



FEBRUARY 2003

**MODIFICATION REPORT**  
**MODIFICATION PROPOSAL P110 -**  
**Nullification of Volume Notifications**  
**where no Authorisations are in place**

Prepared by ELEXON on behalf of the Balancing  
and Settlement Code Panel

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### b Distribution

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The Gas and Electricity Markets Authority	Ofgem
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### c References

Ref.	Document	Owner	Issue Date	Version
1	Modification Proposal		04/11/02	1.0
2	P110 Initial Written Assessment (P110IR)	ELEXON	08/11/02	1.0
3	Requirements Specification	ELEXON	15/01/03	2.0
4	Consultation Document	ELEXON	13/01/03	1.0
5	ELEXON Circular EL00299 'Provision of Extended Forward Contract Reports (ECVAA-I022)'	ELEXON	30/11/01	1.0
6	CP888 'ECVNA Authorisation Terminations Effective on Receipt'	ELEXON	15/11/02	1.0
7	P110 Assessment Report	ELEXON	07/02/03	1.0

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## 1 SUMMARY AND RECOMMENDATIONS

### 1.1 Recommendation

On the basis of the analysis, consultation and assessment undertaken in respect of this Modification Proposal during the Modification process, and the resultant findings of this report, the Balancing and Settlement Code Panel recommends that:

**Proposed Modification P110 should be made;**

**The Implementation Date should be:**

- **5 November 2003 if a decision is received from the Authority prior to 24 April 2003; or**
- **25 February 2004 if a decision is received on or after 24 April 2003 and prior to 14 August 2003.**

### 1.2 Background

Modification Proposal P110 'Nullification of Volume Notifications where no Authorisations are in place' (P110) seeks to provide a mechanism for a BSC Party to nullify its Volume Notifications with another BSC Party, for those Settlement Periods that have not yet passed Gate Closure, if the following conditions are met:

- all the Notification Agent Authorisations (Energy Contract Volume Notification Agent Authorisations (ECVNAA) and Meter Volume Reallocation Notification Agent Authorisations (MVRNAA)) between the two Energy Accounts have been terminated; and
- the two Parties cannot agree to establish new Notification Agent Authorisations.

The Proposer suggests that as there is currently no mechanism for amending contract notifications under these circumstances, one of the two Parties (i.e. the one selling the electricity) would potentially be left with a settlement liability that did not reflect the reality of the contractual relationship between the two Parties. In the case of an 'evergreen' contract notification, which lasts indefinitely, this settlement liability would be potentially unlimited in magnitude.

### 1.3 Rationale for Recommendations

The majority of the Balancing and Settlement Code Panel ('the Panel') agreed with the recommendation of the Settlement Standing Modification Group (SSMG) that the Proposed Modification P110 better facilitates achievement of the Applicable Balancing and Settlement Code Objective (BSC Objective) (c), as it will promote competition in the generation and supply of electricity.

The rationale for this was that currently there is an unnecessary risk in the process of contract termination and it was agreed that implementing P110 would provide Parties with a means to limit their exposure to imbalance in situations where termination of Authorisations has taken place. Additionally they believed that P110 provides a method of dealing with counter-Party notifications during an event of default under a commercial bilateral contract, such as the GTMA.

The Panel noted the views expressed in the Assessment Consultation that some Parties believe the cost of implementation outweighs the benefits to be gained. The Panel agreed that BSCCo should implement the Modification using the most cost-effective method, as long as it is consistent with the legal drafting.

*XX responses to the draft Modification Report consultation were received. XX responses (XX Balancing and Settlement Code Parties (BSC Parties) and XX non BSC Parties) supported the Panel's recommendations and XX (XX Parties and XX non BSC Parties) did not support the Panel's recommendations. [insert sentence to say if they raised any new issues]. A summary of the responses received is given in section 8.*

## 2 INTRODUCTION

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

This Modification Report is addressed and furnished to the Gas and Electricity Markets Authority ('the Authority') and none of the facts, opinions or statements contained herein may be relied upon by any other person.

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

## 3 HISTORY OF PROPOSED MODIFICATION

AES Drax Power Limited submitted P110 on 4 November 2002 (Reference 1). P110 seeks to allow a BSC Party to nullify their Volume Notifications with another BSC Party, for those Settlement periods which have not yet passed Gate Closure, in the event that all Volume Notification Agent Authorisations (ECVNAA and MVRNAA) with that counter-Party have been terminated. The Initial Written Assessment (Reference 2), was submitted to the Panel at their meeting on 14 November 2002, where it was agreed to submit P110 to the Assessment Procedure to be carried out by the Settlement Standing Modification Group.

The SSMG met twice during the Assessment Procedure of P110 and issued a high level impact assessment and a consultation to BSC Parties and BSC Agents, and a further detailed level impact assessment to BSC Agents. The change specific BSC Agent costs highlighted in the Assessment Report are approximately £88,000 and 66 BSCCo man-days for the development needed for the Proposed Modification plus additional time and material costs each time the nullification process is triggered. Further details of the costs and timescales for implementation are given in Annex 1.

The Assessment Report for P110 was submitted for consideration at the Panel meeting of 13 February 2003. The Panel agreed with the recommendations of the SSMG and agreed to submit P110 to the Report Phase. The Panel recommended that the Proposed Modification should be made. The Panel also agreed that in the event that the Authority determines that the Proposed Modification should be made, the Implementation Date should be:

- 5 November 2003 if a decision is received from the Authority prior to 24 April 2003; or
- 25 February 2004 if a decision is received on or after 24 April 2003 and prior to 14 August 2003;

The Panel supported the SSMG view that P110 better facilitates achievement of the following Applicable BSC Objective, set out in paragraph 3 of Condition C3 of the Transmission Licence:

- (c) Promoting effective competition in the generation and supply of electricity, and (so far as consistent therewith) promoting such competition in the sale and purchase of electricity.

A draft Modification Report for P110 was issued for consultation on 21 February 2003. *XX responses, representing XX BSC Parties, were received. [Insert sentence to say if the Panel recommends or rejected the Modification on the basis of the consultation responses].*

*The draft Modification Report was presented to the Panel meeting of 13 March 2003 and at this meeting the Panel agreed [insert details of any Panel decisions that take place at the Panel meeting].*

#### **4 DESCRIPTION OF THE MODIFICATION**

P110 seeks to provide a mechanism for a BSC Party to nullify its Volume Notifications with another BSC Party, for those Settlement Periods that have not yet passed Gate Closure, if the following conditions are met:

- all the Notification Agent Authorisations (Energy Contract Volume Notification Agent Authorisations (ECVNAA) and Meter Volume Reallocation Notification Agent Authorisations (MVRNAA)) between the two Energy Accounts have been terminated; and
- the two Parties cannot agree to establish new Notification Agent Authorisations.

The Proposer suggests that as there is currently no mechanism for amending contract notifications under these circumstances, one of the two Parties (i.e. the one selling the electricity) would potentially be left with a settlement liability that did not reflect the reality of the contractual relationship between the two Parties. In the case of an 'evergreen' contract notification, which lasts indefinitely, this settlement liability would be potentially unlimited in magnitude.

#### **5 RATIONALE FOR PANEL RECOMMENDATIONS**

The majority of the Panel agreed with the recommendation of the SSMG and agreed that the Proposed Modification P110 better facilitates achievement of Applicable BSC Objective (c), as it will facilitate competition in the generation and supply of electricity. The rationale for this was that it would provide Parties with a means to limit their exposure to imbalance in situations where termination of Authorisations has taken place. Additionally, it provides a method of dealing with counter-Party notifications during an event of default under a commercial bilateral contract, such as the GTMA.

The Panel noted views expressed in the Assessment consultation that some Parties believe the cost of implementation outweighs the benefits to be gained. The Panel agreed that BSCCo should implement the Proposed Modification using the most cost-effective method, as long as it is within the scope of the legal drafting.

Several Panel Members believed that the issue described by the SSMG was a commercial one and outside the scope of the Code, and noted that the process could be triggered by the request from only one of the Parties involved only. The Panel noted the SSMG view that if the relationship between two Parties breaks down, they may wish to clear out all outstanding notified volumes and would be unable to do so if Authorisations had been terminated. Furthermore, if one Party terminated an Authorisation, it could freeze the counter-Party's contracted position, as the Authorisation process is also unilateral. A Panel Member noted a previous incident where a Party had gone into Default and all notifications had been cleared. However, this was a different situation, because the BSC Party authorisation had been terminated in the BSC Systems and therefore the process was not limited to the relationship between specific two Parties but all Parties related to the defaulting Party. A comment was made that the situation P110 was trying to address would potentially not arise if Parties co-operated.

The Panel noted that the SSMG believed that most bilateral energy contracts (including GTMA contracts) included provisions for terminating the contract, any Authorisations associated with it, and

would disregard previously agreed contract volumes. However, the Code does not currently provide a robust or reliable method for notifying ECVAA that this has occurred. Therefore the SSMG felt that there was currently an unnecessary risk in the process of contract termination and that P110 would provide Parties with a means to limit their exposure to imbalance and provide a method of dealing with counter-Party notifications during an event of default under a commercial bilateral contract. The Panel therefore believes that this would better facilitate competition in the generation and supply of electricity (Applicable BSC Objective (c)) and would not undermine the firmness of contracts between Parties.

At the Panel meeting on 13 February 2003 a Panel Member queried BSCCo's exposure to liability should P110 be implemented. It was confirmed that no special indemnity was required, as Section C5.1.2 of the Code provides sufficient cover.

## **6 LEGAL TEXT TO GIVE EFFECT TO THE MODIFICATION**

Proposed Modification P110 requires changes to Sections P, V and X-1 of the Code. A summary of the changes is given below and a detailed red lined version of the legal text is included in Annex 3.

- Section P (version 8.0): A section will be added detailing the process for requesting and validating requests to nullify volumes between two Energy Accounts.
- Section V (version 9.0) This section will be updated to give details of the new reports to be issued by ECVAA.
- Section X-1 (version 11.0) This section will be updated to give details of the acronyms defined within the changes to Section P.

*The legal drafting included with this report is drafted against the version of the Code current on the date of the Panel meeting (13 March 2003). The legal drafting was checked against all Modifications that had been approved by the Authority on the date of the Panel meeting, including those that have not yet been implemented. If the baseline of the Code changes prior to implementation of P110, or if other Modification Proposals are to be implemented at the same time as P110, the legal text may need to be amended.*

## **7 ASSESSMENT**

This section of the report summarises the assessment carried out by the SSMG during the 3-month Assessment Procedure. Full details are contained in the P110 Assessment Report, which can be found on the BSC Website at [www.elexon.co.uk](http://www.elexon.co.uk).

During the Assessment Procedure the SSMG considered the issues raised from the terms of reference. An impact assessment was issued with the requirements specification (Reference 4) to determine the cost and timescale for implementation of the Proposed Modification and included several implementation options. From this the SSMG determined the preferred implementation and issued a consultation document to seek BSC Party views on whether the Proposed Modification better facilitated the BSC Objectives. The majority of the consultation responses agreed with the majority of the SSMG that P110 Proposed Modification better facilitated the BSC Objectives. The responses to both the consultation and impact assessments can be found in the Assessment Report and the conclusions of the SSMG are detailed below.

### **7.1 Implementation Method**

During the Assessment Procedure the SSMG agreed that the implementation method for the Proposed Modification could be broken down into two separate processes; requesting a nullification and carrying

out the nullification of volumes in the ECVAAs system. The SSMG agreed that these two processes could be either automated or manual and the implementation methods were independent of each other. This gave rise to five different implementation solutions, shown in the table below and detailed further in the requirements specification (Reference 3). It should be noted that the impact assessment responses indicated that there was no difference in the system and process changes required for the semi-automated and the automated implementation of the nullification in ECVAAs systems and therefore options 4 and 5 were in fact the same solution.

	Nullification Request Processing		Nullification of Contract Volumes		
	Automated Method	Manual Method	Automated Method	Semi-Automated Method	Manual Method
Option 1	✓		✓		
Option 2	✓				✓
Option 3		✓			✓
Option 4		✓	✓		
<b>Option 5</b>		✓		✓	

The SSMG discussed these options in turn and agreed that option 5 should be the implementation method. A summary of the method is given below and further details can be found in the Assessment Report.

#### **7.1.1 Nullification Request Process**

The SSMG agreed that in order to minimise changes to BSC Party and BSC Agent systems the interface for requesting a nullification should be a manual interface (either a fax or email) and not an electronic data file.

Upon receipt of a nullification request the ECVAAs will process the form and will:

- verify that **all** authorisations between the two Energy Accounts have been terminated;
- validate the information provided within the form; and
- calculate the first possible Settlement Period from which nullification can take place, if Gate Closure for the requested Settlement Period has been passed.

Once the ECVAAs has validated data a feedback report will be issued to the originator of the request either confirming that the nullification process will take place or rejecting the request. If the nullification process is to take place, ECVAAs will also issue the feedback report to the counter-Party. The feedback report will confirm the first Settlement Period from which the nullification will take effect.

The first Settlement Period from which the nullification can take place will be:

- either that specified in the Nullification Request; or
- if at the time the ECVAAs sends the feedback report, Gate Closure for the Settlement Period requested has passed, it will be the next Settlement Period for which Gate Closure has not occurred.

The SSMG agreed that the first Settlement Period from which the nullification can take place, could fall outside of a normal Business Day<sup>1</sup>.

<sup>1</sup> The times to be used for a Business Day are defined within Section X2.3.2 of the Code as 9:00am to 5:00pm.

The ECVAA will be expected to process and validate the requests and send a feedback report within 1 hour of receipt of the request within a normal Business Day to ensure that the BSC Party is aware of the feedback report. An example of how the first Settlement Period will be calculated is given below:

Time of receipt of Nullification Request by ECVAA	Time feedback issued	Requested first Settlement Period	Actual first Settlement Period after validation	Reasons
10:15 am	11:15 am	25 (12:00-12:30)	26 (12:30-13:00)	Requested Settlement Period has passed Gate Closure, therefore next Gate Closure is for 12:30-13:00
10:15 am	11:15 am	37 (18:00-18:30)	37 (18:00-18:30)	Requested Settlement Period has not passed Gate Closure, therefore it can be used.
4:50 pm	9:50 am next WD	1 (00:00-00:30)	23 (11:00-11:30)	Requested Settlement Period has passed Gate Closure, therefore next Gate Closure is for 11:00-11:30

The SSMG also agreed that once a Party had submitted a nullification request it could not be withdrawn. However, it will be possible for the Party to rectify any errors within the request, but only before the feedback report has been sent by the ECVAA.

### **7.1.2 Process for nullifying outstanding volumes**

The SSMG agreed that due to the high risk involved in having the ECVAA manually change notified volumes in the systems, an automated process was preferred. The process will be triggered once the nullification request has been validated and a feedback report issued to both Parties involved. ECVAA will then automatically identify the volumes to be nullified and will set the volumes to zero in the system.

Once the ECVAA has completed the process of setting any outstanding volumes to zero, a report will be issued either by fax or email to both Parties to inform them that the process is complete. Parties will then be able to request a Forward Contract Report (ECVAA-I022 sub-flow 1) if they require confirmation of their position.

## **7.2 Issues Considered**

### **7.2.1 Application of the Modification**

The SSMG agreed that the Proposed Modification should apply to both Energy Contract Volume Notifications and Meter Volume Reallocation Notifications and that should a request be submitted, all outstanding volumes between the two Energy Accounts should be set to zero. The SSMG also agreed that in order to trigger the process all Authorisations between the two Energy Accounts should have been terminated.

The SSMG acknowledged that the process was a unilateral process but noted that it could only be used if all Authorisations had been terminated, which is also a unilateral process and therefore it was not appropriate to make it bilateral.

### **7.2.2 Availability of process**

The SSMG noted concerns raised by some members and in some consultation responses that the Nullification Request process should be available 24 hours a day and seven days a week. The SSMG agreed that this would involve significant cost and also would require trained operators and signatories to be available at all times. The majority of the SSMG believed that the process was only likely to be

triggered during a normal Business Day, and therefore the process should be available during a normal Business Day.

### **7.2.3 First Effective Settlement Period**

The SSMG noted that although the request and feedback should be processed and issued during a Business Day, the first effective Settlement Period should be as soon as possible. The SSMG agreed that if Gate Closure for the Settlement Period requested in the Nullification Request had passed then the next Settlement Period for which Gate Closure had not passed would be used. If, however, Gate Closure for the requested Settlement Period had not passed, the requested Settlement Period would be used.

### **7.2.4 Security of the Process**

The SSMG agreed that the process should use the same security levels as currently defined for the Authorisation and Termination of ECVNAA and MVRNAA. The SSMG agreed that this should apply whether the Nullification Requests were submitted electronically or via a form or fax.

### **7.2.5 Rectification of errors in Nullification Requests**

The SSMG agreed that since the process should be used as a last resort it would not be appropriate to allow Parties to withdraw a request once the counter-Party had been notified of the intent to nullify outstanding volumes. The SSMG did acknowledge that a Party should be able to rectify any errors in a request should they be made aware of them prior to the feedback report being issued to the counter-Party.

### **7.2.6 Use of the Process**

The SSMG agreed that although the Modification Proposal states that the process should be used when "the Party and counter-Party cannot agree to establish new Authorisations", this was very subjective and that it would not be appropriate to introduce it into the Code.

The SSMG also noted one consultation response that indicated that a validation review between the Parties involved and BSCCo was required, to ensure there was no opportunity for abuse. However, the SSMG was of the opinion that this was not necessary, as if the process were abused it would be treated as a mis-notification and could be progressed commercially.

The SSMG agreed that the issues raised by P110 should be addressed by a modification to the Code as most bilateral contracts currently include provisions for terminating the contract and disregarding previously agreed contract volumes. However, the Code does not provide a robust or reliable method for notifying ECVAA that this has occurred. The result is to add unnecessary risk to the process of contract termination and the majority of the SSMG agreed that removing this risk would better facilitate competition.

## **8 SUMMARY OF REPRESENTATIONS**

*The draft Modification Report was issued for consultation on 21 February 2003 with responses due back on 28 February 2003. XX responses were received;*

- *XX responses (XX BSC Parties) supported the recommendation that the Proposed Modification should be made;*
- *XX responses (XX BSC Parties) supported the recommended Implementation Dates;*
- *XX responses (XX BSC Parties) supported the Legal Drafting;*

- *XX response (XX BSC Party) did not support the Panel recommendations;*
- *XX response had no comment.*

Annex 2 of this report contains a summary of the responses and copies of the actual responses received. A summary of the arguments raised in the responses is given below in sections 8.1 and 8.2. *[Insert sentence to say if any of these arguments are new or if they were considered during the Assessment Procedure].*

### **8.1 Arguments Supporting the Panel Recommendations**

The following arguments were raised in the consultation responses, in support of the Panel recommendation that the Proposed Modification be made;

- *[insert details of any arguments raised in consultation responses]*

### **8.2 Arguments Against the Panel Recommendations**

The following arguments were raised in the consultation response that did not support the Panel recommendations;

- *[insert details of any arguments raised in consultation responses]*

### **8.3 Panel Discussion of Representations**

*At the Panel meeting of 13 March 2003, the arguments raised in the consultation responses were presented.*

- *[Insert details of any Panel discussions relating to the consultation responses]*

## ANNEX 1 COST SUMMARY

The implementation costs identified during the Assessment Procedure are summarised below for all implementation options assessed during the Assessment Procedure. Note that option 5 is the preferred option chosen by the SSMG.

### A1.1 BSC Development Costs

The cost of development and implementation of the preferred option, option 5 (manual request processing and automated nullification in ECVAAs systems)

Name	Implementation Timescale	Change Specific Cost	Operational Cost	Annual Maintenance Cost
BSC Agent (ECVAA)	14 weeks	£88,000	T&M	£50,000
BSCCo	14 weeks	60 man-days		
BSC Party	1-3 months ave.			
<b>Total BSC Costs/ Timescale</b>	<b>28 weeks</b>	<b>£88,000 + .60 BSCCo man-days</b>		

This gives a total BSCCo development cost of £88,000 plus 60 BSCCo man-days and a total implementation timescale of 28 weeks.

### A1.2 BSC Agent Cost Comparison

The costs identified during the Assessment Procedure by the BSC Agent for development of the different implementation options are given below. It should be noted that the Time and Material (T&M) costs quoted by the BSC Agent are based on the assumption that all Parties that are contracted with a particular counter-Party request the Nullification of Notified Volumes at the same time. They are not based on the case where only one Party with a particular counter-Party trigger the process.

	Change Specific Development Cost	Total Cost inc. Project Overhead <sup>2</sup>	Operational Cost	Annual Maintenance <sup>3</sup>	Implementation Timescale
Option 1	£108,864	£390,365	£0	£54,651	15 weeks
Option 2	£61,656	£259,829	T&M (estimated as £94,600 / event)	£36,376	10 weeks
Option 3	£50,142	£234,623	T&M (estimated as £96,320 / event)	£32,847	9 weeks
<b>Option 4 / 5</b>	<b>£88,267</b>	<b>£359,514</b>	<b>T&amp;M (estimated as £1,720/event)</b>	<b>£50,332</b>	<b>14 weeks</b>

<sup>2</sup> This is the cost for implementing P110 as a stand-alone project. It is envisaged that P110 will be implemented as part of a BSC Release and therefore the project overhead will be calculated for the BSC Release as a whole.

<sup>3</sup> The Annual Maintenance price is a percentage of the total cost for the change.

## ANNEX 2 REPRESENTATIONS

### A2.1 Summary of Representations

The draft Modification Report was sent out for consultation on 21 February 2003 with responses due back on 28 February 2003. The table below gives a summary of the responses and the actual responses received are attached below.

	Responses	BSC Parties
Support recommendations		
Do not support recommendations		
No Comment		
Total		

Representations were received from the following parties:

No	Company	File Number	No. BSC Parties Represented	Views
1.				
2.				
3.				
4.				
5.				
6.				
7.				
8.				
9.				
10.				

### A2.2 Detailed Responses

## ANNEX 3 LEGAL TEXT

See attached document (P110 Legal drafting v4.0).