

SECOND ASSESSMENT CONSULTATION for Modification Proposal P215 'Revised Credit Cover Methodology for Generating BM Units'

Prepared by P215 Modification Group

For Review	Date of Issue	17 January 2008	Version Number	1.0
For Attention Of	BSC Parties and other interested parties			
Responses Due	12pm on 31 January 2008 to: modification.consultations@elexon.co.uk			
Overview and Purpose of Document:				
Proposed Modification P215 seeks to amend the Balancing and Settlement Code ('the Code') so that certain types of BM Units (defined as 'Credit Qualifying BM Units') have their Credit Cover calculated using Final Physical Notifications (FPN), instead of Credit Assessment Load Factor (CALF) values.				
Alternative Modification P215 seeks to amend the Code so Credit Cover for 'Credit Qualifying BM Units' uses FPNs, and Metered Volumes from a Central Data Collection Agent run two Working Days after Gate Closure is used for CVA registered Credit Qualifying BM Units' Credit Cover (SVA registered Credit Qualifying BM Units would use FPNs over a five Working Day Credit Assessment Energy Indebtedness (CEI) period).				
Purpose of Consultation				
This consultation seeks respondents' views regarding P215 and, in particular:				
<ul style="list-style-type: none">• Whether the Proposed Modification would better facilitate the achievement of the Applicable BSC Objectives¹ when compared to the current Code baseline;• Whether the Alternative Modification would better facilitate the achievement of the Applicable BSC Objectives when compared to the Proposed Modification and to the current Code baseline;• Whether there are any alternative solutions that the Modification Group has not previously identified and that should be considered within the remaining P215 timetable;• The benefit you believe the Proposed or Alternative Modification will deliver:<ul style="list-style-type: none">- to the whole industry; and- to you as an individual Party;• Whether the implementation approach agreed by the Group is appropriate; and• Whether there are any substantive issues not considered by the Modification Group which should be brought to the Group's attention for inclusion in its assessment of P215.				
You are invited to respond to the questions contained in the attached pro-forma.				
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¹ A copy of the Applicable BSC Objectives is provided in Appendix 1.

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Summary Of Impacted Parties And Documents

As far as the Modification Group has been able to assess, the following parties/documents would be impacted by P215.

Please note that this table represents a summary of the full impact assessment results in Appendix 3.

Parties		BSC Sections		Code Subsidiary Documents	
Distribution System Operators	<input 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"/>
Interconnectors	<input type="checkbox"/>	C	<input type="checkbox"/>	BSC Service Descriptions	<input checked="" type="checkbox"/>
Licence Exemptable Generators	<input checked="" type="checkbox"/>	D	<input type="checkbox"/>	Party Service Lines	<input type="checkbox"/>
Non-Physical Traders	<input type="checkbox"/>	E	<input type="checkbox"/>	Data Catalogues	<input checked="" type="checkbox"/>
Suppliers	<input checked="" type="checkbox"/>	F	<input type="checkbox"/>	Communication Requirements Document	<input type="checkbox"/>
Transmission Company	<input checked="" type="checkbox"/>	G	<input type="checkbox"/>	Reporting Catalogue	<input checked="" type="checkbox"/>
Party Agents		H	<input type="checkbox"/>	Core Industry Documents	
Data Aggregators	<input type="checkbox"/>	I	<input type="checkbox"/>	Ancillary Services Agreement	<input type="checkbox"/>
Data Collectors	<input type="checkbox"/>	J	<input type="checkbox"/>	Data Transfer Services Agreement	<input type="checkbox"/>
Meter Administrators	<input type="checkbox"/>	K	<input checked="" type="checkbox"/>	Distribution Code	<input type="checkbox"/>
Meter Operator Agents	<input type="checkbox"/>	L	<input type="checkbox"/>	Distribution Connection and Use of System Agreement	<input type="checkbox"/>
ECVNA	<input type="checkbox"/>	M	<input checked="" type="checkbox"/>	Grid Code	<input type="checkbox"/>
MVRNA	<input type="checkbox"/>	N	<input type="checkbox"/>	Master Registration Agreement	<input type="checkbox"/>
BSC Agents		O	<input type="checkbox"/>	Supplemental Agreements	<input type="checkbox"/>
SAA	<input checked="" type="checkbox"/>	P	<input type="checkbox"/>	Use of Interconnector Agreement	<input type="checkbox"/>
FAA	<input type="checkbox"/>	Q	<input checked="" type="checkbox"/>	BSCCo	
BMRA	<input checked="" type="checkbox"/>	R	<input checked="" type="checkbox"/>	Internal Working Procedures	<input checked="" type="checkbox"/>
ECVAA	<input checked="" type="checkbox"/>	S	<input type="checkbox"/>	BSC Panel/Panel Committees	
CDCA	<input checked="" type="checkbox"/>	T	<input type="checkbox"/>	Working Practices	<input checked="" type="checkbox"/>
TAA	<input type="checkbox"/>	U	<input checked="" type="checkbox"/>	Other	
CRA	<input checked="" type="checkbox"/>	V	<input type="checkbox"/>	Market Index Data Provider	<input type="checkbox"/>
SVAA	<input type="checkbox"/>	W	<input type="checkbox"/>	Market Index Definition Statement	<input type="checkbox"/>
Teleswitch Agent	<input type="checkbox"/>	X	<input checked="" type="checkbox"/>	Connection and Use of System Code	<input type="checkbox"/>
BSC Auditor	<input type="checkbox"/>	Z	<input type="checkbox"/>	System Operator-Transmission Owner Code	<input type="checkbox"/>
Profile Administrator	<input type="checkbox"/>			Transmission Licence	<input type="checkbox"/>
Certification Agent	<input type="checkbox"/>				
Other Agents					
Supplier Meter Registration Agent	<input type="checkbox"/>				
Unmetered Supplies Operator	<input type="checkbox"/>				
Data Transfer Service Provider	<input type="checkbox"/>				

1 Executive Summary

The key conclusions of the P215 Modification Group ('the Group') to date are outlined below.

The Group:

- **AGREED** an initial **MAJORITY** view that the Proposed Modification **WOULD NOT** better facilitate the achievement of Applicable BSC Objective (c), and would therefore not better facilitate the Objectives overall, because use of FPNs only (i.e. without any BOA data, Metered Volumes, etc) in the calculation of the CEI of Credit Qualifying BM Units would introduce systematic inaccuracy in the estimation of the metered volume of some BM Unit types;
- **DEVELOPED** an Alternative Modification to further increase the accuracy of the Credit Cover arrangements compared with the Proposed Modification;
- **AGREED** an initial **MAJORITY** view that the Alternative Modification **WOULD** better facilitate the achievement of Applicable BSC Objectives (c) and (d) (and better facilitate the Objectives overall) by increasing the accuracy of the estimation of BM Unit Metered Volumes in the calculation of CEI, increasing the accuracy of Energy Indebtedness as a reflection of the actual value at risk and reducing the administrative burden associated with the Credit Cover arrangements;
- **NOTED** that implementation costs for the Proposed Modification were estimated at £179,210²;
- **NOTED** that implementation costs for the Alternative Modification were estimated at £304,380;
- **ESTIMATED** that the cost-savings of both the Proposed and Alternative Modification for Parties and BSCCo due to a reduction in the number of CALF appeals would be at least £4,200 per annum due to a reduction in the number of CALF appeals;
- **AGREED** that the Proposed and Alternative Modifications would benefit all Parties in the market because the Energy Indebtedness of Parties associated with Credit Qualifying BM Units would be more accurately estimated, so the Energy Indebtedness of the whole market would more accurately reflect the actual value at risk;
- **AGREED** that the Proposed and Alternative Modifications would benefit some individual Parties because the Energy Indebtedness of those Parties associated with Credit Qualifying BM Units whose Energy Indebtedness is currently overestimated would be calculated more accurately, potentially allowing a reduction in the amount of Credit Cover they lodge;
- **AGREED** it was not possible to assign a financial value to the benefit of more accurate reflection of the actual value at risk by Energy Indebtedness; however the Group believed that it is likely a Party will default or fail within the next few years, and that the Credit Cover arrangements should therefore be as accurate as possible;
- **DEVELOPED** an implementation approach that avoids impact on National Grid systems, though maintenance of dual versions of up to two data flows is introduced by this approach; and
- **AGREED** draft legal text to deliver the Proposed and Alternative Modifications.

² This estimate includes the cost to port and migrate changes made to the current baseline to the new hardware baseline for November 2008 P215 implementation. Implementation in June 2009 or later does not have this cost. The BSC Agent IA (Attachment 6) contains further details on this.

A description of the P215 solution is provided in Section 2. Further information regarding the Group's initial conclusions regarding the areas set out in the P215 Terms of Reference is contained in Section 3. Section 3.15 outlines the Group's conclusions regarding the additional assessment and analysis (Attachment 3) of P215 following extension of the P215 Assessment Procedure.

A summary of the Group's initial views regarding the merits of the Proposed Modification and Alternative Modification can be found in Section 4. A copy of the Group's full Terms of Reference can be found in Appendix 2, whilst a summary of the responses to the first Assessment Procedure consultation/impact assessment can be found in Appendix 5.

Second Assessment Procedure Consultation

This second P215 Consultation has been issued following the extension of the Assessment Procedure by the BSC Panel. This Consultation document, and attachments, present additional analysis considered by the Group, further cost-benefit assessment and the conclusions of the Group, as well as details of the arguments considered and the implementation approach developed.

This second Consultation seeks confirmation from respondents as to whether they agree with the conclusions drawn from the analysis performed and what they believe is the benefit of the P215 Proposed or Alternative Modification for both the industry as a whole and for individual Parties.

Respondents are urged to note the conclusions relating to the additional analysis (section 3.15 and Attachment 3) and the views of the Group, and to indicate whether or not they agree.

2 Description of Modification

This section outlines the solution for the Proposed Modification and Alternative Modification as developed by the Modification Group.

For a full description of the original Modification Proposal as submitted by Uskmouth Power Limited ('the Proposer'), please refer to the P215 Initial Written Assessment (IWA). Details of the Modification Group's refinement of the Proposed Modification in the Definition Procedure can be found in the [P215 Definition Report](#).

P215 seeks to revise the provisions regarding Credit Cover in the Balancing and Settlement Code ('the Code'). The Modification Proposal suggested revision of the method of calculating Credit Cover in respect of 'generating BM Units' with the intent that the accuracy of the calculations would be increased, and that consequently the amount of credit Parties are required to lodge would be based on more accurate data than it is presently. The Group defined the term 'Credit Qualifying BM Unit' to give effect to the intent of the Modification Proposal; the definition developed and agreed for this term can be found in section 2.1, below.

Credit Cover is currently based upon the total Energy Indebtedness (EI) of a Party, which is the sum of the Party's Credit Assessment Energy Indebtedness (CEI) and Actual Energy Indebtedness (AEI). EI is calculated over a period of 29 Settlement Days; the CEI period makes up the most recent five Working Days and AEI constitutes the remainder. AEI covers the period for which an Interim Information Settlement Run (II Run) has been carried out. Figure 1 illustrates these current arrangements for the calculation of Parties' Energy Indebtedness. The arrangements are described in greater detail in the [P215 IWA](#).

The information from the II Run allows actual BM Unit Metered Volume data to be used with contract data and other information to calculate AEI. The CEI calculation currently uses

information on BM Units' maximum Generation Capacity (GC) or Demand Capacity (DC) in conjunction with a Credit Assessment Load Factor (CALF) value which represents the expected operation of the BM Unit.

CALF values are based on analysis of historic data for a given BM Unit from the previous applicable BSC Season (e.g. Winter 2007 CALF values are based on Winter 2006 data), and therefore encompass BM Units' average output, Bid-Offer Acceptance (BOA) activity and any plant outages. It should be noted that CALF is not a parameter that varies dynamically, but is determined on a seasonal basis. CEI is a proxy estimation of Parties' imbalance, i.e. their estimated Metered Volume compared with actual contract data. CEI is used in the Credit Cover arrangements only until II Run data becomes available.

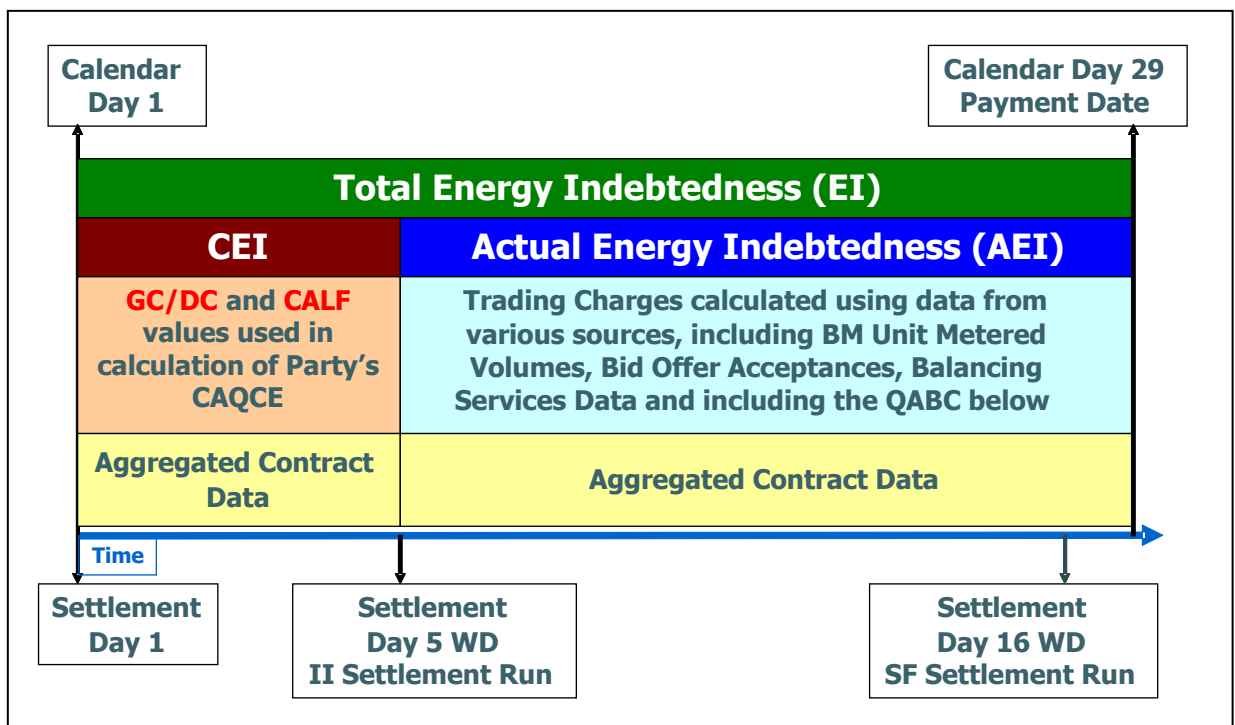


Figure 1: Current Energy Indebtedness arrangements

2.1 Proposed Modification

The provisions of the P215 Modification Proposal would apply on the basis of the following definition, agreed in the P215 Definition Procedure. This definition was updated in the Assessment Procedure so that the term used is 'Credit Qualifying BM Unit' rather than 'generating BM Unit to which P215 is applicable' (the original wording), in order to more clearly reflect the criteria.

Definition of a Credit Qualifying BM Unit:

A BM Unit shall be considered as a Credit Qualifying BM Unit if it is a BM Unit which is obliged to submit Physical Notifications due either to obligations placed on it under the Grid Code or because it has indicated its participation in the Balancing Mechanism, and which is not an Interconnector BM Unit, and to which at least one of the following criteria applies:

- *Its Production/Consumption Status flag is Production; or*
- *It is an Exempt Export BM Unit; or*

- It has been assigned such Credit Qualifying BM Unit status by the BSC Panel (e.g. following application to the Panel for such status on the basis of evidence of operation as a delivering BM Unit).

The Group intended that this definition would capture BM Units whose FPN flag is set to 'Yes' (due either to obligations placed upon them by the Grid Code or because they have elected for the FPN flag to be set to 'Yes'). This is reflected in the wording of the first paragraph of the definition. The Group considered that it would be inappropriate to refer directly to the FPN flag because it is a system characteristic and not a BSC term. Details of the considerations of the Group in the Definition Procedure can be found in the [P215 Definition Report](#).

2.1.1 Use of FPN to calculate CEI, in place of BMCAEC

The P215 Proposed Solution is that FPNs are used in the calculation of CEI in the Credit Cover arrangements for Credit Qualifying BM Units, in place of the BM Unit Credit Assessment Export Capability (BMCAEC). BMCAEC is the product of CALF and GC, and is used in the calculation of CEI for Production BM Units that are not Interconnector BM Units. More detail on this is provided in the [P215 IWA](#).

The Group agreed the Credit Cover arrangements should secure against Parties' estimated indebtedness over the 29 calendar day period, taking account of imbalance position and Bid-Offer activity. The Group also considered that CEI should provide a proxy for Metered Volumes for the first five Working Days of the 29 day credit period. The Group considered that the current methodology for CEI calculation, by examining historical BM Unit data for previous corresponding BSC Seasons, takes into account the overall effect of BOA activity and outages on a BM Unit's expected Metered Volume. However, this approach will not necessarily reflect the BM Unit's operation in Settlement Periods of the current BSC Season. Furthermore, the current CEI calculation cannot account for dynamic variation of BM Unit output in different Settlement Periods.

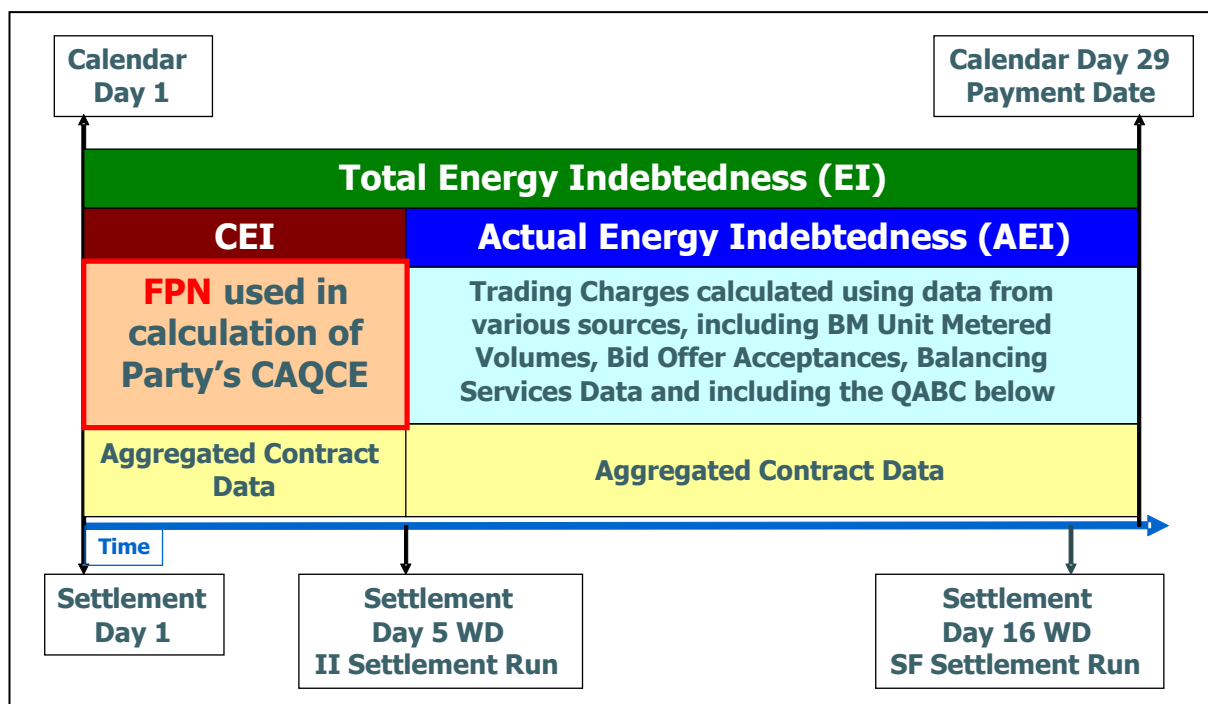


Figure 2: P215 proposed Energy Indebtedness arrangements

The Group agreed that the use of FPNs in the calculation of CEI, without the addition of any other new information to the calculation, or any other adjustment to the Credit Cover arrangements, was the intent of the P215 Modification Proposal. The Group was satisfied FPNs are a reasonably accurate proxy for estimating BM Unit Metered Volumes, and overall are sufficiently accurate for the purposes of the Credit Cover arrangements.

Figure 2 illustrates the arrangements for the calculation of Parties' Energy Indebtedness under the provisions of P215 Proposed Modification (i.e. as opposed to the current arrangements in figure 1).

The Group believed that ideally Bid Offer Acceptance BOA data should be incorporated into the CEI calculation (and considered options for a P215 Alternative Modification that would use FPN adjusted by BOA data). However, the Group agreed BOA data should not form part of the P215 *Proposed* Modification solution because it was not the intent of the P215 Modification Proposal and because inclusion of BOA data would increase the cost of implementation. Including BOA data would materially increase the required system change and would alter the CEI timetable; the Group considered it was not appropriate for these impacts to form part of the P215 Proposed Modification.

2.1.2 Default of FPN Data

The Group examined the current default rules around FPN Data in respect of the submission of FPNs to National Grid and the use of FPNs in the calculation of CEI for Interconnector BM Units. Presently, if no FPN is received for a BM Unit in relation to a particular Settlement Period the latest FPN value submitted would be used in CEI calculation. If no FPN has previously been submitted for the BM Unit, then the FPN used will default to zero. The Group agreed these current default rules are sufficiently robust to be used in the P215 provisions.

2.1.3 System Impacts

Reporting in the ECVAI-I014 Notification Report would be changed. The ECVAI-I014 shows 'Credit Assessment Credited Energy Volume (CAQCE) by BMU Type'. CAQCE is calculated using BMCAEC, BMCAIC or FPN for Production BM Units, Consumption BM Units and Interconnector BM Units respectively. Reporting is currently split between 'Interconnector Credit Assessment Credited Energy Volume' and 'Non Interconnector Credit Assessment Credited Energy Volume'.

The ECVAI-I014 would be changed so CAQCE reporting is split between 'Credit Cover calculated using FPNs' and 'non-FPN Credit Cover' (i.e. the Interconnector category would be expanded to include Credit Qualifying BM Units, rather than adding a third category for non-Interconnector FPN Credit Cover). This is an amendment to the definition, not the functionality, of the ECVAI-I014.

Other system impacts are that the CRA-I014 will contain a BM Unit Credit Qualifying flag and the CRA-I015 will include BM Unit Exempt Export Data and P215 Qualifying Flag (this will impact ECVAI only, not the FAA or BMRA). Implementation of P215 Proposed would involve maintenance of 2 versions of the CRA-I020. A new version of the CRA-I020 would be received by BSCCo, and would report the new BM Unit Credit Qualifying flag. National Grid would continue to receive the current version of the CRA-I020. Further details can be found in the BSC Agent IA (Attachment 6).

2.1.4 Approach to demand BM Units within Production (P) status Trading Units³

All BM Units in a Production Trading Unit are assigned P status by the Trading Unit Methodology, and their CEI is therefore calculated using their assigned GC. Demand BM Units within P status

³ A Trading Unit is normally a combination of several BM Units whose Production and Consumption accounts are captured under a single entity, that being the Trading Unit. Trading units are established in accordance with Section K-4 of the Code.

Trading Units therefore have P status. However, BM Unit activity is not accurately reflected by the GC values of such demand BM Units (in most cases the GC value is zero). Therefore, under the current Credit Cover arrangements, the credit liability of demand BM Units that form part of Production Trading Units is netted off against that of the generating BM Units in the Trading Unit, via the CALF values. This incorporates the demand BM Units in the estimation of the Trading Unit's net production, and hence in the Party's CEI.

It should be noted that demand BM Units within P status Trading Units often tend to have a relatively small demand, and may represent only the station demand.

The Group agreed that this issue should be resolved by ECVAA system changes such that demand BM Units within P status Trading Units are identified within the system, and their CEI is calculated using CALF and DC values. This approach minimises the operational impact on Parties because the demand BM Units are included in CEI calculation using DC and CALF values calculated using the existing methodology. ECVAA system changes are required to enable the ECVAA system to identify BM Units whose CEI would be calculated in this way and to effect the necessary data processing and reporting.

2.1.5 Application process for Credit Qualifying BM Unit status

Parties associated with BM Units that do not qualify automatically for status as a Credit Qualifying BM Unit may apply for such status to be assigned to the BM Unit. The Group agreed that the criteria for successful application would be:

- The BM Unit must be a net generator (i.e. export exceeding import) for the majority of the Settlement Periods in the previous 6 month period; and
- The BM Unit must be a net generator (i.e. export exceeding import) in total volumes, over a 6 month period.

For the avoidance of doubt, this application process and criteria would apply only to those Parties that do not qualify under the first two criteria described in 2.1.

The Group anticipated that BSCCo (with the assistance of the applicant) would examine the Metered Volume data and determine whether an applicant should be assigned Credit Qualifying BM Unit, because the clear criteria mean this can be done mechanistically. BSCCo's decision would then be presented to the Panel (or Panel Committee with delegated responsibility in this area) for ratification. The Group agreed that a formal application procedure should be introduced in a BSC Procedure (BSCP), and considered that BSCP15 'BM Unit Registration' would be suitable.

The Group agreed that where qualification for Credit Qualifying BM Unit status had been awarded following application, review of the status would be carried out annually. The Group agreed that BSCCo should carry out reviews of Credit Qualifying status in line with the current GC/DC reviews. Determination regarding the continued qualification of BM Units would be done by reapplying the qualification criteria to the BSC Season's Metered Volume data for the BM Unit. For the avoidance of doubt, this review of Credit Qualifying BM Unit status would not apply to those BM Units that qualify automatically under the first two criteria described in 2.1, i.e. they have P status or are an Exempt Export BM Unit.

2.1.6 Review of FPN Data

The Panel would have the right, if it considered it appropriate, to review (and could request that the Transmission Company provide data to assist in such review) a Lead Party's fulfilment of its obligation to submit FPNs in accordance with the Grid Code (this is a current obligation on a Lead

Party under the Code). The purpose of this provision is to provide recourse in the event that a Party has submitted, or is submitting on an ongoing basis, inaccurate FPN data (i.e. that does not represent its true operation and energy volume activity). The Group considered that this provision should be included in order to address concerns over potential submission of inaccurate FPNs as a result of P215, either intentionally or unintentionally, despite Parties' Grid Code obligations.

2.2 **Alternative Modification**

Under the Alternative P215 Modification developed by the Group, the CEI of Credit Qualifying BM Units would be calculated using FPN data and, in addition, Metered Volume data available from the CDCA would be used in the calculation of Energy Indebtedness for a sub-set of Credit Qualifying BM Units. The Alternative P215 Modification solution is in essence *the same as the Proposed P215 Modification solution* (as described in section 2.1), with the *addition* that Metered Volume data would be used earlier in the calculation of Energy Indebtedness for Credit Qualifying BM Units registered in CVA, as described in this section.

Under the Alternative solution, CEI would be calculated for all Credit Qualifying BM Units using FPN data, in the same way as in the P215 Proposed Modification. However, in conjunction with this, and for **CVA-registered Credit Qualifying BM Units only**, the CEI period would be shortened to two Working Days; in the interval between the CEI period and AEI period, Metered Volume data would be used to calculate Parties' 'Metered Energy Indebtedness' (MEI). The term MEI is a new concept which would be introduced to identify the component of Energy Indebtedness calculated using metered data from CDCA before the II Run.

Metered Volume data for the MEI calculation would be gathered using a 'Credit Cover Run' at Settlement Day+2WD. The remainder of Credit Qualifying BM Units would continue to use FPN over a five Working Day CEI period. The II Run would continue to take place for all BM Units five Working Days after the relevant Settlement Period. Figure 3 illustrates the calculation of Energy Indebtedness for CVA-registered Credit Qualifying BM Units; Energy Indebtedness for other Credit Qualifying BM Units would be calculated as illustrated in figure 2.

The Credit Cover Run would collect Metered Volume data from the CDCA. The majority of the Metered Volume data required for such a Credit Cover Run is available two days after a given Settlement Period. The CDCA has a target of collecting 98.5% of raw CVA Metered Volume data by Settlement Day+2, and typically has around 99% of the data by this time. This data is direct from meter channels and is not yet validated at this point, but the Group agreed that it would be significantly more accurate than a CEI value calculated using either the current methodology or the methodology proposed by the P215 Proposed Modification. The results of a Credit Cover Run would only be used for Credit Cover purposes; it would not be a Settlement Run.

If the Metered Volume data needed to calculate the MEI of a BM Unit is not available (either from the Main or Check meter), then Energy Indebtedness would continue to be calculated using FPN data for the affected Settlement Periods (i.e. revert to CEI).

The P215 Alternative requires the system changes associated with the Proposed, with some additions. The CDCA Aggregation Process and Report and the SAA Settlement Calendar would be modified to incorporate the new Credit Cover Run. The Credit Check would process Credit Qualifying BMUs using Meter Volume data or FPN, and derive an MEI value where appropriate.

A new version of the ECVAA-I014 Notification Report would be required, to report CAQCE for Credit Qualifying BM Units. The new ECVAA-I014 would require new fields to report MEI values in a similar manner to the current reporting of AEI. Two versions of the ECVAA-I014 would be

maintained, with National Grid continuing to receive the current version, and the new version being sent to all other recipients. As with the Proposed, two versions of the CRA-I020 would also be maintained. Further details can be found in the BSC Agent IA (Attachment 6).

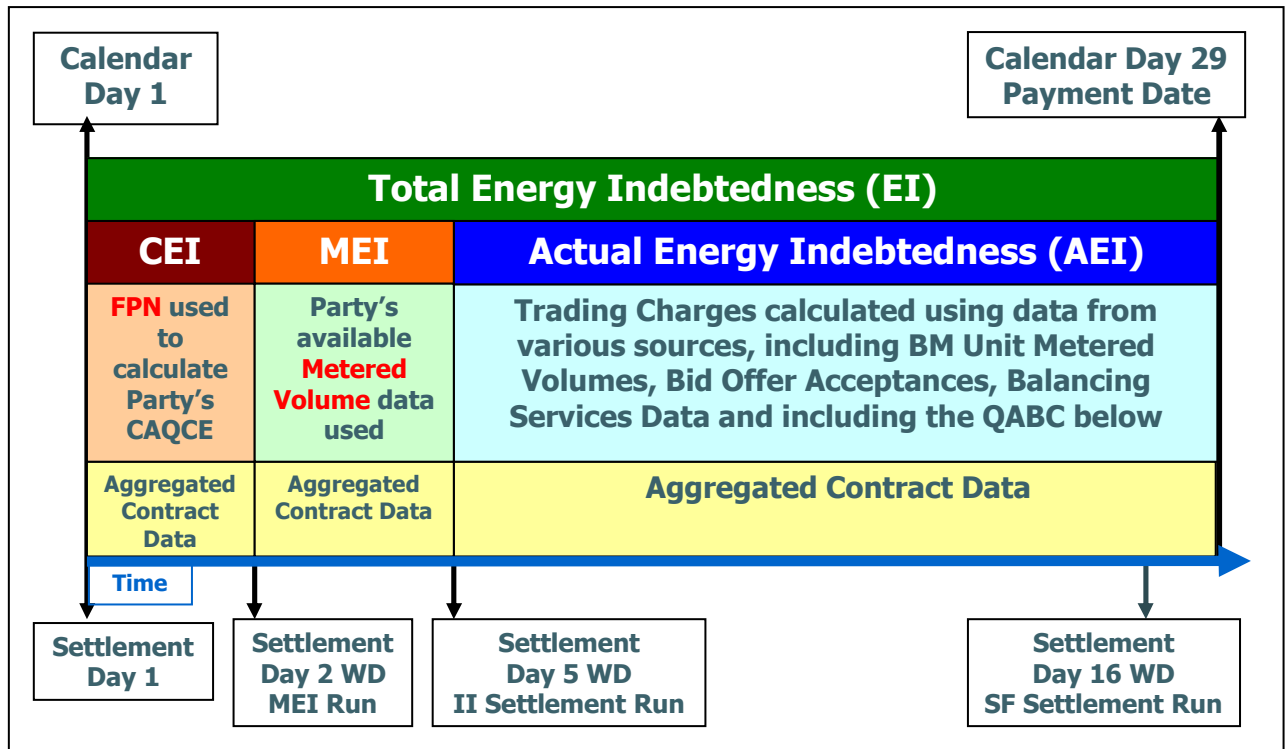


Figure 3: P215 Alternative Energy Indebtedness arrangements for CVA-registered Credit Qualifying BM Units

2.3 P215 Alternative Modification options originally considered

The Group originally considered, and consulted on, four different options for the P215 Alternative. Following the first P215 Assessment consultation and impact assessments option 3 was developed as the P215 Alternative Modification. The options are described in more detail in the initial [P215 Consultation Document](#). The four options were:

Option 1 – FPN updated using BOA volume data

Under this option, FPNs would have been used in the CEI calculation (as in P215 Proposed) initially, but CEI would then be updated with BOA volume data when it becomes available (two hours after Gate Closure i.e. Settlement Period+4).

Option 2 – FPN updated using BOA volume data and MEL data where appropriate

This option was use of FPNs in the CEI calculation (as in P215 Proposed) initially, then update the CEI with both BOA volume data and MEL data (if MEL is lower than FPN) when the BOA and MEL data becomes available (two hours after Gate Closure i.e. Settlement Period+4).

Option 3 – FPN; Metered Volume data used for a sub-set of BM Units

This option was selected as the P215 Alternative Modification solution because it delivered the maximum accuracy at a reasonable cost.

Under this option, FPNs would be used in the CEI calculation (as in P215 Proposed) for all Credit Qualifying BM Units. In conjunction with this, for **Credit Qualifying CVA registered BM Units only**, the CEI period would be shortened to two Working Days, by introducing a 'Credit Cover Run'

at Settlement Day+2 to extract the Metered Volume data from the Central Data Collection Agent (CDCA). Other Credit Qualifying BM Units would use FPNs over a five Working Day CEI period.

Option 4 – FPN; Imbalance cash flow data used for a sub-set of BM Units

This option was to use FPNs in the CEI calculation (as in P215 Proposed) for all 'generating BM Units'. In conjunction with this, for **Credit Qualifying CVA registered BM Units only**, shorten the CEI period to two Working Days by introducing a 'Credit Cover Run' at Settlement Day+2 to extract actual imbalance cash flow data (rather than just Metered Volume data) from the Settlements Administration Agent (SAA). Other Credit Qualifying BM Units would use FPNs over a five Working Day CEI period.

Option 4 was included in the initial P215 Assessment Procedure industry consultation, and emerged as the favoured option among respondents. **However, the Group discounted option 4 because its excessive complexity and implications for central systems (and therefore associated cost) rendered its implementation fundamentally unfeasible.**

3 Areas Raised By The Terms Of Reference

This section outlines the conclusions of the Modification Group regarding the areas set out in the P215 Terms of Reference following the initial P215 Consultation and the drafting of the original Assessment Report. Greater detail of discussions and analysis relating to these areas can be found in the corresponding sections of the initial P215 [Consultation Document](#) and initial [Assessment Report](#), and the relevant attachments (see the [P215 page](#) on the ELEXON website).

3.1 *Demonstration of the defect in the existing Code requirements as a result of the current Credit Cover arrangements*

3.1.1 Modification Group's Conclusions

The Group concluded that the analysis conducted (section 3.12) demonstrated that FPNs are a more accurate proxy estimation of the Metered Volumes of generating BM Units compared with the current methodology of calculating Indebtedness in the CEI period. The Group agreed that this constitutes a defect in the current Credit Cover arrangements because they do not deliver the desired level of accuracy.

3.1.2 Views of Respondents to initial Assessment Procedure Consultation

There was general agreement that both the Proposed Modification and the Alternative Modification would deliver a more accurate proxy estimation of Metered Volume data.

3.2 *Impact of P215 on the risk of over- and under-collateralisation by Parties due to the BSC Credit Cover arrangements*

3.2.1 Modification Group's Conclusions

The Group examined the material impact of the provisions proposed by P215 in relation to the risk of over- and under-collateralisation by Parties as a result of the BSC Credit Cover arrangements. Parties may always lodge excessive Credit Cover, i.e. 'over-collateralise' their position, but this area was to cover specifically the effect that the Credit Cover arrangements would have on the risk of Parties lodging too much or too little Credit Cover as a result of inaccurately calculated CEI.

The Group considered that the P215 Proposed Modification may tend to cause some Parties to be under-collateralised in comparison with the actual risk they pose to other Parties. This is because the Proposed Modification does not include any adjustment of the FPNs using Bid Acceptance volume data, which may lead to an underestimation of BM Units' actual Metered Volumes in their CEI. This could contribute to underestimation in the Parties' overall Energy Indebtedness.

3.2.2 Views of Respondents to initial Assessment Procedure Consultation

Overall, respondents generally felt that P215 Proposed (FPN), discounted solutions 'option 1' (FPN and BOA volumes) and 'option 2' (FPN, BOA volumes, update using MEL), were all more accurate than the baseline but tended to allow under-securitisation by Parties active in the Balancing Mechanism and by Parties in difficulties that are willing to submit inflated FPNs.

The issue of submission of inflated FPNs is that a generator facing financial difficulty could avoid being required to post more Credit Cover by declaring artificially high Physical Notifications (i.e. despite Grid Code obligations), leading to the generator being under-securitised. Though the use of BOA data addresses overestimation of Metered Volumes due to BOA activity, Parties in financial difficulty could still submit inflated FPNs. The risk remains if MEL data is also used, though it is mitigated to some extent because MEL redeclaration is limited to the declared GC.

Respondents were concerned that the potential for under-securitisation would expose the market as a whole to risk of failure by generators that are not sufficiently securitised. Respondents believed inclusion of BOA volumes in addition to FPN would increase accuracy and reduce risk of under-securitisation of BM Units active in the Balancing Mechanism, and that use of MEL data in addition to BOA volumes and FPN would still further increase accuracy, would reduce the risk of under-securitisation of BM Units active in the Balancing Mechanism and would reduce the risk of short term under-securitisation due to submission of inflated FPNs. However, the risks of under-securitisation in these two specific circumstances would remain, though mitigated to some extent.

3.3 Potential discrimination between generating and consuming BM Units

3.3.1 Modification Group's Conclusions

The Group concluded P215 does not unduly discriminate between generating and consuming BM Units, because the proposed provisions were dependent upon the availability of accurate and timely FPN submissions. While some demand BM Units can submit accurate FPNs, the majority of consuming BM Units cannot.

One respondent to the initial Assessment Procedure Consultation believed that that application of a shorter CEI period to only Credit Qualifying BM Units registered in CVA, under the Alternative, would unjustifiably discriminate against SVA registered BM Units. The respondent felt the Group had suggested it is acceptable to discriminate between registration method on the basis that individual volumes associated with SVA registered generation are currently likely to be (but not necessarily) smaller than those registered in CVA. The Group considered this response, and concluded that this was not the argument for the proposed differing length of CEI period. The Group clarified that the reason for the differentiation was that only two types of SVA registered BM Units that would be classed as Credit Qualifying BM Units had been identified, which are:

- Exempt Export BM Units registered in SVA, and qualifying due to their Exempt Export status - NB Exempt Export BM Units may, under Code section K, register in either SVA or CVA; and

- Consolidator BM Units (the Group anticipated these would be successful in a qualification application).

These BM Unit types could reasonably not be subject to a shorter CEI period because either:

- Their associated Metered Volumes would be relatively small (Exempt Export BM Units); or
- Their manner of operation is such that trip of the whole BM Unit is extremely unlikely⁴.

3.4 *Any relevant precedents from P140 and interconnector use of FPN in CEI calculation*

3.4.1 Modification Group's Conclusions

The Group considered that no precedents were directly relevant to consideration of the P215 Modification Proposal, as Interconnector BM Units inherently differ from other BM Units in their mode of operation. The Group examined some of the analysis conducted for P140 and conducted similar analysis, and agreed that the FPN default rules implemented under P140 were suitable for the P215 provisions. Responses to the initial Assessment Procedure Consultation contained no specific comments in this area.

3.5 *Any consequential impact of using FPN instead of CALF and GC/DC on the BSC, Grid Code or other codes and associated processes*

3.5.1 Modification Group's Conclusions

The Group sought to minimise impact on BSC Panel processes, and where Panel involvement is necessary provide a guideline process and criteria. The Group believed that it is probable that Panel involvement would be delegated to the relevant Panel Committee.

The Group concluded that P215 should not seek to impact the Credit Default arrangements. The Group considered that Parties should ensure that they have lodged sufficient Credit Cover to avoid falling into Credit Default, irrespective of the calculation methodology used. The current Credit Default rules would therefore apply regardless of how Energy Indebtedness was calculated.

The BSC would be impacted, particularly Section M, which concerns CAQCE calculation for the various types of BM Unit. There would be no change to the Grid Code, because the Group agreed that FPNs would continue to be submitted to National Grid and submission of FPNs by demand BM Units within P status Trading Units would not be mandated.

The Group considered that the assignment of Credit Qualifying BM Unit status by the BSC Panel should be determined by application to, and approval by, the BSC Panel (or a Panel Committee delegated this responsibility). The Group agreed that a formal application procedure should be introduced in a suitable BSCP, and considered that BSCP15 'BM Unit Registration' was appropriate for the application process.

a) BSC

Though the Credit Default arrangements are outside the scope of P215, the Group noted the potential for Parties to under-secure by submitting inflated FPNs may impact the BSC. A Party

⁴ This refers to consolidator BM Units, which are composed of many small Exemptable generators which are very unlikely to fail simultaneously.

in Level 1 Credit Default must reduce its Credit Cover Percentage (CCP) to below 75% to be removed from Default; if the CCP then exceeds 80% they have a 24 hour Query Period before they can be placed into Credit Default again. Therefore a Party could conceivably submit inflated FPNs to drive their CCP below 75% for a single Settlement Period, enabling them to trade for at least another 24 hours, during which time they may amass debts and Trading Charges which the market as a whole is at risk of having to pay in the event the Party ultimately fails. The Group considered that this circumstance could potentially be addressed by introducing a 'Credit Default Exit Query Period' whereby, for instance, for 24 hours after a Party has left Credit Default that Party may be placed back into Credit Default without the usual 24 hour Query Period.

ELEXON believes the scope for similar abuse exists under the current arrangements, though it is unlikely. The provisions of the P215 Proposed Modification would tend to make such abuse of the Credit Default arrangements more viable. However, the P215 Alternative Modification would make it less feasible, because the earlier use of actual Metered Volume data would reduce the influence of manipulated CEI data on Parties' overall Energy Indebtedness and CCP.

b) Grid Code/CUSC

The Group noted National Grid's opposition to mandatory submission of FPNs by demand BM Units within Production Status BM Units, and noted the majority of respondents favoured ECVA system changes to indicate alternative CEI calculation. The Group agreed this option should be used in both P215 Proposed and Alternative, and there is therefore no impact on the Grid Code or CUSC.

c) BSCP15

The Group agreed that the qualifying criteria should be located in a BSCP, as it would be appropriate that they are subject to the Change Process. The Group agreed that the criteria should be as described in section 2.1.5 of this document. The Group believed qualification should always be based on Metered Volume data. Monitoring of the continuing qualification of BM Units should be done by re-verification of the qualification criteria outlined above.

3.5.2 Views of Respondents to initial Assessment Procedure Consultation

A respondent reiterated that mandating submission of FPNs by demand BM Units within Production status Trading Units (consulted on as 'option A') would have significant impact on the Grid Code and CUSC. Parties would need to become signatories to the CUSC for credit cover reasons, which the respondent believed would be inappropriate, and significant and complex changes would be required to the Grid Code. Formal review of the contractual frameworks between the Transmission Company and Users would also be needed, and the development of a new framework to accommodate demand BM Units within Production status Trading Units may be required.

The majority of respondents favoured ECVA system changes to identify demand BM Units within Production status Trading Units that should have CEI calculated using CALF*DC rather than CALF*GC (initially consulted on as 'option C').

3.6 Potential mandatory FPN submission by generating BM Units

3.6.1 Modification Group's Conclusions

The Group considered several potential approaches to resolve the issue demand BM Units within Production (P) status Trading Units, which were included in the initial P215 Consultation. The options were:

- A. Mandatory submission of FPNs by demand BM Units within P status Trading Units;
- B. Optional submission of FPNs by demand BM Units within P status Trading Units; or
- C. ECVAA system changes so that demand BM Units within P status Trading Units are identified within the system and their CEI is calculated using CALF and DC values.

The Group considered the arguments from National Grid regarding mandatory submission of FPNs by demand BM Units within P status Trading Units ('option A') and agreed that the impact of this option on the Grid Code and CUSC would be inappropriate and disproportionate.

The Group noted a majority of respondents favoured ECVAA system change to identify where an alternative method of CEI calculation should be used ('option C'). The Group considered the associated costs identified by the BSC Agent IA, and agreed that option C would be used in both the P215 Proposed and Alternative Modifications.

3.6.2 Views of Respondents to initial Assessment Procedure Consultation

National Grid was opposed to mandating submission of FPNs by demand BM Units within P status Trading Units due to the impact on the CUSC and Grid Code.

A majority of respondents favoured ECVAA system changes to identify demand BM Units within P status Trading Units whose CEI should be calculated using CALF and DC values. Respondents believed this option would maintain consistency over all demand BM Units under the BSC but also allow Trading Units to be treated at a net level, in line with the application of trading charges, and that this would be the most efficient solution in the long run (subject to the associated cost).

3.7 Default P215 provisions if FPNs are not submitted

3.7.1 Modification Group's Conclusions

Default in the case an FPN is not submitted was considered. For Interconnector BM Units, the ECVAA system uses the latest available FPN in the calculations; if no previous FPN exists for the BM Unit the FPN value defaults to zero.

The Group considered the Interconnector BM Unit default process. This default process is documented in the ECVAA URS. It states that if an FPN is not received from an Interconnector BM Unit, the last FPN received from that BM Unit is used; if an FPN has never been received from the BM Unit, an FPN of zero is used. Code Requirements regarding FPNs are found in sections Q3 and T3.2. Requirements reflecting the default FPN process in the ECVAA URS sit in section T3.2.

The Group agreed the same process would be appropriate for the P215 provisions. Defaulting FPNs to zero if none were ever submitted would be a natural incentive (in addition to Grid Code obligations) for Parties to submit at least an initial FPN. This is because a continual FPN of zero would lead to Parties having to lodge excessive Credit Cover (i.e. because compared with the BM Unit contracted volume, a zero FPN would make the BM Unit appear short, leading to more Credit Cover being required). The Group concluded this would encourage smaller Parties associated with Exempt Export BM Units, that had elected to submit FPNs, to obtain the necessary systems to submit FPNs.

3.8 *Any implications of using FPN data for a purpose other than it was originally intended*

3.8.1 Modification Group's Conclusions

At present FPN is a purely technical parameter. The Group considered whether using FPN in the Credit Cover calculation would lead to it becoming more commercial, and whether this would affect the ability of the SO to balance the System. The Group noted the Information Imbalance charge could be used to encourage FPN accuracy, but did not believe this should be part of P215.

The Group conducted analysis to examine the feasibility of Parties 'gaming' FPN submissions to gain a long-term benefit in the Credit Cover arrangements. The Group concluded FPN gaming would have little benefit to BSC Parties in normal circumstances and was unlikely. However, Parties in financial difficulties may have different incentives for gaming FPN submissions.

3.9 *Impact on National Grid of additional FPN data*

3.9.1 Modification Group's Conclusions

The Group assessed the potential increase in the volume of FPNs received by National Grid, and the impact on its systems, and concluded there would be limited impact on National Grid even if many Exempt Export BM Units began to submit FPNs. The Group agreed the ECVAAs should continue to receive FPN data from National Grid, and Parties should submit FPNs to National Grid.

Mandatory FPN submission by demand BM Units within P status Trading Units would require significant Grid Code change, and review of the relevant contractual framework and technical obligations. The Group agreed this should not be progressed, therefore no change is required to the Grid Code, and the contractual and technical obligations of National Grid are not impacted.

3.10 *Impact of data requirements on Parties and BSC Agents*

3.10.1 Modification Group's Conclusions

The Group noted that Parties require an Electronic Data Transfer (EDT) system in order to submit FPNs to National Grid. Parties not currently submitting FPNs would need to procure such a system in order to do so. A widely used standard commercial EDT package is available, as well as a basic NG system.

3.11 *Impact on Central Systems*

3.11.1 Modification Group's Conclusions

The ECVAAs-I014 Notification Report currently shows 'Credit Assessment Credited Energy Volume by BMU Type', split between 'Interconnector Credit Assessment Credited Energy Volume (MWh)' and 'Non Interconnector Credit Assessment Credited Energy Volume (MWh)'. The Group agreed that under P215 Proposed the split should be between 'CAQCE calculated using FPNs' and 'non-FPN CAQCE', i.e. the Interconnector category would be expanded to include P215 generators.

The Group agreed implementation of P215 Proposed or Alternative would be via maintenance of two versions of the CRA-I020 and (for P215 Alternative only) two versions of the ECVAAs-I014. This avoids significant unnecessary impact on National Grid, which does not require the information in the revised flows.

The BSC Agent impact assessment (Attachment 6) details the Central System impact of P215 Proposed or Alternative, which includes a range of ECVAA, CRA and, in the case of the P215 Alternative, CDCA flow changes. This is an updated IA that includes assessment of parallel implementation of aspects of the P215 Alternative Modification, alternate means of effecting some of the EVAA change, and implementation options developed to mitigate National Grid impacts.

The National Grid Analysis reiterated concerns over a possible risk to FPN accuracy. National Grid identified significant system impact due to changes to the CRA-I020 and ECVAA-I014 flows. The Group explored means of implementing P215 Proposed or Alternative to mitigate or avoid this impact. The updated BSC Agent IA covers the following P215 implementation options:

- P215 Proposed Modification - either:
 - No change to the CRA-I020; or
 - Continue to supply the current version of the CRA-I020 to National Grid and supply the new version to all other recipients (i.e. BSCCo).
- P215 Alternative Modification - either:
 - No change to the CRA-I020 and continue to supply the current version of the ECVAA-I014 to National Grid and supply the new version to all other recipients; or
 - Continue to supply the current versions of both the CRA-I020 and ECVAA-I014 to National Grid and supply the new versions to all other recipients.

The CRA-I020 flow is received only by BSCCo and National Grid, so potentially no change could be made to this flow. However, central implementation costs would be reduced by only a few thousand pounds and BSCCo would still require the updated CRA-I020 data, so BSCCo systems would have to be modified or a manual workaround developed. The Group concluded it would be more efficient to produce an updated version of the flow.

	Implementation Option	Total Demand-Led cost	National Grid associated cost
P215 Proposed	As initially proposed (change to CRA-I020)	£157,210	£250,000
	No CRA-I020 change	£153,360	£0
	Maintain 2 versions of CRA-I020	£157,210	£0
P215 Alternative	As initially proposed (change to CRA-I020 and ECVAA-I014)	£313,790	£350,000
	No CRA-I020 change, 2 versions of ECVAA-I014	£299,280	£0
	Maintain 2 versions of both CRA-I020 and ECVAA-I014	£304,380	£0

Figure 4: P215 Implementation options and associated costs

The ECVAI-I014 is received by BSC Parties, the Energy Contract Volume Notification Agent (ECVNA) and the Metered Volume Reallocation Notification Agent (MVRNA). It is therefore necessary that an updated version of this flow is produced, so the only feasible means of mitigating the system impact is to continue to provide the current version to National Grid.

The demand-led central and National Grid costs are tabulated in figure 4. As well as options for the data flows, an alternate method of identifying demand BM Units within P status Trading Units was assessed, which contributed to a slight reduction in the demand-led implementation costs.

3.12 Accuracy of FPNs compared with actual Metered Volumes

3.12.1 Modification Group's Conclusions

The Group conducted analysis of the accuracy of FPNs compared with actual Metered Volume data. In addition, the Group carried out similar analysis of the current method of estimating Metered Volume for the purposes of the CEI calculation, i.e. Settlement Period Duration (SPD) multiplied by BMCAEC, and also the quantity Period Expected Metered Volume (QME_{ij}) which is FPN adjusted with BOA volume data. The analysis was conducted across a range of different types of BM Units including coal, nuclear, pumped storage, gas, and both large and small wind powered plant.

The Group concluded that QME and FPNs are both more accurate than the baseline methodology. The Group were concerned that a benefit due to increased Metered Volume estimation accuracy might be offset by increased volatility, but if FPNs accurately reflect Parties contracts, Credit Cover requirements calculated using FPNs would actually be more predictable than under the baseline. The Group considered that any disadvantage of volatility in Metered Volume estimation would in any case only reduce the benefit of greater accuracy, rather than remove it completely.

The initial [Assessment Procedure Consultation](#) and attachment contain more detail on this.

3.13 Cost Benefit of P215

3.13.1 Modification Group's Discussions

CALF Appeals

The Group considered the number of CALF appeals received over the previous four years (BSC Season Spring 2004 – Winter 2007), including the number of BM Units associated with each appeal. The appeals considered all related to generating plant which would be classed as Credit Qualifying BM Units. ELEXON estimated that it spends 28 man days per year processing CALF appeals. Assuming that Analyst-level staff carries out this work, this equates to £4,200 per annum.

This estimate is slightly conservative as it assumes all the work would be carried out by Analysts with no involvement from more senior personnel. Additionally, CALF appeals are considered by the ISG, and the estimate of the ELEXON effort takes no account of the time required by ISG members to consider CALF appeals.

Energy Estimation Modelling

The Group considered energy estimation modelling analysis, and concluded that the P215 Proposed and Alternative Modifications would both increase the accuracy of the required securitisation of the market in relation to the CEI period of Energy Indebtedness.

Modelling is possible only for BM Units with a GC over 100MW, as FPN submission by such BM Units is mandatory. Analysis of the accuracy of estimation of the BM Unit Metered Volumes (QM_{ij}) of generation BM Units with GC above 100MW was conducted for the baseline, P215 Proposed and P215 Alternative methodologies. A negative CEI value reduces a Party's overall Energy Indebtedness and a positive value increases Energy Indebtedness.

On average, estimation using FPN over 8 days (P215 Proposed) is more accurate than using the baseline methodology. Using FPN over 4 days (P215 Alternative) is even more accurate, due to the effect of decreasing the CEI period, hence using less estimation and more Metered Volume data. Both 8 day and 4 day FPN overestimate the Metered Volumes (as does the current method), as shown in figure 6, which shows a negative average (negative values equate to overestimation). Calculation of a 4 day CEI using FPNs gives least overestimation (107,443MWh compared with 214,854MWh for 8-day FPN use and 294,816MWh for the current method).

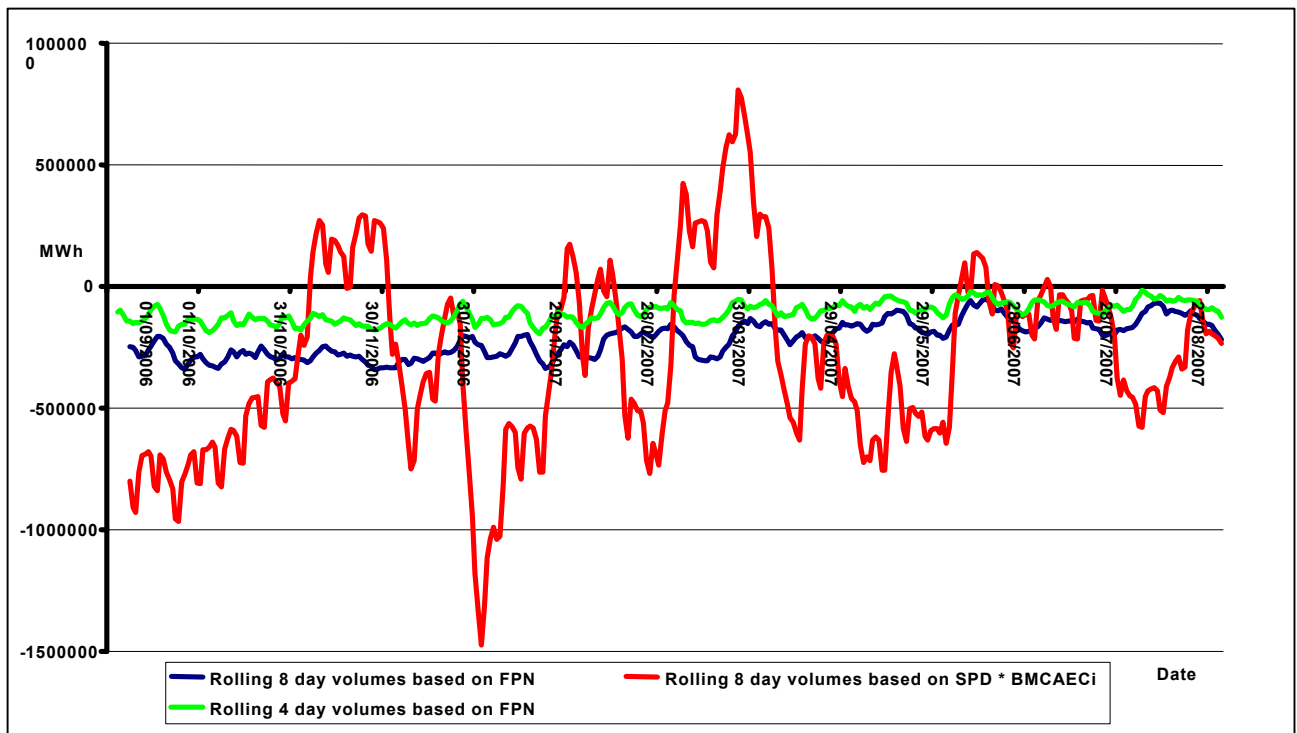


Figure 5: Modelled accuracy of CEI calculated using various methods

Quantity	Rolling 8 day for CEI based on FPN (MWh)	Rolling 4 day for CEI based on FPN (MWh)	Rolling 8 day for CEI based on CAQCE (MWh)
Minimum	-341,875	-194,872	-1,475,629
Maximum	-50,784	-15,812	808,542
Average	-214,854	-107,443	-294,816

Figure 6: Overall effect of varying accuracy in energy volume terms

There is a significant reduction in the range of error between the estimation and actual Metered Volumes calculated using the P215 Proposed methodology and the current methodology. The range is decreased further by the P215 Alternative methodology. This decrease indicates reduction in the exposure of the market. Though the methodologies of P215 Proposed and Alternative tend

to overestimate BM Units' Metered Volumes, the market extremes are reduced. This indicates a more stable Energy Indebtedness, as shown in the figure 5.

Figure 7 indicates that the baseline allowed average industry CEI period under-securitisation of £16.5M. The P215 Proposed solution would reduce permitted under-securitisation to £13.5M and the P215 Alternative solution would further reduce it to £6.75M. To clarify, this does not mean the market was actually under-secured by this amount, but that, for the CEI period, if the level of security lodged was exactly that indicated by the CEI calculation, it would be insufficient by this amount (relative to the amount actually required based on Metered Volumes).

Both the P215 Proposed and Alternative methodology are more stable than the baseline. Reference to the peak values shows that maximum under-securitisation (equating to the negative inaccuracy of the greatest magnitude) allowed by the current methodology over the analysis period is £111M. The maximum exposure allowed due to inaccuracy in the calculation of CEI falls to £26M under P215 Proposed, and £15M under the P215 Alternative.

Quantity	Rolling 8 day for CEI based on FPN (£)	Rolling 4 day for CEI based on FPN (£)	Rolling 8 day for CEI based on CAQCE (£)
Minimum	-£25,709,005	-£14,654,371	-£110,967,276
Maximum	-£2,207,833	-£687,411	£60,802,345
Average	-£13,543,235	-£6,750,588	-£16,585,980

Figure 7: Overall effect of varying accuracy in financial terms

Figure 5 shows that though the extremes associated with the current methodology are significantly greater in magnitude than the other values in the analysis period, they are not isolated. Compared with both the P215 Proposed and Alternative methodologies the inaccuracy of the current arrangements is relatively variable and unpredictable across the whole market.

3.14 Implementation Approach

The Group agreed both P215 Proposed and Alternative should be implemented in a Release, if approved. Implementation of either P215 Proposed or Alternative would be via maintenance of two versions of the CRA-I020 and (for P215 Alternative only) two versions of the ECVAA-I014.

The provisional Implementation Date for Proposed Modification P215 is 6 November 2008 if an Authority decision is received on or before 30 April 2008, or 25 June 2009 if the Authority decision is received after 30 April 2008 but on or before 13 November 2008.

The provisional Implementation Date for Alternative Modification P215 is 25 June 2009 if an Authority decision is received on or before 30 October 2008, or 05 November 2009 if the Authority decision is received after 30 October 2008 but on or before 26 March 2009.

3.15 Additional P215 Assessment and Analysis

After conducting additional assessment and analysis in relation to P215, the Group concluded that both P215 Proposed and Alternative gave a benefit for some individual Parties and a collective benefit for the whole market due to increased accuracy of BM Unit Energy Indebtedness estimation. The additional analysis considered by the Group, which led to the conclusions detailed

in this section, is included as Attachment 3 to this document. The benefits identified by the Group are:

- Whole market: the Energy Indebtedness of Parties associated with Credit Qualifying BM Units would be more accurately estimated, so all Parties in the market would benefit from Energy Indebtedness more accurately reflecting the actual value at risk; and
- Individual Parties: Parties associated with Credit Qualifying BM Units whose Energy Indebtedness is currently overestimated would benefit because their Energy Indebtedness would be calculated more accurately, which would potentially allow them to reduce the amount of Credit Cover they lodge (NB Credit Qualifying BM Units whose Energy Indebtedness is currently underestimated may need to increase the amount of Credit Cover they lodge due to increased accuracy).

However, the Group concluded that though the P215 provisions would better reflect the value at risk, and thus benefit the whole market, it was not possible to assign a value to the benefit of increased accuracy of Energy Indebtedness estimation. However, the Group agreed that it is likely that a Party will default or fail in the course of the next few years, due to the nature of the market and the prevalent and forecast market conditions, and that the Credit Cover arrangements should therefore be as accurate as possible. The Group concluded that default or failure of a Party is likely to occur over the course of the next few years because:

- Under NETA there have been two significant failures of Parties (though one was due to fraud and the other to a related credit line withdrawal) and a number of smaller defaults;
- The prevailing and expected future market conditions of high wholesale energy prices, high gas prices and low market liquidity made failure/default likely; and
- The market is likely to experience an increase in the number of new, relatively small Parties associated with relatively untested methods of energy generation, due to the encouragement of sustainable energy sources such as wind generation.

The Group discussed whether there were any other potential Alternatives that should be given consideration. A Group member suggested a solution whereby MEI would be introduced as in the P215 Alternative Modification, but FPNs would not be used in the CEI calculation. CEI would continue to be calculated using GC/DC and CALF. The Group considered that this methodology might have merit, but agreed that it could not form a P215 Alternative because it does not cover all P215 Credit Qualifying BM Units. Under the P215 Alternative, Credit Qualifying BM Units registered in SVA would not have associated MEI, but their CEI would be calculated using FPN; a solution that makes no change to the manner in which the CEI of these BM Units is calculated does not fully address the defect identified under P215.

4 Assessment of Modification Against Applicable BSC Objectives

This section outlines the views of the Modification Group regarding the merits of P215 against the Applicable BSC Objectives.

4.1 Proposed Modification

The **MAJORITY** view of the Modification Group was that the Proposed Modification **WOULD NOT** better facilitate the achievement of Applicable BSC Objective (c) when compared with the existing Code baseline, for the following reasons:

Applicable BSC Objective (C)

The majority view was based on the following reasons:

- FPNs overestimate the Metered Volumes of some BM Unit types;
- Overestimation of the Metered Volumes of some BM Unit types would cause a move from arbitrary errors in Credit Cover requirements to a situation where the Credit Cover requirement of these BM Unit types may be systematically underestimated;
- Systematic underestimation of Credit Cover requirements could cause a trend of market under-securitisation, which would expose Parties to risk, and therefore discourage new entrants to the market;
- Use of FPNs alone does not secure against cash flows arising from Bids and Offers; and
- Though using FPN to calculate CEI improves accuracy, the benefit is insufficient to justify the proposed change.

The minority view was based on the following reasons:

- Use of FPNs would significantly increase the accuracy of the estimation of BM Unit Metered Volumes in the calculation of CEI; and
- Energy Indebtedness would more accurately reflect the actual value at risk.

The initial **UNANIMOUS** view of the Modification Group was that the Proposed Modification **WOULD** better facilitate the achievement of Applicable BSC Objective (d) when compared with the existing Code baseline, for the following reasons:

Applicable BSC Objective (d)

- The process of estimating Metered Volumes for use in the Credit Cover would be simplified due to the reduction in CALF appeals; and
- The administrative burden associated with the Credit Cover arrangements would be reduced, due primarily to fewer CALF appeals.

The Group agreed that the Proposed Modification would have a neutral impact on Applicable BSC Objectives (a) and (b). A minority of the Group believed that the Proposed Modification would not better facilitate Objective (b), because an incentive, or perceived incentive, could be introduced for Parties to amend their FPNs for Credit Cover reasons. FPN accuracy could then deteriorate.

The **UNANIMOUS** view of the Modification Group was that the Proposed Modification **WOULD NOT** better facilitate the achievement of Applicable BSC Objectives overall when compared with the existing Code baseline. Group members who believed that the Proposed Modification would better facilitate the achievement of Applicable BSC Objective (d) but not (c) believed that the arguments against (c) outweighed the improvement against (d), leading them to believe that the Proposed Modification would not facilitate the achievement of Applicable BSC Objectives overall.

4.2 Alternative Modification

4.2.1 Alternative Modification compared with Proposed Modification

The **UNANIMOUS** view of the Modification Group was that the Alternative Modification **WOULD** better facilitate the achievement of Applicable BSC Objective (c) when compared with the Proposed Modification, for the following reasons:

Applicable BSC Objective (c)

- More accurate estimation of Metered Volumes than the Proposed Modification because actual Metered Volume data would be used; and
- Energy Indebtedness would more accurately reflect the actual value at risk.

The **MAJORITY** view of the Modification Group was that the Alternative Modification **WOULD** better facilitate the achievement of Applicable BSC Objective (d) when compared with the Proposed Modification, for the following reasons:

Applicable BSC Objective (d)

The majority view was based on the following reasons:

- Administration reduced and the earlier use of Metered Volume data gives comfort regarding the non-inclusion of BOA data in the CEI calculation.

The minority view was based on the following reasons:

- Would not simplify the arrangements in the manner that the Proposed does.

The Group agreed that the Alternative Modification would have a neutral impact on Applicable BSC Objectives (a) and (b) when compared with the Proposed Modification. The minority of the Group who had concerns over potential motives to 'game' FPN submissions under the Proposed Modification believed that this risk was mitigated by the use of Metered Volume data, and therefore the Alternative improved on the Proposed with regard to Objective (b), but the rest of the Group believed the Alternative was neutral in this respect.

The **UNANIMOUS** view of the Modification Group was that the Alternative Modification **WOULD** better facilitate the achievement of Applicable BSC Objectives overall when compared with the Proposed Modification.

4.2.2 Alternative Modification compared with Existing Code Baseline

The **MAJORITY** view of the Modification Group was that the Alternative Modification **WOULD** better facilitate the achievement of Applicable BSC Objectives (c) and (d) when compared with the existing Code baseline, for the following reasons:

Applicable BSC Objective (c)

The majority view was based on the following reasons:

- Use of a combination of FPNs and actual Metered Volumes would significantly increase the accuracy of the estimation of BM Unit Metered Volumes in the calculation of CEI; and
- Energy Indebtedness would more accurately reflect the actual value at risk.

The minority view was based on the following reasons:

- The volatility of the estimation of Parties' Metered Volumes in the Credit Cover arrangements would increase, which would increase the risk for Parties; and
- Parties' cost of managing credit would increase.

Applicable BSC Objective (d)

The majority view was based on the following reasons:

- The administrative burden associated with the Credit Cover arrangements would be reduced, due primarily to fewer CALF appeals; and
- Use of FPNs and Metered Volume data would increase accuracy, which would increase efficiency.

The minority view was based on the following reason:

- Would not simplify the arrangements and therefore would have a neutral effect.

The Group agreed that the Alternative Modification would have a neutral impact on Applicable BSC Objectives (a) and (b) when compared with the existing Code baseline.

The **MAJORITY** view of the Modification Group was that the Alternative Modification **WOULD** better facilitate the achievement of Applicable BSC Objectives overall when compared with the existing Code baseline.

5 Terms Used In This Document

Other acronyms and defined terms take the meanings defined in the Code.

Acronym/Term	Definition
BMCAEC	BM Unit Credit Assessment Export Capability
BMCAIC	BM Unit Credit Assessment Import Capability
CALF	Credit Assessment Load Factors
CAQCE	Credit Assessment Credited Energy Volume
CDCA	Central Data Collection Agent
CEI	Credit Assessment Energy Indebtedness
CVA	Central Volume Allocation
DC	Demand Capacity
ECVAA	Energy Contract Volume Aggregation Agent
EDT	Electronic Data Transfer
FPN	Final Physical Notifications
GC	Generation Capacity
NG	National Grid
P/C	Production/Consumption

Acronym/Term	Definition
PN	Physical Notification
QABC	Account Bilateral Contract Volume
QM	BM Unit Metered Volume
QME	Period Expected Metered Volume
SAA	Settlements Administration Agent
SPD	Settlement Period Duration
SVA	Supplier Volume Allocation
SVAA	Supplier Volume Allocation Agent

6 Document Control

6.1 Authorities

Version	Date	Author	Reviewer	Reason for review
0.1	14/01/08	Dean Riddell	David Jones, Sarah Jones,	For peer review
0.1	14/01/08	Dean Riddell	Roger Harris, Emrah Cevik	For technical review
0.1	14/01/08	Dean Riddell	P215 Modification Group	For Modification Group review
1.0	17/01/08	P215 Modification Group	BSC Parties and other interested parties	For industry consultation

Appendix 1: Applicable BSC Objectives

For reference the Applicable BSC Objectives, as contained in the Transmission Licence, are:

- a The efficient discharge by the licensee [i.e. the Transmission Company] of the obligations imposed upon it by this licence [i.e. the Transmission Licence];
- b The efficient, economic and co-ordinated operation of the GB transmission system;
- 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;
- d Promoting efficiency in the implementation and administration of the balancing and settlement arrangements.

Appendix 2: Process Followed

Copies of all documents referred to in the table below can be found on the BSC Website at: <http://www.elexon.co.uk/changeimplementation/ModificationProcess/ModificationDocumentation/modProposalView.aspx?propID=235>

Date	Event
27/07/07	Modification Proposal raised by Uskmouth Power Limited
09/08/07	IWA presented to the Panel
14/08/07	First Definition Procedure Modification Group meeting held
23/08/07	Definition Procedure consultation issued
31/08/07	Definition Procedure consultation responses returned
04/09/07	Second Definition Procedure Modification Group meeting held
13/09/07	Definition Report presented to the Panel
20/09/07	First Assessment Procedure Modification Group meeting held
27/09/07	Second Assessment Procedure Modification Group meeting held
16/10/07	Third Assessment Procedure Modification Group meeting held
24/10/07	Fourth Assessment Procedure Modification Group meeting held
29/10/07	Fifth Assessment Procedure Modification Group meeting held
02/11/07	Request for Party/Party Agent impact assessment issued
05/11/07	Requirements Specification issued for BSC Agent impact assessment
05/11/07	Assessment Procedure consultation issued
15/11/07	Assessment Procedure consultation responses returned
16/11/07	Sixth Assessment Procedure Modification Group meeting held
04/12/07	Seventh Assessment Procedure Modification Group meeting held
13/12/07	Assessment Report presented to the Panel (2 month extension of Assessment)
04/01/08	Eighth Assessment Procedure Modification Group meeting held

ESTIMATED COSTS OF PROGRESSING MODIFICATION PROPOSAL ⁵	
Meeting Cost	£4,500
Legal/Expert Cost	£5,000
Impact Assessment Cost	£10,000
ELEXON Resource	130 man days £27,040

These costs have changed from those provided in the Definition Report, due to additional Assessment of P215.

⁵ Clarification of the meanings of the cost terms in this appendix can be found on the BSC Website at the following link:
http://www.elxon.co.uk/documents/Change_and_Implementation/Modifications_Process_-_Related_Documents/Clarification_of_Costs_in_Modification_Procedure_Reports.pdf

Modification Group Membership

Member	Organisation	14/8	04/9 (Tel)	20/9	27/9	16/10	24/10	29/10	16/11	04/12 (Tel)	04/01
David Jones	ELEXON (Chairman)	Y	Y	Y	N	Y	Y	Y	N	Y	Y
Dean Riddell	ELEXON (Lead Analyst)	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Rekha Patel	Proposer's representative	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Lillian MacLeod	National Grid	N	Y	N	Y	Y	Y	Y	Y	Y	Y
Ben Sheehy	E.ON UK	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Dave Wilkerson	Centrica	N	Y	Y	N	Y	N	Y	Y	Y	Y
Andrew Colley	Scottish and Southern	Y	Y	N	Y	Y	Y	Y	Y	N	Y
Colin Prestwich	Smartest Energy	Y	Y	Y	Y	N	Y	N	Y	N	(Tel; part mtg)
Edward Hunter	npower	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Gary Henderson	SAIC	Y	Y	Y	Y	Y	Y	N	Y	Y	N
Attendee	Organisation	14/8	04/9 (Tel)	20/9	27/9	16/10	24/10	29/10	16/11	04/12 (Tel)	04/01
Natasha Hall	ELEXON (Lawyer)	N	N	Y	N	N	N	Y	Y	Y	N
Richard Hall	Ofgem	Y	Y	Y	Y	Y	Y	Y	Y	N	N
Katie Brennan	Ofgem										Y
Phillippa Pickford	Ofgem										N
David Lewis	EDF	N	N	N	N	N	N	N	N	N	N
Tom Selby	E.ON UK			Y	N	N	N	N	N	N	N
Mark Gribble	Logica	Y	N	Y	Y	Y	Y	Y	N	Y	N
John Guest	Logica			N	Y	Y	Y	Y	Y	Y	N
Jonathon Blott	Logica								Y	N	N
Rob Smith	National Grid			Tel	N	N	N	N	N	Y	N
Emrah Cevik	ELEXON	Y	Y	Y	Y	Y	N	Y	N	Y	Y
Roger Harris	ELEXON	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Chris Stewart	ELEXON (acting Chairman)				Y	N	N	N	Y	N	N
John Lucas	ELEXON								Y	Y	N

Modification Group Terms Of Reference

TERMS OF REFERENCE

(Version 1.0)

APPENDIX FOR MODIFICATION PROPOSAL P215

Modification Proposal P215 will be considered by the P215 Modification Group formed from members of the Settlement Standing Modification Group (SSMG), whose areas of expertise include Credit Cover arrangements, BM Unit Classification and Central Volume Allocation.

P215 – Revised Credit Cover Methodology for Generating BM Units

1. DEFINITION PROCEDURE

- 1.1 The Modification Group will carry out a Definition Procedure in respect of Modification Proposal P215 pursuant to section F2.5 of the Balancing and Settlement Code.
- 1.2 The Modification Group will produce a Definition Report for consideration at the BSC Panel Meeting on 13 September 2007.
- 1.3 The Modification Group shall consider and/or include in the Definition Report as appropriate:
 - The definition of a generating BM Unit to which Modification Proposal P215 is applicable, including consideration of:
 - Parameters available for use as basis of a definition (e.g. Production/Consumption Status);
 - Use of historical data to assign status as a generating BM Unit;
 - Impact of a dynamic approach, e.g. based on producing/consuming status each Settlement Period;
 - Impact of the ability of Exempt Export BM Units to choose their P/C Status (i.e. regardless of the Status assigned to the Trading Unit to which they belong);
 - Impact of possible definitions on Central Systems, NG systems and Party systems;
 - Any impact of possible definitions on the submission of Final Physical Notifications (e.g. would FPN submission be mandatory for all such 'generating BM Units');
 - Considerations and outcome of the P200 Modification Group's assessment of a similar definition and any relevant considerations/analysis of Standing Issue 22;
 - Whether status as such a 'generating BM Unit' should be voluntary;
 - Any analysis that can be performed to support consideration of a definition (e.g. to identify types/groups of BM Units that submit accurate FPNs);
 - The possible definitions considered by the Group, and the Group's favoured definition(s); and

- The results of an Industry Consultation on the views of the Modification Group on the definition of a generating BM Unit.

2. ASSESSMENT PROCEDURE

- Demonstration of the defect in the existing Code requirements as a result of the current Credit Cover arrangements;
- The material impact of the provisions of P215 in relation to the risk of over- and under-collateralisation by Parties as a result of the BSC Credit Cover arrangements;
- Potential discrimination between generating and consuming BM Units;
- Any relevant precedents from P140 and the interconnector use of FPN in CEI calculation;
- Any consequential impact of using FPN instead of CALF and GC/DC on the BSC, Grid Code or other codes and associated processes - impact on BSC Panel processes should be minimised and where Panel involvement is necessary there should be a guideline process and criteria;
- Whether submission of FPN would be mandated for all generating BM Units, and whether this would include BM Units with output < 50MW (and the impact of mandating for < 50MW);
- A default position for the P215 provisions if FPN is not submitted, e.g. for interconnectors the ECVAA system uses the latest available FPN in calculations and if no previous FPN exists for the BM Unit the FPN value defaults to zero;
- Whether there are any implications of using FPN data for a purposes other than it was originally intended, i.e. any impact of using FPN in the Credit Cover calculation in addition to it being used by the System Operator (SO), for instance would FPN become a more commercial parameter, and would this affect the SO's ability to balance the System.
- Impact on National Grid of additional FPN data (i.e. from < 50MW generators if FPN submission is mandatory, or optional but attractive);
- Impact of data requirements, for instance if the ECVAA needs data (e.g. QM) it does not currently possess to determine a BM Unit's generating status, is there an impact on BSC Agents that would supply the data, e.g. the SAA;
- Impact on Central Systems; and
- The accuracy of FPNs compared with actual Metered Volumes.

Appendix 3: Results Of Impact Assessment

a Impact on BSC Systems and Processes

System / Process	Impact of Proposed/Alternative Modification
CDCA	Alternative only: add new run mode to CDCA Aggregation Process; CDCA Aggregation Report module to generate a new BMU Meter Volume flow.
CRA	Proposed and Alternative: CRA-I014 and CDCA-I020 to report BM Unit qualifying flag; CRA-I015 to include BM Unit Exempt Export data, P215 qualifying flag and Demand BMU system changes; CRA-I014 to report Demand BMUs; database to include P215 and Demand BM Units; CRA BMU Screen to include P215 and Demand Qualifying tick-boxes.
ECVAA	Proposed and Alternative: ECVAA BM Unit loader to read new flag value; database to include qualifying flag. Alternative only: create new BMU Meter Volume loader for ECVAA; ECVAA Database to hold BMU Meter Volumes; ECVAA-I014 to report MEI value in new field.
Credit Check	Proposed and Alternative: process Demand Qualifying BMUs correctly (use DC rather than GC); process P215 Qualifying BMUs using Meter Volume data or FPN and derive an MEI value for impacted parties.

The BSC Agent impact assessment is attached as a separate document, Attachment 6.

b Impact on BSC Agent Contractual Arrangements

No impact identified.

c Impact on BSC Parties and Party Agents

Parties that operate as generators are impacted by both the P215 Proposed and Alternative Modifications. They may need to update any systems and software used in Metered Volume forecasting and Credit Cover modelling. Parties will have to ensure that their systems are still able to accept the amended BSC Agent flows (see **a** above).

Full copies of the Party and Party Agent impact assessment responses are attached as a separate document, Attachment 5.

d Impact on Transmission Company

No impact identified (due to implementation method, as previously discussed).

e Impact on BSCCo

Area of Business	Impact of Proposed/Alternative Modification
Change Implementation	Implementation of changes to configurable items and other system documentation. Management of solution development and arranging participant testing, in conjunction with the ECVAA service provider.
CVA Data/Operations	Amendment of guidance documentation, information sheets, LWIs. Provide information for Trading Operations Report, provide support to Industry on the new methodology. Train staff in the new methodology, support implementation.
Corporate Services	Support implementation – assurance, audit software development.
Legal	Support assessment and implementation.

f Impact on Code

Code Section	Impact of Proposed/Alternative Modification
Section K	New paragraph 3.7 added to define a Credit Qualifying BM Unit and specify associated requirements.
Section M	Paragraph 1.2.3 amended in accordance with P215 to specify where different methods of CEI calculation should be applied; new paragraph 1.8 added relating to review of FPN data. <i>Alternative only:</i> Paragraph 1.2.1 amended to incorporate MEI into the calculation of Energy Indebtedness, and to include MEI in the provisions for material doubt.
Section Q	Amend paragraph 3.1.1 with regard to the submission of FPNs for the purposes of status as a Credit Qualifying BM Unit.
Section R	<i>Alternative only:</i> Amend to reflect new requirements on the CDCA.
Section U	<i>Alternative only:</i> Amend to include the Credit Cover Volume Allocation Run.
Section X-1	Insert new definition of Credit Qualifying BM Unit after the definition of Credit Facility. <i>Alternative only:</i> Amend definition of Volume Allocation Run.
Section X-2	<i>Alternative only:</i> Add the necessary definitions and acronyms.

g Impact on Code Subsidiary Documents

Document	Impact of Proposed/Alternative Modification
ECVAA Service Description	Add the new algorithm for the calculation of CEI for Generating BMUs from the FPN (and for calculating the total CEI for a Party). Amend the ECVAA-I014.

Document	Impact of Proposed/Alternative Modification
CVA Data Catalogue	Amend the ECVAA-I014.
BMRA Service Description	Possible impact, dependent on current system operation.
BSCP15	Application process for Credit Qualifying BM Unit status.

h Impact on Core Industry Documents/System Operator-Transmission Owner Code

No impact identified.

i Impact on Other Configurable Items

Document	Impact of Proposed/Alternative Modification
Logica IDD part 1	Amend the ECVAA-I014.
BMRA URS	Possible impact, dependent on current system operation.

j Impact on BSCCo Memorandum and Articles of Association

No impact identified.

k Impact on Governance and Regulatory Framework

No impact identified.

Appendix 4: List of Attachments

- Attachment 1 – Draft legal text for the Proposed Modification.
- Attachment 2 – Draft legal text for the Alternative Modification.
- Attachment 3 – Additional P215 Analysis.
- Attachment 4 – Collated P215 initial consultation responses.
- Attachment 5 – Collated Party and Party Agent impact assessments.
- Attachment 6 – Updated BSC Agent impact assessment.
- Attachment 7 – Revised Transmission Company analysis.

Appendix 5: Results Of First Assessment Procedure Consultation

Q	Consultation question	Yes	No	Neutral				
1.	Do you believe Proposed Modification P215 would better facilitate the achievement of the Applicable BSC Objectives?	6	2	1				
2.	Do you believe the potential Alternative option 1 (FPN & BOAs) would better facilitate the achievement of the Applicable BSC Objectives?	4	3	2				
3.	Do you believe the potential Alternative option 2 (FPN & BOAs & MEL) would better facilitate the achievement of the Applicable BSC Objectives?	5	3	1				
4.	Do you believe the potential Alternative option 3 (Use FPN to calculate CEI then utilise Metered Data for CVA Parties from Settlement Day +2) would better facilitate the achievement of the Applicable BSC Objectives?	5	3	1				
5.	Do you believe the potential Alternative option 4 (Use FPN to calculate CEI, and shorten the CEI period for qualifying CVA BM Units by using Metered Volume and pricing data) would better facilitate the achievement of the Applicable BSC Objectives?	6	2	1				
6.	Which option, if any, do you believe best facilitates the Applicable BSC Objectives when compared to the Proposed Modification?	1	2	3	4	All	None	Neutral
		0	1	0	5	1	1	1
7.	If you would qualify for the P215 solution but do not currently submit FPNs would you seek to use the P215 arrangements?	3		2		4		
8.	How do you believe the issue of demand BM Units within P status Trading Units should be addressed?	A	B	C	Neutral			
		1	2	5	1			
9.	Do you believe there are any other potential P215 Alternatives that have not been identified so far and that should be progressed as part of the Assessment Procedure?	1		7		1		
10.	Are there any further comments on P215 that you wish to make?	3		6		0		