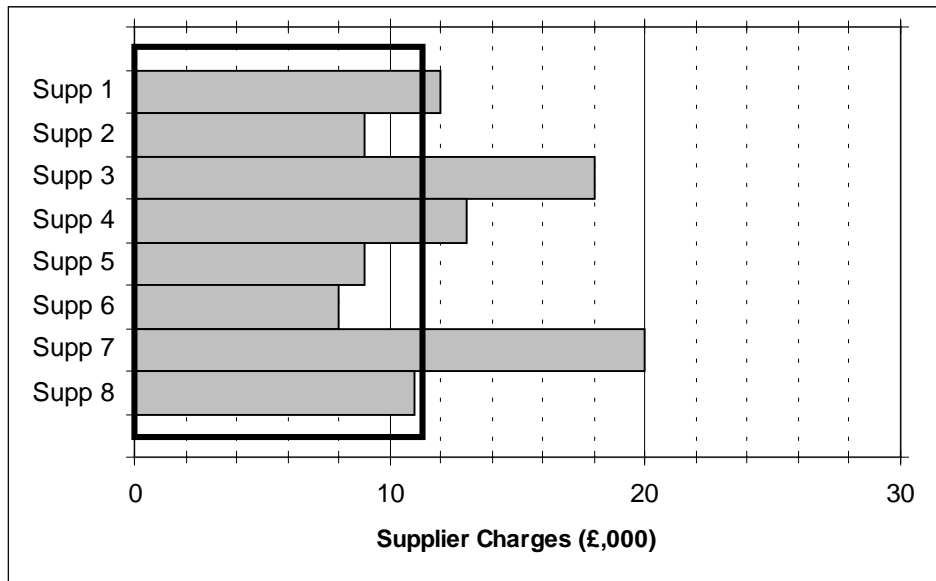
	HH Serials & Suppliers	NHH Serials & Suppliers
Serial	The main affected Serials are 3, 5 and 7.	The main affected Serial is 1.
Timeframe	The most significant charges are likely to occur from Serial 5 measuring performance at the First Reconciliation Settlement Run (R1).	The most significant charges will occur from measuring performance at Final Reconciliation Settlement Run (RF).
Incentive	The majority of charges will be redistributed from HH Suppliers to NHH Suppliers. Therefore the incentive on HH Suppliers will be related to the <u>absolute</u> level of the charges.	The majority of the collected charges are redistributed to the same group of NHH Suppliers. Therefore the incentive on NHH Suppliers will be related to the net value of each Supplier's charges (i.e. less any redistribution), in effect to their <u>relative</u> performance. As a result the better performing Suppliers can receive back more than they contribute, and vice versa.
Generic Problem	A "generic problem" will directly increase the absolute level of the charge for all HH Suppliers and hence increase the incentive.	A "generic problem" may not have a significant impact, as the subsequent redistribution has the ability to cancel out any common charges. This would be the case for the simple scenarios shown in Figure 3.1.
Supplier Cap	The number of HH Suppliers reaching their cap does not affect the incentive on an individual Supplier, which is simply limited by the maximum charge on that Supplier.	A large number of NHH Suppliers reaching the cap will cause the redistributed charge to a given Supplier to tend towards the collected charge from that Supplier and hence reduce the potential incentive.

It should be noted that the majority (i.e. 90%) of collected Supplier Charges compensate NHH Suppliers for their losses incurred by errors in the allocation of energy in Supplier Volume Allocation (SVA). These losses may remain for NHH Suppliers even if a problem is generic to all HH Suppliers. Hence any decision to disapply charges incurred due to HH Serials would need to consider the reduced redistribution to NHH Suppliers.

In contrast, for NHH Serials, the majority of collected Supplier Charges compensate the same group of NHH Suppliers. The perceived defect is that incentives from NHH Serials are undermined if a “generic problem” causes Suppliers to hit their caps. Therefore if a principle to disapply charges could be established, incentives would be sharpened and inefficient cost allocation would be reduced.

This problem is illustrated in Figure 3.2 where the charges have been increased and as a result the variation between each Supplier is reduced.

Figure 3.2 – Example GSP Group Reaching Caps



It should be noted that an increase as shown in Figure 3.2 is not necessarily caused by a “generic problem” and a challenge for the Modification Proposal is to determine how this could be measured.

Although the effect is fairly clear in the example, the natural variations within real data, such as: different energy takes; different mixes of HH/NHH energy; multiple Serials; monthly variations in a Supplier’s performance; and seasonal variation in the overall energy take, mean that in reality it is a lot harder to isolate and measure potential “generic problems”.

3.1 Modification Proposal P115

P115 proposes that some of the uncapped charges could be “disapplied”, such that a quantity (fixed or variable) representing a “generic problem” could be removed from the performance of each Supplier. In simple terms this removal of certain charges could be regarded as being similar to raising caps by a defined amount.

In terms of the previous example this can be illustrated by showing the rectangle bounding the capped charges as being movable, allowing the window to be placed over an appropriate area of the graph. This allows the area to the left of the window to be disapplied, and in the example this is a common amount per Supplier. Such an approach also reintroduces more variation between Suppliers, and hence increases the potential incentive delivered by the NHH Serials.

Figure 3.3 – Example of P115



- The Modification Proposal does not state how this should be achieved. The VASMG have identified the following issues to be considered further, when deciding how to determine a suitable value for the amount to disapply. In particular should such a value be:
 - the same for all Suppliers, or variable;
 - based on fixed rules or use discretion;
 - different for use on a short term, or long term, basis;
 - implemented automatically or manual.

Although many mechanisms could be considered, these can be grouped into three categories:

- **Statistical** – those which are based on the statistical distribution of the uncapped charges for all Suppliers. There are many possible functions, such as the mean or median, and also may involve approaches to remove outlying, unrepresentative Suppliers. Such an approach would be automatic, flexible and compared to other solutions would be easier to develop. It could also be seen as a logical way of better controlling the effect of the existing Supplier Caps. However, such an approach would be arbitrary, as it would not be directly linked to an identified and measured problem;
- **Measured** – the advantage of a statistical approach is that it can be easily described and once defined is relatively easy to apply. This disadvantage of it being considered arbitrary could be addressed by linking the amount to disapply to an identified problem and measurable Serial. Such an approach would need to ensure it benefits from being fairly automatic and yet can also be performed in a clear, measurable and robust manner against an identified problem. One difficulty would be the timing - i.e. how to provide the necessary infrastructure before the precise problem is identified;
- **Justified** - the problems in developing the previous approach may lead to less mechanical solutions, which can only be justified on a case by case basis, using evidence provided by the Supplier and considered by the Panel. This approach would

introduce the need to exercise more discretion in considering each problem, but could avoid being arbitrary and could be flexible to new problems.

Depending on which of the above was adopted, there may be a need to involve some form of claim by individual Suppliers to invoke the arrangements. This would potentially constitute a choice by Suppliers whether, or not, to avail themselves of this disapplication.

3.2 Alternative Approaches

The VASMG have identified two possible alternative approaches that may address the defect described in the Modification Proposal.

3.2.1 Other PAF Techniques to Improve Performance Levels

The PAF already has an approach to dealing with performance that is believed to be having an undue impact on the overall charges.

The standards within Annex S-1 allow for a margin of error and under-performance, for instance Serial 1 (RF) sets a minimum Performance Level of 97%. This already provides an approach that is both transparent and targeted at individual Serials.

It should be noted Performance Levels were considered as part of the PAF Review / P99 and modelling was used to confirm that for a Supplier operating an efficient hub, the targets were achievable. Although a minor change was proposed to Serial 1 (R3), the Performance Levels for Serials 1 (RF), 3, 5 and 7 did not change and were considered appropriate and achievable.

Issues relating to individual Party or Party Agent under-performance can also be dealt with using other PAF techniques such as targeted Technical Assurance visits, Error and Failure Resolution or Escalation.

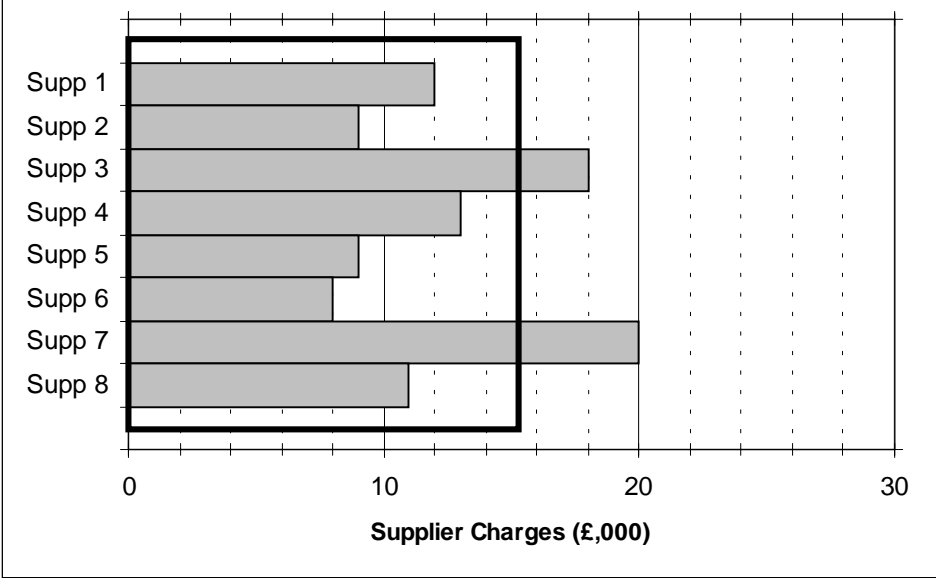
3.2.2 Raise the Supplier Caps

One of the causes of the perceived defect is when a number of Suppliers all reach their cap. An alternative approach would be to increase the values of the caps, and hence the effective size of the window. In Figure 3.2 the caps have been increased to a level where only Supp3 and Supp7 have their charges capped, which is the same as in the original example in Figure 3.1.

This could reintroduce variation between individual Supplier's charges, and hence one of the factors that affects the net liability for NHH Suppliers. For NHH Suppliers, and the simple data used in these examples, an increase in the original charge could be cancelled out by the subsequent redistribution to NHH Suppliers. However, increasing the overall level of the original charge would impact HH Serials and Suppliers who do not benefit from this redistribution.

At a recent meeting of PAB an action was placed on ELEXON to investigate this further. This work is ongoing.

Figure 3.4 – Example of Raising Supplier Caps



4. FACTORS AFFECTING ASSESSMENT

4.1 Supplier Charges Implementation

The Initial Written Assessment identified the following issue:

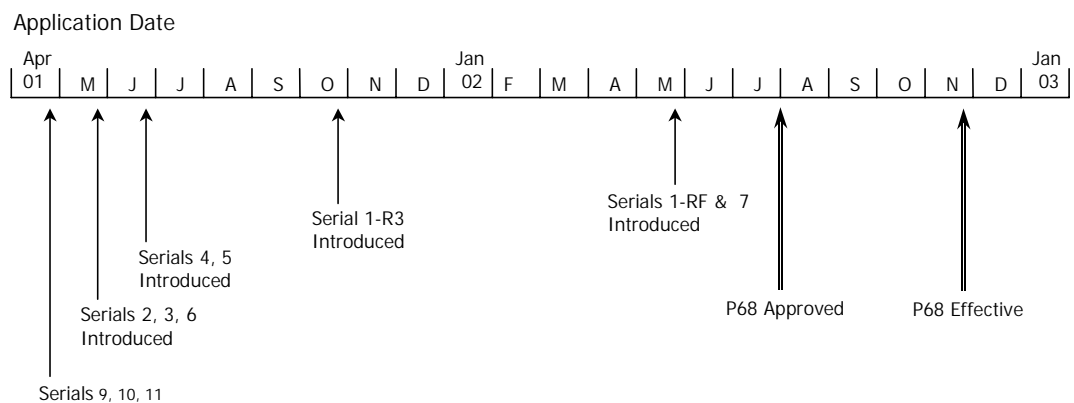
the activity to calculate and apply Supplier Charges that have accrued since Go Live will start in the first half of 2003. The Proposer believes that as P115 is about how Supplier Charges are applied, that any charges calculated and then applied after the Implementation Date could be subject to P115. This may imply a degree of retrospection.

In order to assess the impact of this the following section provides an overview of the activity to apply Supplier Charges, when each Serial will be introduced, and introduces Modification Proposal P68, which is also related to Supplier Charges.

The application of Supplier Charges has been delayed since Go-Live (in accordance with BSC S-1 3.11). During February 2003 the process to calculate and apply those charges that have accrued will commence. ELEXON will present 2-3 months worth of Supplier Charges to the Performance Assurance Board each month for consideration, until the backlog is addressed.

In addition there are no Supplier Charges for Settlement Days prior to 01 April 2001. This means that for the first couple of months of calculations only a subset of the Serials will be included in the Supplier Charges. This is shown in the figure 4.1, which shows the original "Application Date" for applying Supplier Charges, and the first month in which specific Serials will be introduced. As can be seen it takes 14 months of Settlement data for Serial 1 (RF) charges to be introduced, although the elapsed time starting from February 2003 will be approximately 6 months.

Figure 4.1 – Application of Supplier Charges and P68



This figure also shows the introduction of P68 'Modification to the BSC relating to the setting of Supplier Caps for use in the Supplier Charges (Liquidated Damages) calculation'. This Modification Proposal was approved on 24 July 2002 with an Implementation Date of 01 November 2002.

At that time this was a prospective Implementation Date. However because of the way in which Supplier Charges are calculated, the process still takes input from Volume Allocation

Runs for Settlement Days prior to the 01 November 2002 – i.e. for Applicable Settlement Days as defined in Annex S-1.

As a result P68 will influence charges related to Settlement Days for which the applicable Volume Allocation Run was on or after 01 November 2002. This means that during the catch up process, P68 will not affect 6 months of Serial 1 (RF) data and 13 months of Serial 1 (R3) data, even though all physical calculations are performed, and charges levied, after November 2002.

In relation to discussions on Implementation Dates, it also important to note that P115 is about the provision of a general facility to allow Supplier Charges to be disapplied. Any Implementation Date would relate to that facility, and not to any decision to disapply any specific charges.

Any future discussion on disapplying charges due to a specific problem would also need to consider which Serials would be eligible for being disapplied, and from what date. Depending on the approach taken this facility may need to be built into the proposed solution.

4.2 Materiality

The Initial Written Assessment identified that the materiality of P115 was unclear, especially with the ongoing CoS/CoA initiative, and that P99 was still with the Authority for determination. This was an issue that concerned the Panel and hence they requested that the VASMG investigate the materiality further, to discover whether it was of sufficient materiality to warrant a change at this time.

An important aspect in considering any materiality is, to what extent has the performance of Suppliers been impacted by “generic problems”, i.e. the failure of other Suppliers, or their Supplier Agents, or problems with industry processes. This is a difficult area to measure and is considered further in Section 5.4 and Annex B. A second aspect is how Supplier Charges are expected to perform under the current arrangements and how they could be (or are being) influenced by “generic problems”. This section concentrates on the second of these.

As stated in the previous section, the activity to apply Supplier Charges since Go Live has just commenced and until the Serial 1 (RF) data is included it will not be possible to get a full picture of the potential materiality of the Modification Proposal. In addition the commercial nature of Supplier Charges and the existing rules for publication of performance data means any analysis by the VASMG is high level.

This section provides some key market statistics, which have been provided to the VASMG to help form an opinion as to the anticipated materiality on the Supplier Charges.

They include:

- Monthly “GSP Group liability caps”, to show the maximum a Supplier can expect to be charged;
- Serial 1 (RF) Performance, as this is expected to dominate Supplier Charges with the current performance;
- Information on how caps will affect the collection and reallocation of Serial 1 charges.

4.2.1 Monthly Supplier Caps

One of the safeguards to limit a Supplier's exposure to Supplier Charges is their cap.

A different GSP Group liability cap is determined for each GSP Group. The same value applies to that GSP Group for each month in a year, and is revised annually. The latest two years are shown in Table 4.1 and show that the maximum exposure within any one GSP Group currently ranges from £60,015 to £164,134 per month and averages £110,000.

Table 4.1 – Current Monthly GSP Group Liability Cap

GSPG	Apr 01-Mar 02 (£)	Apr 02-Mar 03 (£)
_A	168,803	164,134
_B	128,763	135,890
_C	122,689	127,567
_D	76,089	75,254
_E	128,366	129,357
_F	73,599	75,055
_G	117,378	119,036
_H	149,599	152,166
_J	102,343	99,537
_K	54,568	60,015
_L	75,230	73,766
_M	111,998	114,479
Total	1,309,425	1,326,256

The GSP Group liability cap is further sub-divided on a monthly basis to determine each Supplier's Monthly Cap for that GSP Group. This process is based on the Suppliers Cap Take (or Supplier Deemed Take prior to P68), i.e. the aggregate HH and NHH energy for the whole month.

For charges associated with HH Serials the Supplier's Monthly Cap will represent the maximum liability for that Supplier.

For charges associated with NHH Serials it is more complex, as the NHH Suppliers will also receive a proportion of the 90% redistributed back to NHH Suppliers. This means that only 10% of the collected charges would represent a net loss to the group of NHH Suppliers - i.e. between £6,000 and £16,400 per month per GSP Group.

However, this is an aggregated figure and the net liability for each Supplier is still able to reach their own cap², with other NHH Suppliers consequentially receiving a higher redistribution. With the current performance levels across the NHH market such extreme events are expected to be rare.

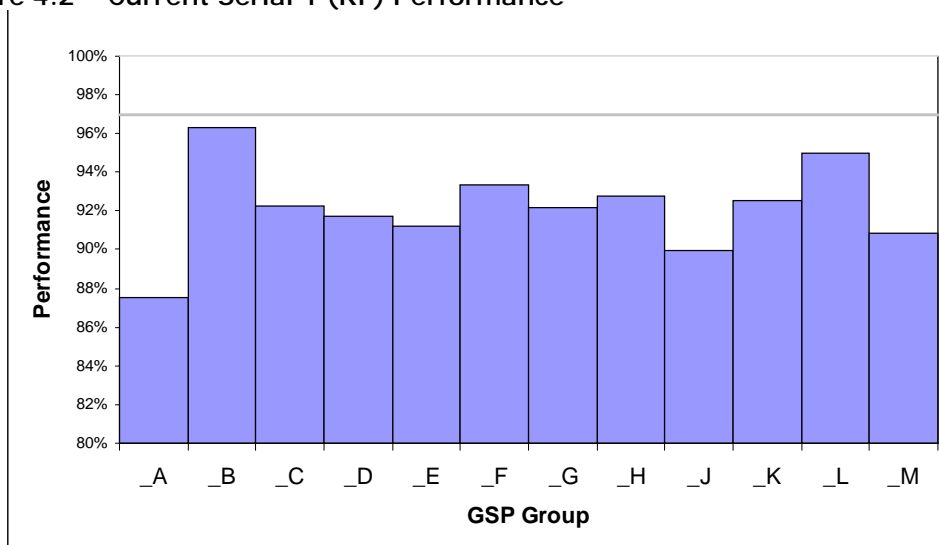
² This extreme case can occur if the Supplier's own performance is sufficient to reach their own cap and they do not receive anything back for other Supplier's poor performance. This could occur because no other Supplier in the GSP Group is being charged, or more likely the Supplier has left the GSP Group in the intervening 14 months. In all other cases the Supplier will receive a proportion of the other Supplier's charges and, if they have not reached their own cap, a proportion of their own charges.

4.2.2 Serial 1 (RF) Performance

Based on current trends it is anticipated that when the full set of Serials are applied for the first time, the charges associated with Serial 1 (RF) will dominate the other Serials. Analysis of one sample month has shown this one Serial could amount to 80% of the total for all Serials, and that the total uncapped charges for the GSP Group could approach the cap.

The average performance of Suppliers as measured by Serial 1 (RF) during the second half of 2001 is shown in figure 4.2 and averages 92%.

Figure 4.2 – Current Serial 1 (RF) Performance



These levels are below the target Performance Level of 97% and hence will attract Supplier Charges. The degree to which this will occur will depend on each Supplier, GSP Group, and the month.

A guide can be obtained by noting that the average performance level at which Serial 1 (RF) charges are capable of reaching values equivalent to the overall GSP Group liability cap can be as little as 93%³.

It would therefore seem reasonable to expect that based on performance at the end of 2001, Supplier Caps will be a significant factor once Serial 1 (RF) is included in Supplier Charges. Some basic modelling of Serial 1 (RF) suggests that on average:

- 25% of Suppliers (predominantly the smaller Suppliers) will be capped and this will remove 15% of the uncapped Supplier Charges;
- Supplier Charges due to Serial 1 (RF) will reach 50% of the overall GSP Group liability cap for the month.

However, in terms of each Supplier's net liability, for individual combinations of Supplier/GSP Group/Month it is anticipated that:

- less than 0.5% will result in a loss of more than £10,000;

³ If the total NHH Energy for a GSP Group was 1,500 GWh, then at £1.50/MWh each percentage point off the target 97% would accumulate charges of £22,500 across the GSP Group. This could use up all of a £100,000 cap by the time the average performance drops to 93%. The energy figure used here is for a representative GSP Group during winter. If the summer energy reduced to 1,000 GWh then the performance level at which that cap could be fully used will reduce to 90%.

- less than 0.5% will result in a gain of more than £10,000;
- less than 3% will result in a loss of more than half of the Supplier's own GSP Monthly Cap;
- less than 15% will result in a gain of more than half of the Supplier's own GSP Monthly Cap⁴.

It must be noted that this modelling only includes the effect of Serial 1 (RF) and real Supplier Charges will include the effect of other chargeable Serials. This could increase the number of Suppliers being capped and the manner in which charges are redistributed.

4.2.3 Factors Affecting Serial 1 Charges and Redistribution

In the simple example used in Figure 3.1 it was suggested that the net liability for each Supplier could tend toward zero when a large proportion of the Suppliers were capped.

However, the VASMG were keen to understand what would occur with real Serial 1 (RF) data and how it would affect individual combinations of Supplier/GSP Group/Month. Sample data for some example GSP Groups was provided to the VASMG (See Annex A for an example).

The VASMG noted three further factors to consider when trying to analyse how Serial 1 (RF) data can affect the overall net liability for Suppliers. This can introduce further variation within the data:

- the original Serial 1 (RF) charge is based on the energy taken from the GSP Group on the Settlement Day concerned. However it is redistributed in proportion to the energy for the month to which that Settlement Day is an "Applicable Settlement Day", i.e. for Serial 1 (RF) this would be 14 months later;
- the Supplier Cap is based on the aggregate HH and NHH energy for the month when the Supplier Charges are applied;
- a NHH Supplier will not be capped until their charge, less any share of that charge which will be redistributed to themselves, reaches their cap⁵.

Analysis of this data showed that when a significant number of Suppliers are capped, that the resulting incentive becomes less clear (as suggested in the Modification Proposal) and is further clouded by the above factors. However, the positive incentive is maintained for the majority of Suppliers, in that an improvement in performance will still result in an improvement in their net liability.

It was not possible to identify that the net liability for each Supplier would represent a material risk to affected Suppliers. In addition, as described later in Section 5.4, it has not been possible to determine if any of this data relates to the circumstances for disapplication suggested in the Modification Proposal.

⁴ There is no limit to the amount a Supplier can gain, however, the GSP Monthly Cap provides a useful reference against which to compare gains.

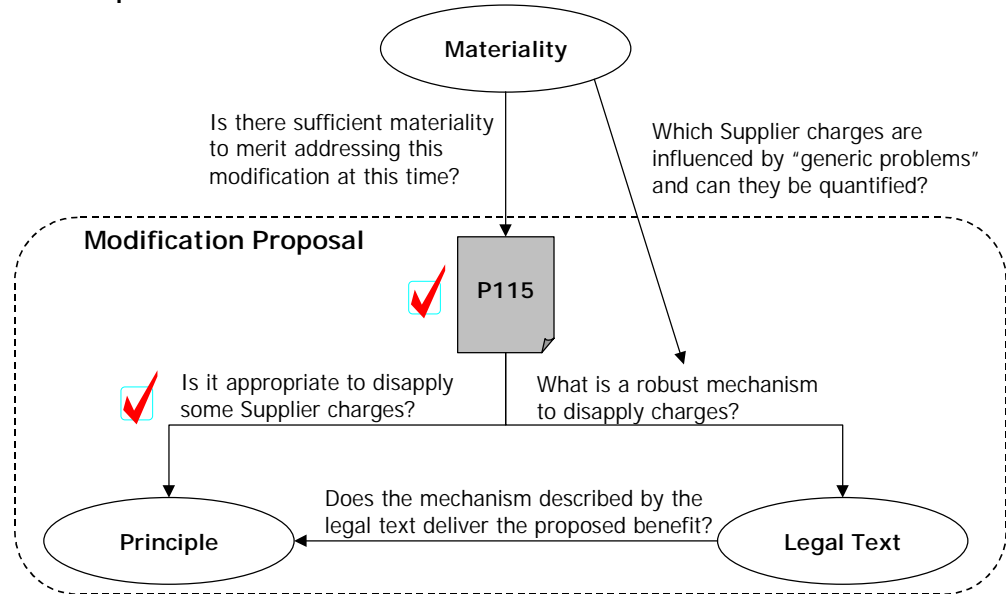
⁵ The precise amount will depend on their share of the redistributed charges. The charge for a Supplier who will receive 20% of the collected charges will exceed their Supplier Monthly Cap by 25% before being capped, whereas the charge for a Supplier who will receive 50% of the collected charges will exceed their Supplier Monthly Cap by 100% before being capped.

5. FURTHER MODIFICATION GROUP DISCUSSIONS

The initial VASMG discussions established that the majority of the VASMG supported the principle that in certain circumstances that it would be appropriate to disapply some Supplier Charges, subject to a suitable mechanism being identified.

In addition the information in this document provides background to the initial questions considered by the VASMG, as indicated in figure 5.1.

Figure 5.1 – Updated P115 Assessment Model



The rest of this section documents the VASMG's additional discussions leading to this consultation.

5.1 Applicable Serials

The VASMG recognised that the Serials could be split into 3 groups as indicated by tables 2.1 and 3.1:

- NHH Serial 1;
- HH Serials 3, 5 and 7;
- Serials 2, 4, 6, 9, 10 and 11.

The VASMG did not believe this third group should be progressed as part of the Modification Proposal for the reasons outlined in Section 2.2.

They also recognised that the differences outlined in table 3.1 meant that for HH Serials it would be more difficult to determine whether it was reasonable to disapply a "generic problem", as this would need to consider the effect on both the HH and NHH Suppliers. In contrast "generic problems" affecting NHH Serials could be assessed by considering how they affect the group also receiving the majority of the collected Charges.






For this reason, and the other differences highlighted in table 3.1, the VASMG believed that if HH Serials were included in their consideration of P115, it would probably result in two mechanisms, one for HH and one for NHH.

Despite the additional difficult of assessing Serials 3,5 and 7 the VASMG believed at this stage they should continue to be progressed as part of the Modification Proposal.

5.2 Approaches to Disapplying Charges

The VASMG considered the different methodologies introduced in Section 3.1 and recognised that there was no ideal approach. Some of the factors that could apply to each type of solution are shown in Table 5.1, along with an estimate of which approach may be least affected. The VASMG recognised this was a subject they would need to consider further should a potential solution be proposed. However they concluded that this supported their view that any solution would be complex.

Table 5.1 – Methodologies for Disapplying Charges

	Statistical	Measured	Justified
Complexity – the anticipated complexity of the mechanism and the associated effort to define and implement a solution	Least 		
Arbitrariness – whether the solution could be considered arbitrary or whether it is strongly linked to the underlying cause (least)	 Least		
Rigidity – the lack of flexibility of the solution to take into account new “generic problems”	Least  Least		
Administration – the anticipated effort required to process each new problem or incident	Least 		
Granularity – the ability to target individual Suppliers (least) or it is only possible to treat problems related to all Suppliers	 Least		

5.3 Implementation Date

With the imminent process to calculate and issue Supplier Charges there was concern as to what these charges would indicate, especially as it would take a further 6 months for Serial 1 to be included for the first time.

The VASMG also noted that the Proposer had phrased the Modification Proposal in such a way that it could be regarded as retrospective. The VASMG recognised that particular arguments would be needed to justify such retrospection.

However the VASMG also recognised that the natural implementation approach for modifications involving Supplier Charges (as adopted by P68) provided a limited ability to include Settlement Days prior to the Implementation Date and that this would be the natural approach to implementation for P115.

Unless strong views were expressed during consultation the VASMG believed that an approach similar to P68 should be adopted.

5.4 Examination of Existing Market Problems

The Proposer provided the table in Annex B as examples of problems that may be generally affecting the market. The intention was that these should be considered further as to whether they could be quantified in such a way that they could be disapplied. This does not necessarily imply they are candidates for being disapplied under P115. However, the exercise would help understand whether it was possible to quantify a particular problem and also identify Serials to measure this in a robust manner.

The VASMG found it difficult to find ways to be objective about the problems listed in the Annex and found that many examples required subjective judgement. This was made more difficult as the VASMG recognised that in most cases there was an argument that the problem could have been anticipated and hence addressed previously. For instance any general risks relating to access to MOD sites could be included in the commercial terms. However, there was an alternative argument that not every event was suitable for being commercially addressed pre-fault, such as considering times of heightened tension, the recent flooding, or foot and mouth restrictions.

The VASMG noted that many problems may need to be considered on a case by case basis and recognised the dilemma that such an approach could lead to a process as complex as that contained in Section P6 of the Code (relating to past errors in Volume Notifications).

The VASMG will need to consider these examples further, however, they believed it would be useful to find out views from consultation as to whether Suppliers believed these problems affected their general performance and if possible an estimate of the degree.

In addition the VASMG were concerned that, whilst they recognised that the CoS/CoA initiative may address some of these issues, this was unlikely to take place for a significant period of time. Having carried out the analysis to identify these problems it was felt that consideration should be given to addressing them in the short term, rather than waiting for CoS/CoA. As a result a paper (Reference 2) was prepared for the Supplier Volume Allocation Group (SVG), who agreed to investigate the identified issues further.

At this stage the VASMG have not ascertained what materiality (if any) relates to the circumstances for disapplication described in the Modification Proposal.

5.5 Types of Eligible Problem

Whilst considering the problems in Annex B it was noted they could be categorised into: short or long term; and generic or single Supplier, as shown in Figure 5.2.

Figure 5.2 – Categories of Problem

	Short Term	Long Term
Single Supplier	?	?
Industry Wide	?	Highest Likelihood / Materiality

The VASMG considered that a Long Term / Industry Wide problem would have the highest materiality and would be the most likely to require P115. However, they were less

confident about predicting the likelihood of the other combinations and recognised arguments for and against placing them within the scope of P115.

It was clear that addressing problems in different cells of figure 5.2 would present different challenges for any solution, and that a long term industry wide problem would be very different to a short term single Supplier problem. This may result in different measures being required for each scenario. This would possibly require different solutions and add further to the problem of considering the differences between HH and NHH Serials and Suppliers.

The VASMG also recognised that differences might exist in raising a claim for a single Supplier, compared to that for an industry wide problem, and also when does a problem become recognised as industry wide.

5.6 Supplier Force Majeure

Section S3.3 of the Code already contains measures for Supplier Force Majeure and this is also referenced in BSCP536 - for a Supplier to "Send notification of extenuating circumstances (e.g. claiming Force Majeure against LDs") to the Performance Assurance Administrator (PAA).

However, there are no associated clauses in either the Code or BSCPs as to how this could be taken into account in the calculation of Supplier Charges. The VASMG also recognised concerns about the timing of any claim for Supplier Force Majeure, as problems may not become evident until a significant period after the event to which the claim relates.

Supplier Force Majeure has never yet been applied to Supplier Charges.

The VASMG asked for legal advice as to whether these clauses would allow the PAB to take into account factors that would alter the way in which Supplier Charges were applied, either by altering the report data, or the calculations on that data.

The view was that there is a link between Section S and Annex S-1. The obligations are laid down in Section S2 and the Supplier Charges regime in Annex S-1 describes how the Supplier carries out those obligations. Supplier Force Majeure can be applied to the provisions dealing with Supplier Liquidated Damages.

The legal view is that clarifying this inconsistency does not require a change to the Code and BSCCo will prepare a form of words for interpretation of the Code in relation to a Supplier Force Majeure and the process to be followed.

These provisions are limited to Supplier Force Majeure and it should be noted that the circumstances described in Section 2.1 do not suggest they would be covered by Supplier Force Majeure.

5.7 Materiality

The VASMG noted materiality (See Section 4.2) is complex for this Modification Proposal and they recognised two opposing arguments:

- if analysis suggests materiality is low, and Suppliers do not face a significant risk, then this could support the argument that a modification is not needed at this time;

- alternatively, if the materiality is low, and yet there is poor performance in the market, then this could support the argument that Supplier Charges are not providing the positive incentive to Suppliers, or correctly compensating those who incur losses due to energy allocation errors in SVA.

The data provided to the VASMG would suggest that the incentives and compensation delivered by Supplier Charges could be improved. However, until a mechanism is identified, which is capable of delivering these incentives and compensation in a different manner, it is not possible to determine whether there is sufficient materiality to merit such an alternative mechanism.

The current investigations by the VASMG suggest that the costs for any change will be high and the VASMG are not confident of being able to identify a viable alternative mechanism.

5.8 Summary

After discussing the issues in section 5 the majority of the VASMG continued to support the principle that under certain circumstances it may be appropriate to disapply some Supplier Charges.

However, the VASMG also recognised the associated issues described in this section and that they have not yet identified a viable solution.

VASMG believed there was merit in consulting on the Modification Proposal at this stage, to find out the level of support for the Modification Proposal and also consult on views about potential solutions.

The VASMG agreed the consultation questions as stated in Annex C.

ANNEX A – EXAMPLE OF CAPS AND REDISTRIBUTION

The following is an example provided to the VASMG in support of their analysis of the materiality in Section 4.2.3. It provides details of the Serial 1 (RF) charges that may be applied to a typical GSP Group, and how these would be redistributed if no other Serials were being charged.

The table is split into two sections showing how the current arrangements would work and also what would occur if the Caps were removed, or high enough not to be applied. The data is based on real figures but has been modified to disguise the identity of Suppliers, GSP Group and timeframe.

Current Arrangements					No Cap	
Uncapped Charge	Supplier Cap	Capped Charge	Redistribution	Net Value	Redistribution	Net Value
£54,963	£33,612	£54,963	£39,032	-£15,931	£45,006	-£9,957
£2	£14,322	£2	£495	£493	£571	£569
£6,847	£13,134	£6,847	£15,603	£8,757	£17,991	£11,144
£1,766	£5,851	£1,766	£1,145	-£622	£1,320	-£446
£2,871	£5,513	£2,871	£1,017	-£1,855	£1,173	-£1,698
£280	£3,867	£280	£3	-£277	£3	-£277
£2,177	£3,825	£2,177	£1,563	-£613	£1,802	-£375
£2,366	£3,123	£2,366	£3,708	£1,343	£4,276	£1,910
£3,452	£2,088	£2,108	£788	-£1,320	£909	-£2,543
£2,245	£1,872	£1,918	£2,030	£112	£2,341	£96
£1,238	£1,745	£1,238	£1,092	-£146	£1,259	£21
£2,185	£1,693	£1,730	£1,808	£79	£2,085	-£100
£6,246	£1,531	£1,563	£1,736	£174	£2,002	-£4,244
£2,757	£1,215	£1,236	£1,443	£207	£1,664	-£1,093
£727	£1,039	£727	£1,234	£507	£1,423	£696
£947	£802	£808	£624	-£184	£720	-£227
£305	£801	£305	£205	-£100	£236	-£69
£4,610	£750	£758	£892	£133	£1,029	-£3,581
£13	£710	£13	£244	£231	£281	£268
£977	£480	£482	£431	-£51	£497	-£480
£236	£367	£236	£436	£200	£503	£267
£250	£357	£250	£154	-£95	£178	-£72
£18	£283	£18	£31	£13	£36	£18
£403	£215	£216	£256	£40	£295	-£108
£43	£169	£43	£28	-£15	£32	-£11
£21	£136	£21	£162	£141	£187	£166
£146	£134	£134	£159	£25	£183	£37
£0	£121	£0	£104	£104	£120	£120
£0	£96	£0	£25	£25	£29	£29
£15	£64	£15	£76	£61	£88	£73
£54	£39	£39	£44	£5	£51	-£3
£5	£29	£5	£34	£29	£39	£34
£3	£16	£3	£20	£17	£23	£20
£0	£1	£0	£1	£0	£1	£1
£0	£0	£0	£0	£0	£0	£0
£98,168	£100,000	£85,138	£76,623	-£8,513	£88,353	-£9,815

The following provides a key to the columns:

- **Uncapped Charge** – the calculated charge caused by Serial 1 (RF) prior to applying cap
- **Supplier Cap** – the Supplier's Monthly Cap
- **Capped Charge** – the calculated charge after applying the cap (if required). As defined by S-1 4.1.3 this charge is able to increase above the Supplier's Monthly Cap.
- **Redistribution** – the Supplier's share of the 90% of the "Capped Charge", which is redistributed to the NHH Suppliers
- **Net Value** – the difference between "Capped Charge" and "Redistribution"

In the case of the second section of the table the Redistribution relates to the Supplier's share of the 90% of the "Uncapped Charge", which would be redistributed to the NHH Suppliers if the caps did not exist. In this case the Net Value relates to the difference between the "Uncapped Charge" and this second version of the "Redistribution".

The shaded cells represent those Suppliers that have their charges capped.

ANNEX B – POTENTIAL GENERIC PROBLEMS

The following list some of the potential “generic problems” and their impact on Supplier’s performance. These have been presented to SVG (Reference 2) who have agreed to investigate each of the referenced problems further.

Ref	Problem description	Possible causes	Impact
1	Actual/Deemed meter reading not received from New Supplier’s NHHDC following Change of Supplier	<ul style="list-style-type: none"> a) Not obtained/sent b) Meter Technical Details (MTD) and/or read history not available to New Supplier’s Agents, possibly because ... c) Old Supplier’s Agents not correctly registered in Supplier Meter Registration Service (SMRS) 	Old Supplier cannot calculate Annualised Advance (AA) corresponding to Closing meter reading
2	NHH MTD (D0150) not received by new Supplier’s Agents (or inadequate)	<ul style="list-style-type: none"> a) Not provided by old Supplier’s Meter Operator (MO) b) Old Supplier’s Agent appointments not updated correctly in SMRS c) D0148s not sent correctly by new Supplier (possibly because of Agent appointment rejections) 	NHHDC cannot obtain or process meter readings
3	NHH meter read history not received by new Supplier’s Agents (or inadequate)	<ul style="list-style-type: none"> a) Not provided by old Supplier’s Data Collector (DC) b) Old Supplier’s Agent appointments not updated correctly in SMRS c) D0148s not sent correctly by New Supplier (possibly because of Agent appointment rejections) 	NHHDC cannot validate meter readings or calculate AA/EAC – resulting in Default Estimated Annual Consumption (EAC)
4	NHH meter readings failing validation	<ul style="list-style-type: none"> a) Significant change in consumption b) Erroneous meter reading accepted previously c) Meter change/roll-over processed incorrectly by a previous Supplier 	Readings cannot be processed into new AA and EAC

Ref	Problem description	Possible causes	Impact
5	HH MTD (D0268) not received by New Supplier's Agents (or inadequate)	<ul style="list-style-type: none"> a) Not provided by old Supplier's MO b) Old Supplier's Agent appointments not updated correctly in SMRS c) D0148s not sent correctly by new Supplier (possibly because of Agent appointment rejections) 	HHDC cannot obtain or process meter readings
6	MPAN mappings for complex site not correctly communicated to new Supplier's Agents	<ul style="list-style-type: none"> a) Error in original mappings b) Necessary additional information not provided by old Supplier's Agents c) Differing conventions for populating D0268 	Imports & Exports not aggregated into correct Component Consumption Classes (CCC)
7	HH historic data not received by new Supplier's Agents (or inadequate)	<ul style="list-style-type: none"> a) Not provided by old Supplier's DC b) Old Supplier's Agent appointments not updated correctly in SMRS c) D0148s not sent correctly by new Supplier (possibly because of Agent appointment rejections) 	Less accurate estimation technique must be used
8	Supplier-initiated changes/corrections (D0205) not processed and sent by SMRS	<ul style="list-style-type: none"> a) Failure by SMRS b) Changes not consistent with validation rules and data entered previously by other parties (Supplier or Distribution Business) 	In case (a), Supplier may not be aware that a change has not been processed and sent as an Instruction to the Data Aggregator (DA). Data from the correct DC may not be processed by the DA, with Default estimates being included (under CP696)
9	SMRS-DA (or NHHDC-DA) Instruction failures of which Supplier is unaware	<ul style="list-style-type: none"> a) Error originating from SMRS or Data Transfer Network (DTN) (or DC) b) Data provided by Supplier being inconsistent with validation rules and data provided previously by other party (previous Supplier, Agents or Distribution Business) c) D0023 not sent to Supplier under standard process (under CP898) 	Difficulty in resolving D0235 and D0095 exceptions; Actual data (or AA) failing to get into Settlements

Ref	Problem description	Possible causes	Impact
10	Difficulty of access to certain sites	a) Statutory/security reasons (e.g. MOD sites) b) Safety reasons (e.g. Railways, High Voltage sites)	Estimated data submitted to Settlement
11	Practicable timescales for replacing certain types of metering equipment	a) Lead times for purchase of replacement equipment b) Access issues	Estimated data submitted to Settlement
12	D0052 and D0205 issues identified in SVG/024/335 (Reference 3)		

ANNEX C - P115 ASSESSMENT QUESTIONS

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

Respondent:	<i>Name</i>
No. of BSC Parties Represented	
BSC Parties Represented	<i>Please list all BSC Parties responding on behalf of (including the respondent company if relevant).</i>
No. of Non BSC Parties Represented	
Non BSC Parties represented	<i>Please list all non BSC Parties responding on behalf of (including the respondent company if relevant).</i>
Role of Respondent	<i>(Supplier/Generator/ Trader / Consolidator / Exemptable Generator / BSC Agent / Party Agent / other – please state ⁶)</i>

Q	Question	Response ⁶	Rationale
1a	Assuming a viable solution was proposed, would you support the principle of disapplying Supplier Charges in certain circumstances?	Yes / No	
1b	Do you believe the materiality of the reported defect represents sufficient materiality to support a modification to the Code?	Yes / No	
1c	Assuming a viable solution was proposed, do you believe disapplying Supplier Charges in certain circumstances could better facilitate the achievement of the Applicable BSC Objectives?	Yes / No	
2a	Do you believe it is feasible to disapply Supplier Charges for Serial 1?	Yes / No	
2b	Do you believe it is feasible to disapply Supplier Charges for Serials 3, 5 and 7?	Yes / No	
2c	Do you believe any other chargeable Serials (i.e. 2, 4, 6, 9, 10, and 11) should be included in the Modification Proposal?	Yes / No	

⁶ Delete as appropriate – please do not use strikethrough, this is to make it easier to analyse the responses

Q	Question	Response ⁶	Rationale
3	Which of the approaches suggested in Section 3.1 and 5.2 (statistical / measured / justified) would you support? Are there any mechanisms you would propose?	n/a	
4a	Which of the specific problems identified in Annex B (or any others – please identify) do you think the Modification Proposal should address?	n/a	
4b	To what extent do you believe you have been impacted by the specific problems identified in Annex B (materiality in terms of impact on Serial Performance, % of CoS events or other appropriate measure). RESPONSES PROVIDED TO THIS QUESTION WILL BE ANONYMOUS	n/a	
5	Would you support an element of retrospection in the disapplication of Supplier Charges, as referred to in Sections 4.1 and 5.3?	Yes / No	
6	Does P115 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure?	Yes / No	
7	Are there any further comments on P115 that you wish to make?	Yes / No	

Please send your responses by **17:00 on Friday 14 March 2003** to Modifications@exxon.co.uk and please entitle your email '**P115 Assessment Consultation**'. Please note that any responses received after the deadline may not be considered by the Modification Group.

Any queries on the content of the consultation pro-forma should be addressed to Gwilym Rowlands on 020 7380 4373, email address gwilym.rowlands@exxon.co.uk .