MODIFICATION REPORT for Modification Proposal P186

'Rationalising the criteria for the submission and redeclaration of Demand and Generation Capacities'

Prepared by: ELEXON on behalf of the BSC Panel

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This document has been distributed in accordance with Section F2.1.10[1] of the Balancing and Settlement Code.

RECOMMENDATIONS

Having considered and taken into due account the contents of the P186 draft Modification Report, the Balancing and Settlement Code Panel recommends:

- **that the Alternative Modification P186 should be made;**
- **that the Proposed Modification P186 should not be made;**
- **an Implementation Date for the Alternative Modification of 10 Working Days following an Authority decision;**
- **an Implementation Date for the Proposed Modification of 10 Working Days following an Authority decision, in the event that the Authority determines that the Proposed Modification should be made; and**
- **the proposed text for modifying the Code, as set out in the Modification Report.**

[1] The current version of the Balancing and Settlement Code (the 'Code') can be found at http://www.elexon.co.uk/bscrelateddocs/BSC/default.aspx

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SUMMARY OF IMPACTED PARTIES AND DOCUMENTS

As far as the P186 Modification Group has been able to assess, the following parties/documents would be impacted by the implementation of P186.

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

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

1.1 Modification Proposal

Modification Proposal P186 'Rationalising the criteria for the submission and redeclaration of Demand and Generation Capacities' (P186) was raised by Npower Ltd ('the Proposer') on 28 January 2005. P186 proposes that the criteria under which a BSC Party ('Party') must redeclare its previously-submitted Generation Capacity (GC) and/or Demand Capacity (DC) values should be revised, such that the existing absolute volume redeclaration threshold would be removed from the Code.

1.1.1 Background: Current Code criteria for GC/DC redeclarations

Section K3.4 of the Code requires Lead Parties to submit estimates of the most positive and most negative BM Unit Metered Volume (QM_{ij}) value for each individual BM Unit to the Central Registration Agent for each BSC Season. These are then divided by Settlement Period Duration (SPD) in order to respectively calculate the GC (a positive value) and DC (a negative value) of the BM Unit for that BSC Season. These GC and DC values are used to determine whether the BM Unit (and its Trading Unit) is classed as 'Production' (generation) or 'Consumption' (demand) – its 'P/C Status'[2] – and in the calculation of a Party's Credit Assessment Energy Indebtedness (CEI) and Credit Cover Percentage (CCP).[3]

K3.4.3 currently requires a Lead Party to redeclare its GC or DC estimate within a BSC Season if, for any Settlement Period:

a) The actual positive value of QM_{ij} / SPD exceeds GC; or

b) The actual negative value of QM_{ij} / SPD is less (more negative) than DC,

by an amount the magnitude of which is more than one or both of the following:

(i) 0.5MW; or

(ii) 1% of that capacity.

1.1.2 Issue identified by Modification Proposal

The Proposer of P186 argues that the current absolute volume redeclaration threshold discriminates against BM Units which have GC/DC values with a magnitude greater than 50MW. Since 0.5MW is 1% of 50MW, under the current criteria only those BM Units with a capacity of over 50MW may be required to redeclare GC/DC following a breach by less than 1%. In the view of the Proposer, Parties whose BM Units have GC/DC values greater than 50MW therefore have less margin for error in their Metered Volume estimates. This is illustrated in Table 1 on the following page.

[2] The Relevant Capacity of a BM Unit is GC if GC plus DC is positive and greater than zero. If GC plus DC is zero or negative, the Relevant Capacity of the BM Unit is DC. Similarly, the BM Units in a Trading Unit are classed as Production BM Units if the sum of their Relevant Capacities is positive and greater than zero. If the sum of the Relevant Capacities is zero or negative, all BM Units in the Trading Unit are classed as Consumption BM Units.

[3] An explanation of the role of GC and DC in the CEI calculation can be found in the P186 Assessment Report in Annex 3.

Table 1 – Effective limit by BM Unit capacity (current Code provisions)

Declared GC/DC (magnitude)	<=50MW	>50MW
Effective limit under current provisions	**1%** (since 1% <=0.5MW)	**0.5MW** (since 1% >0.5MW)

The Proposer argues that the average forecast error for BM Units with large Metered Volumes is typically greater than 0.5MW. The Proposer therefore believes that the current absolute redeclaration threshold is unnecessarily onerous for Parties whose BM Units have a capacity of more than 50MW, since it requires them to frequently redeclare GC/DC values as a result of minor percentage breaches. The Proposer suggests that the current Code criteria may therefore lead such Parties to intentionally overstate their Metered Volume estimates (i.e. make GC more positive and DC more negative) to avoid frequent redeclarations, and that this in turn may lead to the over-provision of Credit Cover within the market.

The Proposer also argues that the absolute volume redeclaration threshold places an unnecessary administrative burden on BSCCo in enforcing redeclarations for minor percentage breaches. BSCCo currently undertakes an automated fortnightly comparison of Parties' declared GC/DC and actual BM Unit Metered Volumes, in order to identify Parties with breaches in excess of the Code thresholds. These Parties are then manually requested by BSCCo to redeclare their values. Where a Party continually fails to comply with redeclaration requests this may lead to it being placed in Default under Section H3.1.1(d) of the Code.[4]

1.1.3 Solution proposed by Modification Proposal

P186 proposes to remove the 0.5MW absolute volume breach limit from the Code, such that Parties would only be required to redeclare their GC/DC following a breach by more than 1%.

The Proposer argues that a uniform 1% limit would treat all BM Units proportionally, and would therefore remove an existing discrimination against Parties with GC/DCs over 50MW. The Proposer suggests that this would avoid the need for such Parties to overestimate their BM Unit Metered Volumes, and thereby reduce the level of unnecessary Credit Cover held under the Code. The Proposer believes that this would better facilitate the achievement of Applicable BSC Objective (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'.

The Proposer also argues that the removal of the absolute volume threshold would reduce administrative effort for Parties (in forecasting, submitting and redeclaring GC and DC values) and for BSCCo (in monitoring breaches and enforcing redeclaration). The Proposer believes that this would better facilitate the achievement of Applicable BSC Objective (d):

> 'Promoting efficiency in the implementation and administration of the balancing and settlement arrangements'.

1.2 Process followed to date

The P186 Initial Written Assessment (IWA, Reference 1) was presented to the BSC Panel ('the Panel') on 10 February 2005, where the Panel determined that P186 should be submitted to a two-month Assessment Procedure by a new Modification Group formed from members of the Settlement Standing Modification Group. Details of the Modification Group's membership can be found in Annex 2.

[4] A diagram showing BSCCo's monitoring process for GC/DC values can be found in Annex 5 of the P186 Assessment Report.

During the two-month Assessment Procedure the P186 Modification Group ('the Group') held two meetings (on 22 February and 23 March 2005), and developed an Alternative Modification which is detailed in Sections 1.7-1.10. The Group also issued an Assessment Procedure consultation (on 7 March 2005, Reference 2), and commissioned impact assessments from BSCCo and the Transmission Company. Summaries of the responses received can be found in the P186 Assessment Report in Annex 3.

The P186 Assessment Report was presented to the Panel at its meeting of 14 April 2005. The Panel unanimously agreed with the recommendation of the Modification Group that P186 should proceed to the Report Phase with a provisional recommendation that the Alternative Modification should be made, and that the Proposed Modification should not be made. A copy of the P186 Assessment Report is attached as Annex 3.

The P186 draft Modification Report was issued for industry consultation on 19 April 2005, allowing 5 Working Days to respond. A majority of respondents to the Report Phase consultation agreed with the Panel's provisional recommendation that the Alternative Modification should be made, whilst all respondents agreed with the proposed P186 legal text and Implementation Date. A summary of the responses received can be found in Section 6, with full copies of these responses attached as Annex 4.

The Panel considered the P186 draft Modification Report (Reference 4) and these consultation responses at its meeting on 12 May 2005. The Panel unanimously agreed the final recommendation to the Authority that the Alternative Modification should be made, and that the Proposed Modification should therefore not be made.

Legal text for the Proposed and Alternative Modifications has been provided, and is included as Annex 1. The Modification Group has reviewed this text and agreed that it delivers the solution developed by the Group.

1.3 Proposed Modification

Under the Proposed Modification, the current 0.5MW absolute volume redeclaration threshold would be removed from the Code.

A Lead Party would therefore only be required to redeclare its GC or DC estimate within a BSC Season if, for any Settlement Period:

a) The actual positive value of QM_{ij} / SPD exceeded GC; or

b) The actual negative value of QM_{ij} / SPD was less (more negative) than DC,

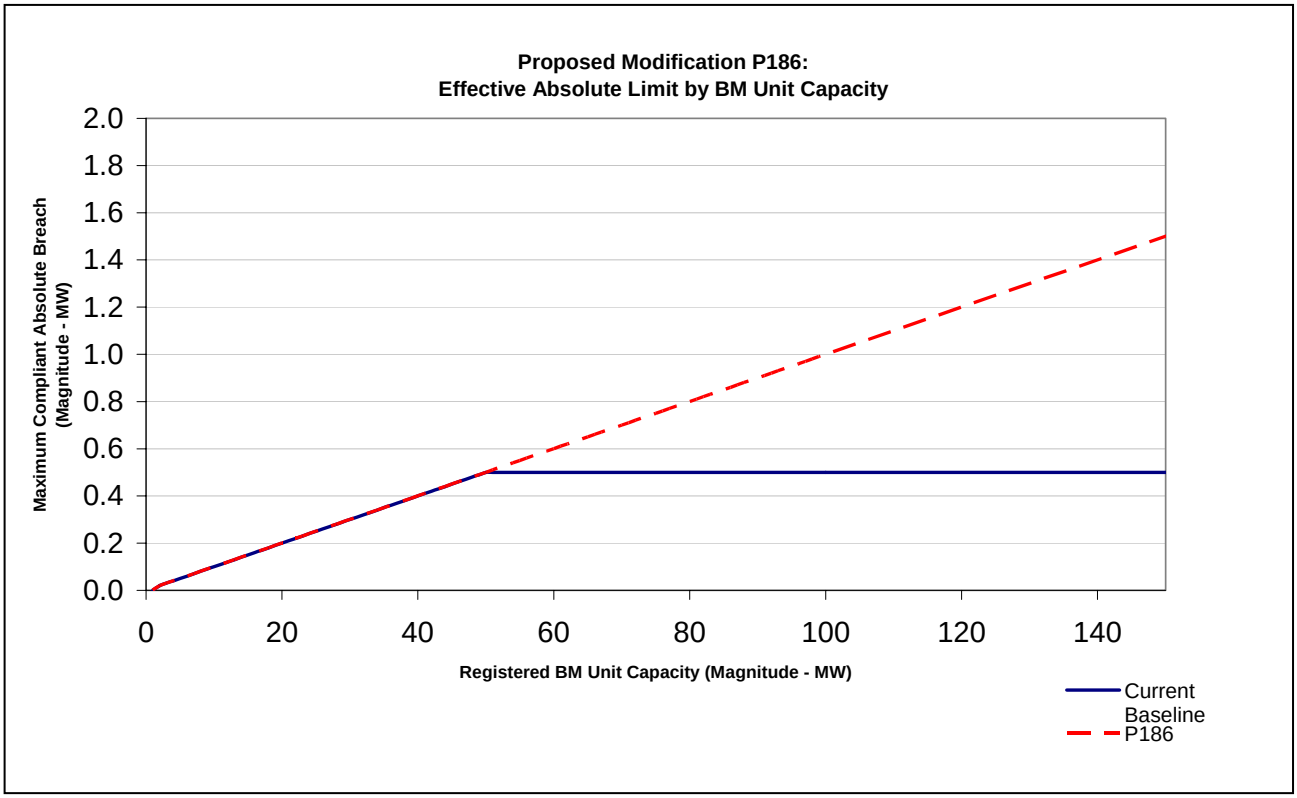
by an amount the magnitude of which was more than 1% of that capacity.

The Proposed Modification would have no impact on the degree of absolute accuracy required for BM Units with a capacity of 50MW or less, since the effective limit for breaches by these BM Units is already 1% (see Section 1.1.2 above). However, for BM Units with a capacity greater than 50MW the Proposed Modification would introduce an absolute margin for error that increased in proportion to the size of the BM Unit. This is illustrated in Table 2 and Figure 1 below.

Table 2 – Effective limit by BM Unit capacity (Proposed Modification P186)

Declared GC/DC (magnitude)	<=50MW	>50MW
Effective limit under Proposed Modification P186	**1%** (<=0.5MW)	**1%** (>0.5MW)

Figure 1 – Current effective absolute limit compared with Proposed Modification P186



1.4 Issues raised by the Proposed Modification

The following issues raised by the Proposed Modification were considered by the Modification Group during the P186 Assessment Procedure:

- The potential interaction between P186 and Transmission Company processes under the industry codes;
- The materiality of the issue identified by P186;
- The respective merits of an absolute volume or relative percentage measure of accuracy in GC/DC submissions; and
- The impact of the current GC/DC redeclaration criteria on Credit Cover arrangements under the Code.

For futher details regarding these issues, please refer to the P186 Assessment Report in Annex 3.

1.5 Modification Group's cost-benefit analysis of Proposed Modification

1.5.1 Costs and benefits to BSCCo

Analysis undertaken by the Modification Group during the P186 Assessment Procedure estimated that the Proposed Modification would deliver a 3-5% reduction in the number of BM Units in breach of their GC/DC thresholds in any given fortnight (see Figures 4 and 5 in Section 1.9 below). The Group noted BSCCo's estimate that it currently spends around 39 man days per year chasing GC/DC breaches under the existing Code baseline, and that the estimated 3-5% reduction in breaches under the Proposed Modification would therefore result in minor efficiency savings to BSCCo of 1-2 man days' effort per year.

The Modification Group noted that the implementation costs of the Proposed Modification were of a low magnitude (see Section 2), since only minor changes would be required to the Code and to the automated query used by BSCCo to compare GC/DC values with actual Metered Volumes (see Sections 4-5).

1.5.2 Costs and benefits to Parties

a) Benefits of Proposed Modification

The Modification Group noted the estimated 3-5% reduction in the number of BM Units in breach in any given fortnight, and that respondents to the P186 Assessment Consultation had estimated an average effort of 2 man hours for each GC/DC redeclaration. The majority of Modification Group members therefore considered that the Proposed Modification would offer minor efficiency savings to Parties – noting the view of some consultation respondents that it could reduce the 'hassle' involved in redeclaring GC/DC values (see P186 Assessment Report, Annex 3). However, one member remained uncertain that these potential savings would be realised in practice, since they believed there to be an incentive for Parties to submit the least-negative DC possible (in order to avoid an overestimation of their Energy Indebtedness) and therefore to push whatever DC redeclaration threshold was set.

The Modification Group noted that the beneficiaries of any administrative savings under the Proposed Modification would be BM Units with a capacity greater than 50MW – specifically, large Consumption BM Units with DC breaches of a magnitude of less than 1%. The Group noted that the MW materiality of the threshold relaxation would be 1% of a BM Unit's capacity, and could range up to a magnitude of 30MW (using the current largest BM Unit declared capacity). The Modification Group noted that the Proposed Modification would have a neutral impact on BM Units with a capacity of less than 50MW, since their current effective limit is already 1%.

b) Potential impact on Credit Cover

The Modification Group agreed that its view of whether the current redeclaration thresholds should be relaxed would depend on the point at which the maximum allowed breach could lead to a significant underestimation of a Party's Energy Indebtedness, and thereby create a risk to other Parties in the market. The majority of members considered that there would be no negative impact to Parties as a result of the Proposed Modification, since relaxing GC/DC accuracy would not materially impact the provision of Credit Cover under the Code. This view was based on analysis undertaken by the Group during the P186 Assessment Procedure, the results of which appear to show that the inherent error involved in using GC/DC and a seasonal average Credit Assessment Load Factor (CALF) is substantially greater than any error which would be introduced by the relaxation of the GC/DC redeclaration thresholds. These members noted that GC and DC values are only used for an 8-day window in the CEI calculation, and believed that there was already a tendency for Parties to over-provide Credit Cover in order to avoid actively monitoring their credit position. One member also noted that, by the time actual Metered Volume data for a BM Unit confirmed whether or not its GC/DC estimates required redeclaration, its estimated values would already have been used in the 8-day window of the calculation. This member therefore considered that altering the redeclaration thresholds would have little impact on the amount of Credit Cover provided by Parties. However, one member remained concerned that an uncapped percentage error margin could give rise to material inaccuracies in the GC/DC values of large BM Units, and that these could result in an under-provision of Credit Cover.

c) Limitations of Proposed Modification

The majority of Modification Group members believed that the Proposed Modification would better facilitate the achievement of the Applicable BSC Objectives when compared to the current Code baseline, since these members believed that the existing redeclaration thresholds required an

unrealistic and onerous level of accuracy in GC/DC estimations. However, these members noted that the benefits of removing the 0.5MW GC/DC redeclaration threshold would be limited, and would not address low-materiality breaches of a zero or small capacity. In addition, these members considered that a 1% threshold might still be too narrow an error-margin for Consumption BM Units since they believed the average DC forecast error to be around 2% of capacity. These limitations, and the concerns of one member regarding an uncapped percentage threshold, led the Group to develop an Alternative Modification as outlined in Sections 1.7-1.10.

More information regarding the Group's analysis of the cost-benefits of the Proposed Modification, and the potential impact on Credit Cover, can be found in the P186 Assessment Report in Annex 3.

1.6 Modification Group's view of whether the Proposed Modification would better facilitate the Applicable BSC Objectives

The majority view of the Modification Group was that the Proposed Modification would better facilitate the achievement of Applicable BSC Objectives (c) and (d) than the current Code baseline.

1.6.1 Applicable BSC Objective (c)

The majority of Modification Group members believed that the Proposed Modification would deliver cost and efficiency savings to Parties through a reduction in the number of GC and DC breaches. Although these savings would be limited to BM Units over 50MW with breaches by less than 1%, these members considered that the Proposed Modification would still better facilitate competition and Applicable BSC Objective (c) than the current Code baseline since it would provide more realistic and less onerous redeclaration requirements. One member disagreed, arguing that a relaxation in the GC/DC redeclaration requirements would not necessarily lead to a reduction in the number of breaches since there would continue to be an incentive for Parties to push the 1% DC tolerance to avoid an overestimation of their Energy Indebtedness.

The majority of Modification Group members agreed that removal of the 0.5MW absolute limit would have a neutral effect on the provision of Credit Cover under the Code, and that the Proposed Modification would therefore pose no increased risk to the rest of the market or to competition. One member disagreed and argued that, although the Proposed Modification would not necessarily lead to a reduction in Credit Cover provision, it had the potential to do so. This member remained concerned that an uncapped 1% percentage error margin could give rise to material inaccuracies in the GC/DC values of large BM Units, and that these could result in the underestimation of their Energy Indebtedness. This member believed that this would be detrimental to competition and Applicable BSC Objective (c). This member stated that they therefore did not believe that the Proposed Modification would better facilitate the Applicable BSC Objectives when compared with the current Code baseline – and considered that they would be more comfortable with the relaxation of the existing 0.5MW threshold rather than the total removal of an absolute threshold from the Code.

1.6.2 Applicable BSC Objective (d)

The majority of Modification Group members believed that the Proposed Modification would also deliver cost and efficiency savings to BSCCo through a reduction in the number of breaches for which it would be required to enforce redeclaration. These members considered that the Proposed Modification would therefore better facilitate efficiency in the balancing and settlement arrangements and Applicable BSC Objective (d).

One member disagreed and argued that a relaxation in the GC/DC redeclaration requirements would not necessarily lead to a reduction in breaches, due to the incentive on Parties to push whatever DC tolerance was set.

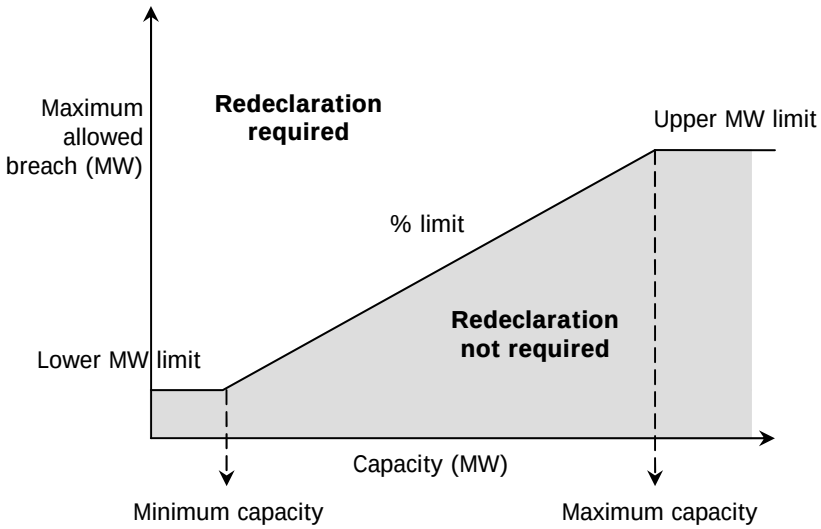
1.6.3 Preference for Alternative Modification

Although the majority of Modification Group members believed that the Proposed Modification would better facilitate the achievement of the Applicable BSC Objectives than the current Code baseline, the limitation of its benefits and the concerns of one member regarding Credit Cover led the Group to develop an Alternative Modification. The unanimous view of the Modification Group was that this Alternative, detailed in Sections 1.7-1.10 below, would better facilitate the achievement of the Applicable BSC Objectives when compared with both the Proposed Modification and the current Code baseline.

1.7 Alternative Modification

Under the Alternative Modification developed by the Modification Group, the existing 0.5MW absolute volume redeclaration threshold would still be removed from the Code and a percentage threshold applied – but only for BM Units whose declared GC/DC values were above a set minimum ('de minimis') capacity and below a set maximum capacity. For those BM Units under the minimum or above the maximum capacity, an absolute MW limit and not a percentage limit would be applied (shown in Figure 2 below).

Figure 2 – Alternative Modification redeclaration thresholds



The lower and upper MW limits are derived from applying the percentage limit to the minimum and maximum capacities. The percentage threshold chosen by the Modification Group is 2%, to be applied to BM Units between a minimum 100MW and maximum 500MW capacity. This therefore gives upper absolute limits of 2MW and 10MW respectively as shown in Table 3 below.

Table 3 – Effective limit by BM Unit capacity (Alternative Modification P186)

Declared GC/DC (magnitude)	<=100MW	>100MW but <=500MW	>500MW
Effective limit under Alternative Modification P186	**2MW limit**	**2% limit**	**10MW limit**

Under the Alternative Modification, a Lead Party would therefore be required to redeclare its GC or DC estimate within a BSC Season if, for any Settlement Period:

a) The actual positive value of QM_{ij} / SPD exceeded GC; or

b) The actual negative value of QM_{ij} / SPD was less (more negative) than DC,

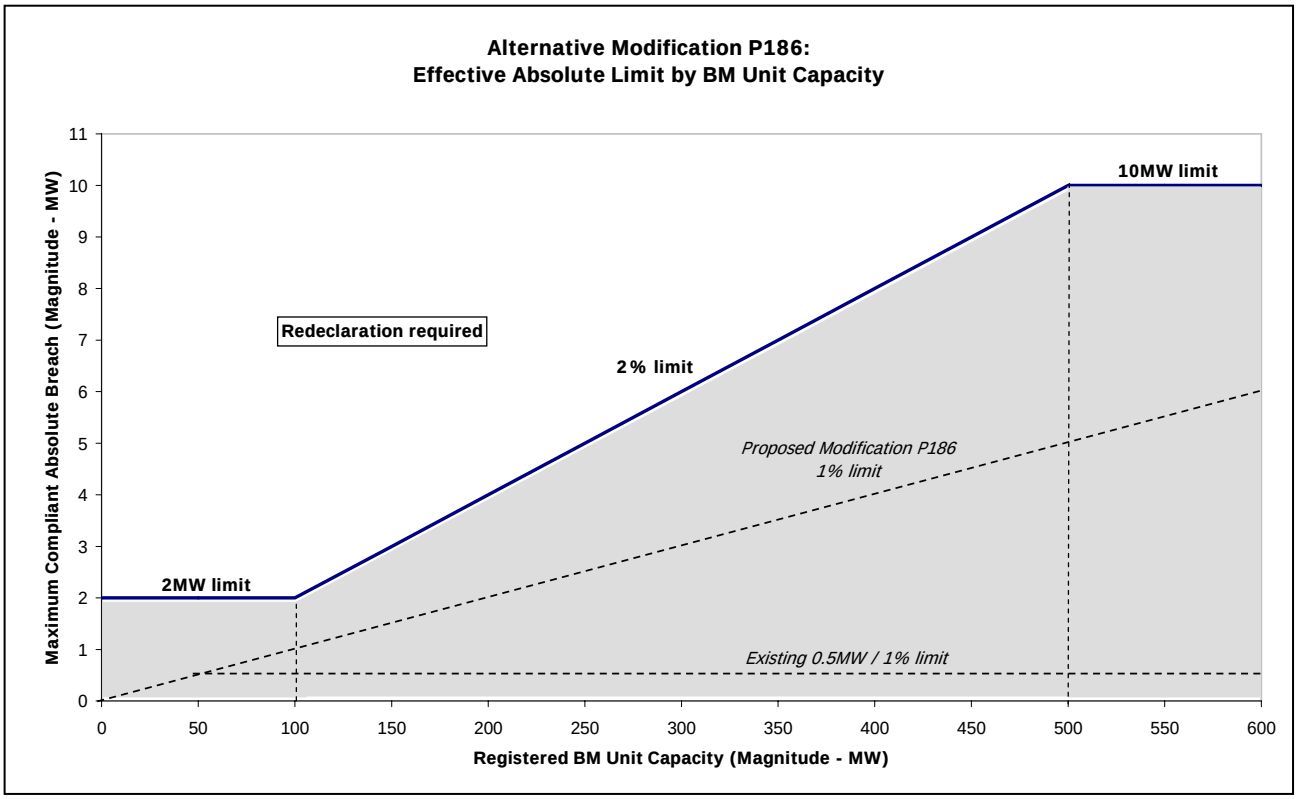
by an amount the magnitude of which was more than 2MW and more than either or both of the following:

(i) 2% of that capacity; and/or

(ii) 10MW.

This is shown in Figure 3 below.

Figure 3 – Effective absolute limit under Alternative Modification P186 (compared with current Code limit and Proposed Modification P186)



The intention of applying a MW limit to small BM Units is to eliminate the administrative effort involved in monitoring and redeclaring GC/DC values following minor absolute breaches of a low capacity (which give rise to large percentage breaches and therefore currently require redeclaration).

The aim of applying a percentage limit to breaches above the lower MW limit is to give larger BM Units a margin for error in proportion to their size and similarly eliminate the need for monitoring and redeclaring GC/DC following small absolute breaches (thus addressing the issue identified by the Modification Proposal).

'Capping' the percentage at an upper MW limit is intended to remove the risk that the application of a percentage threshold to high-capacity BM Units could result in large absolute breaches, and thereby remove the possibility of any consequential impact on the provision of Credit Cover.

More detail regarding this rationale can be found in the P186 Assessment Report in Annex 3.

Please note that the Alternative Modification would therefore impact all BM Units (in contrast to the Proposed Modification, which impacts only those BM Units with a capacity greater than 50MW).

1.8 Issues raised by the Alternative Modification

The following issues raised by the Alternative Modification were considered by the Modification Group during the P186 Assessment Procedure:

- The development of lower and upper MW limits for the application of a percentage redeclaration threshold, and the value of that percentage threshold; and
- Other potential Alternative Modifications considered but not progressed by the Group.

For futher details regarding these issues, please refer to the P186 Assessment Report in Annex 3.

1.9 Modification Group's cost-benefit analysis of Alternative Modification

1.9.1 Costs and benefits to Parties

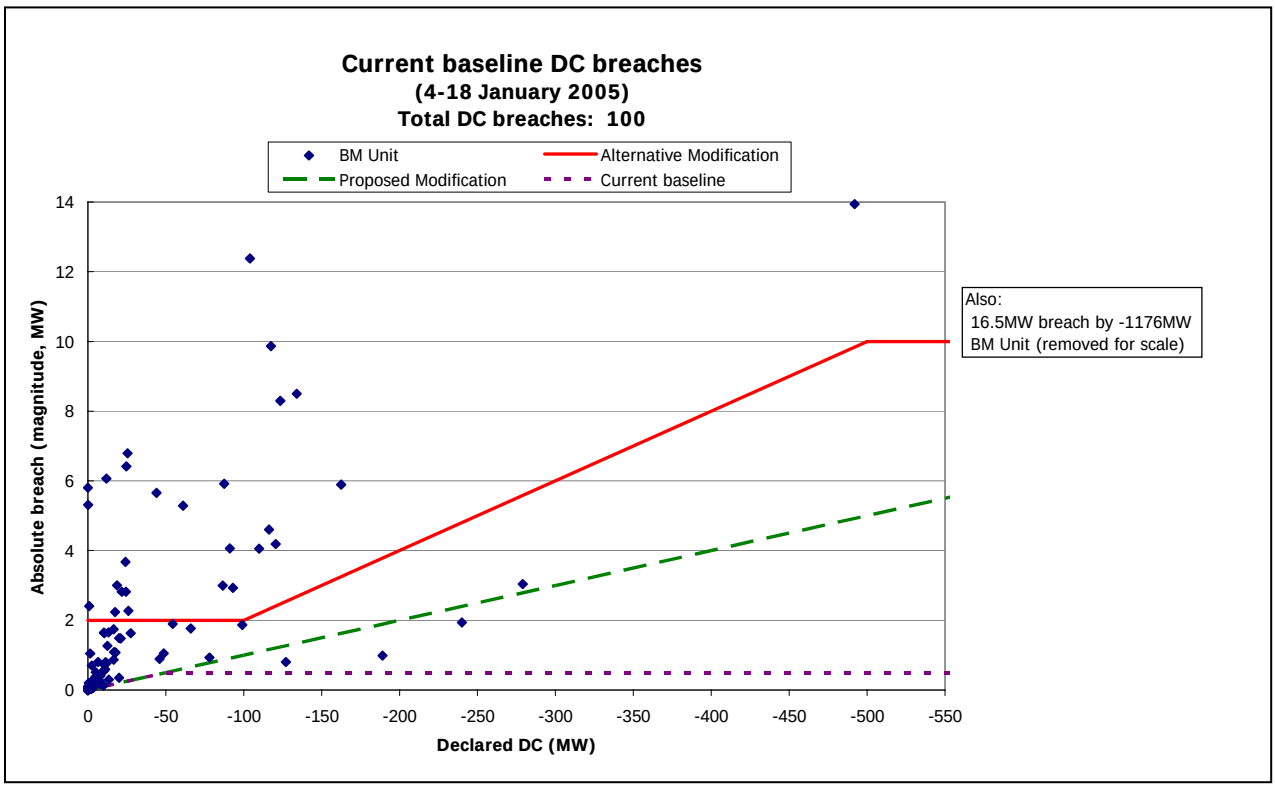
a) Administrative savings under Alternative Modification

Analysis undertaken by the Modification Group during the P186 Assessment Procedure estimated that the Alternative Modification would deliver a 58-73% reduction in the number of BM Units in breach of their GC/DC thresholds in any given fortnight. The Group noted the average estimate of 2 man hours per redeclaration quoted by respondents to the Assessment Procedure consultation, and that the Alternative Modification would therefore give greater scope for administrative savings than the Proposed Modification. The Group also noted the view of these respondents that the Alternative Modification would remove the 'hassle' involved in redeclaring GC/DC values following non-material breaches.

b) Role of Alternative Modification thresholds in achieving savings

Figure 4 on the following page shows all BM Units which were in breach of their declared DC value during a sample fortnight in the BSC Winter 2004 season, plotted by the BM Unit's declared DC and the breach amount in MW. One high-materiality breach has been removed for reasons of scale and is shown separately to the right of the graph. For analysis of GC breaches, the pattern of which is broadly similar to those of DC, please refer to the P186 Assessment Report.

Figure 4 – Current DC breaches shown by BM Unit capacity and breach amount



The Modification Group noted that the majority of breaches were by BM Units with a capacity of under 100MW, suggesting that it is more difficult for smaller BM Units to accurately predict GC/DC to within a low percentage of their capacity. The Group therefore agreed that the Proposed Modification would only deliver minor benefits to small BM Units, and that the inclusion of a lower MW limit under the Alternative was key to removing the need to redeclare non-material breaches. The Group noted that for BM Units over 100MW there appeared to be little difference between applying a 1% or 2% threshold since the main benefit of the Alternative would follow from the lower MW limit and not the relaxation of the percentage threshold. The Group therefore unanimously agreed to apply a 2% threshold under the Alternative, arguing that this would give a more realistic margin for error without increasing the risk to the market.

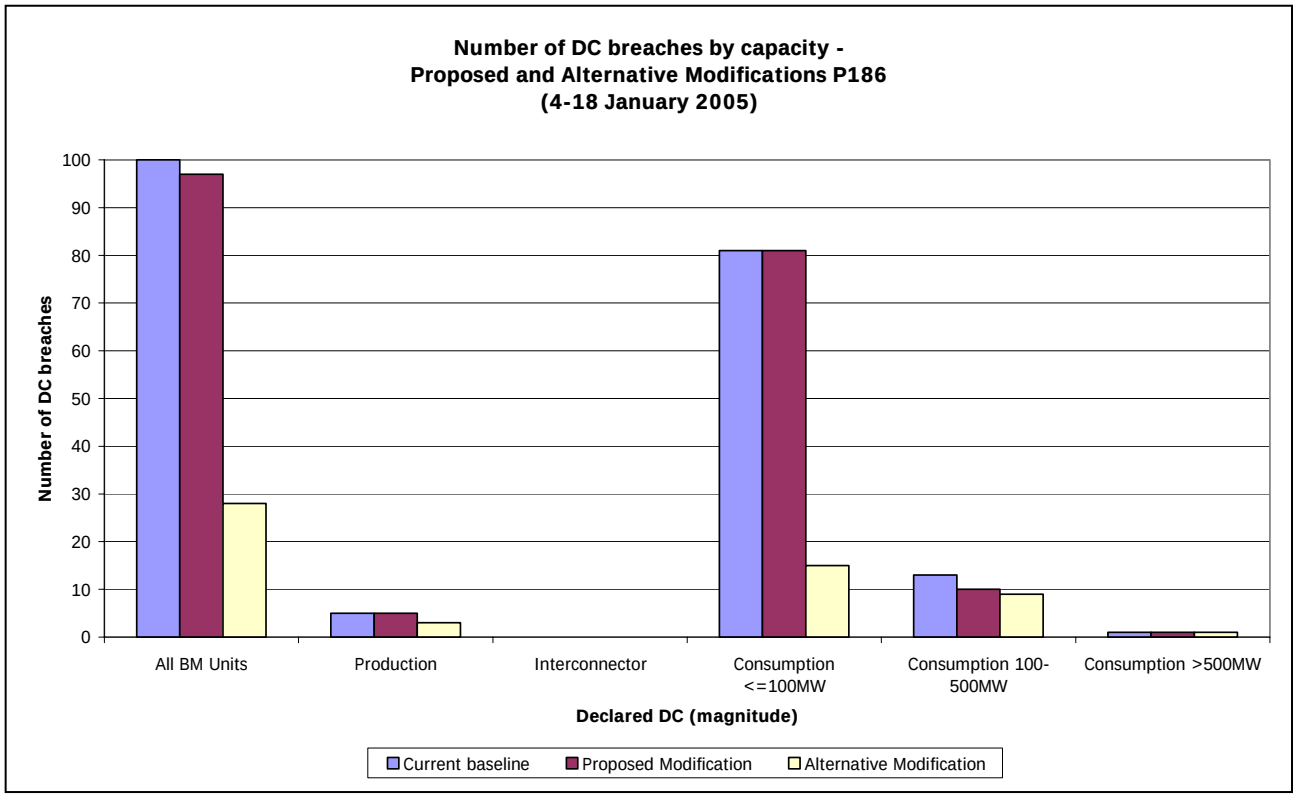
The Group noted that removing the 10MW upper limit and applying an uncapped 2% threshold would only have resulted in one less breach (of 16.5MW) during the sample fortnight, and that there could therefore be an argument against the inclusion of an upper cap. However, the majority of members considered that the cap would provide additional protection against the *possibility* of large material breaches and should therefore be retained. One member stated that they were uncomfortable with the uncapped 1% under the Proposed Modification, and would only support a move to a 2% threshold if the cap was included – since this would remove any possible risk to Credit Cover and the market. One member remained unconvinced that a cap was required, but stated that they would support its inclusion as a prudence measure if it offered additional reassurance to Parties. The Group therefore unanimously agreed to apply a 10MW cap to the 2% threshold, above which redeclaration would automatically be required.

c) Beneficiaries of Alternative Modification

Figure 5 below groups the estimated reduction in DC breaches by the type and size of the BM Units concerned, in order to illustrate the potential main beneficiaries of the Alternative Modification. Interconnector BM Units are shown separately, since their GC/DC values are not used in the CEI

calculation and their breaches therefore have no impact on the provision of Credit Cover. Similarly, DC breaches by Production BM Units are separately identified since these have no impact on CEI. For the Modification Group's analysis of GC breaches, the results of which are broadly similar to DC, please refer to the P186 Assessment Report.

Figure 5 – Estimated number of DC breaches under Alternative Modification (compared with Proposed Modification and current Code baseline)



The unanimous view of the Modification Group was that the Alternative Modification would benefit all BM Units by only requiring them to redeclare GC or DC following material absolute breaches – in contrast to the Proposed Modification, which would only benefit BM Units over 50MW. The Group agreed that the main beneficiaries of the Alternative Modification would be small BM Units with breaches under 2MW (whose low materiality would not pose any increased risk to the market) and GC breaches by Consumption BM Units (which would have no impact on Credit Cover) – since the lower 2MW limit would remove the need to redeclare following breaches of a zero capacity or small absolute breaches of a low capacity. The Group considered that BM Units with a capacity of between 100MW and 500MW would also benefit from the relaxation of their effective limit to 2%, which it believed to represent the average forecast error for Consumption BM Units. By capping the maximum breach at a 10MW upper limit, the Group agreed that the Alternative would remove any concerns over the potential impact of a relaxation of the percentage threshold.

The majority of members believed that the Alternative Modification would deliver greater benefits and cost-savings to Parties than the Proposed Modification, and would achieve the intention of the Modification Proposal that only material breaches should require redeclaration. One member remained uncertain that these efficiency savings would be fully realised due to the incentive to declare the least-negative DC possible, but was satisfied that the Alternative Modification would create the potential for savings whilst its upper MW cap would remove any potential risk to Credit Cover.

1.9.2 Costs and benefits to BSCCo

The majority of Modification Group members agreed that the Alternative Modification would also result in greater administrative savings for BSCCo than the Proposed Modification, since there would be an estimated 58-73% reduction in the number of times its redeclaration enforcement process was triggered – equating to an annual estimated saving of 23-28 man days' effort. One member agreed that the Alternative offered greater potential for cost-savings, but remained uncertain that these would be realised in practice since they believed that Parties were likely to push whatever DC tolerances were set.

The Modification Group noted that the Alternative Modification would only require changes to the Code and to the automated query used by BSCCo to compare declared GC/DC values with actual Metered Volumes. The Group therefore noted that the BSCCo implementation costs of the Alternative Modification were identical to those of the Proposed Modification, and were of a low magnitude.

More detail regarding the Group's cost-benefit analysis can be found in the P186 Assessment Report in Annex 3.

1.10 Modification Group's view of whether the Alternative Modification would better facilitate the Applicable BSC Objectives

The unanimous view of the Modification Group was that the Alternative Modification would better facilitate the achievement of Applicable BSC Objectives (c) and (d) when compared to both the Proposed Modification and the current Code baseline.

1.10.1 Applicable BSC Objective (c)

The majority of Modification Group members believed that the Alternative Modification would deliver greater cost and efficiency savings to Parties than both the Proposed Modification and current Code baseline, by only requiring Parties to redeclare GC/DC following material breaches. These members believed that these savings would therefore be spread across all BM Units with small absolute breaches, rather than only those above a certain capacity as under the Proposed Modification. These members therefore argued that the Alternative Modification would better facilitate competition and Applicable BSC Objective (c) than both the Proposed Modification and the current Code baseline.

The Group agreed that the upper MW breach limit set by Alternative Modification would offer greater reassurance than the Proposed Modification that relaxation of GC/DC redeclaration thresholds would not lead to under-provision of Credit Cover. The Group therefore agreed that there would not be any adverse impact to competition or Applicable BSC Objective (c) as a result of the Alternative Modification.

One member remained unconvinced that the relaxation of the thresholds would necessarily lead to a reduction in the number of GC and DC breaches, since they believed there might still be an incentive for Parties to push the new DC tolerances in order to avoid an overestimation of their Energy Indebtedness. However, the member accepted that the Alternative appeared to offer greater potential for cost-savings than the Proposed Modification, and was satisfied that the upper MW cap would remove any risk to Credit Cover provision. The member therefore believed that the Alternative Modification would better facilitate the achievement of the Applicable BSC Objectives when compared with the Proposed Modification, and had the potential to do so when compared with the current Code baseline. The member therefore supported the recommendation that the Alternative Modification should be made.

1.10.2 Applicable BSC Objective (d)

The majority of Modification Group members believed that the Alternative Modification would also deliver greater cost and efficiency savings for BSCCo than the Proposed Modification, through a greater reduction in the number of GC and DC breaches it would be required to pursue. These members also considered that, by only requiring BSCCo to enforce redeclarations following material absolute breaches, the Alternative Modification could help reduce any perception by Parties that its enforcement of GC/DC accuracy was unnecessarily stringent or bureaucratic. These members therefore considered that the Alternative Modification would better facilitate Applicable BSC Objective (d) than both the Proposed Modification and the current Code baseline.

One member of the Group remained unconvinced that the relaxation of the thresholds would necessarily lead to a reduction in breaches. However, this member believed that the Alternative would better facilitate the achievement of Applicable BSC Objective (d) than the Proposed Modification, since it would offer greater potential for efficiency savings – and had the potential to do so when compared with the current Code baseline. This member therefore supported the recommendation that the Alternative Modification should be made.

1.11 Governance and regulatory framework assessment

During its assessment of the Proposed and Alternative Modifications, the Modification Group considered the wider implications of P186 on the statutory, regulatory and contractual framework within which the Code sits. No impact was identified.

2 COSTS[5]

2.1 Costs of progressing P186 through the Modification Procedures

PROGRESSING MODIFICATION PROPOSAL

Meeting Cost	£1,000
Legal/Expert Cost	£0
Impact Assessment Cost	£0
ELEXON Resource	30 man days £5,580

[5] Clarification of the meanings of the cost terms in this section can be found in Annex 5 of this report.

2.2 Implementation costs – Proposed and Alternative Modifications

The implementation costs associated with the Proposed and Alternative Modifications are identical and are shown in the tables below.

IMPLEMENTATION COSTS

		Stand Alone Cost	P186 Incremental Cost	Tolerance
Total Demand Led Implementation Cost		£0	£0	N/A
ELEXON Implementation Resource Cost		4 man days £880	4 man days £880	+/- 5%
Total Implementation Cost		£880	£880	+/- 5%

ONGOING SUPPORT AND MAINTENANCE COSTS

	Stand Alone Cost	P186 Incremental Cost	Tolerance
Service Provider Operation Cost	£0	£0	N/A
Service Provider Maintenance Cost	£0	£0	N/A
ELEXON Operational Cost	£0	£0	N/A

3 RATIONALE FOR PANEL'S RECOMMENDATIONS

The Panel considered the P186 Assessment Report at its meeting held on 14 April 2005. The Panel unanimously agreed the provisional recommendation that the Alternative Modification should be made, and therefore that the Proposed Modification should not be made.

The Panel noted with interest the Modification Group's cost-benefit analysis of P186, as summarised in Sections 1.5 and 1.9 of this Modification Report. The Panel noted in particular the estimated materiality to Parties of 2 man hours per GC/DC redeclaration, and the Group's analysis of the estimated reduction in breaches under the Proposed and Alternative Modifications (see Figure 4 in Section 1.9.1). One Panel Member disputed the suggestion of the Proposer that the current 0.5MW effective limit is problematic for BM Units with a capacity greater than 50MW, and believed the Group's analysis showed that most breaches are by small BM Units and are of a low magnitude. This Panel Member therefore stated that they supported the Alternative Modification, which would remove the need for such non-material breaches to be redeclared. Another Panel Member queried how realistic a 2% threshold might be for a small Supplier, for whom the loss or gain of a customer could represent a significant proportion of their capacity. BSCCo clarified that the view of the Modification Group was that small Consumption BM Units would benefit from the Alternative Modification's lower 2MW threshold, below which redeclaration would not be required. One Panel Member noted that there were only a small number of

breaches above the lower 2MW limit, and therefore suggested that the least-complicated solution would be to have a 'flat' 2MW redeclaration threshold for all BM Units. However, this member noted that such a solution had not been considered by the Group, since the defect identified by the Modification Proposal was that a MW threshold was not appropriate for large BM Units.

The Panel's provisional recommendation was consulted upon as part of the P186 draft Modification Report. At its meeting of 12 May 2005 the Panel considered this report and the responses received to the Report Phase consultation (see Section 6). The Panel unanimously agreed the final recommendation to the Authority that the Alternative Modification should be made, and that the Proposed Modification should therefore not be made. One member of the Panel stated that they noted the comments of one respondent who disagreed with the Panel's recommendations, but that their views in favour of the Alternative Modification remained unchanged. The Panel unanimously agreed that no changes were required to the legal text or to the recommended Implementation Date as a result of the Report Phase consultation.

4 IMPACT ON BSC SYSTEMS AND PARTIES

The Modification Group has identified the following areas of impact which would result from the implementation of the Proposed Modification or Alternative Modification.

4.1 BSCCo

Table 4 – Impact of P186 on BSCCo

Area of Business	Impact of Proposed Modification	Impact of Alternative Modification
BSCCo systems	Amendment of the database query used by BSCCo to compare GC/DC values with actual BM Unit Metered Volumes via its Trading Operations Market Analysis System (TOMAS), in order to only identify 1% breaches.	Amendment of the database query used by BSCCo to compare GC/DC values with actual BM Unit Metered Volumes via TOMAS, in order to only identify breaches of the new redeclaration thresholds.
BSCCo processes	Potential reduction in the number of manual redeclaration requests issued by BSCCo.	As for Proposed Modification.
BSCCo documentation	Documentation of the new monitoring requirements within BSCCo's local working instructions.	As for Proposed Modification.

4.2 BSC Systems

No impact identified.

4.3 Parties and Party Agents

P186 would deliver a potential reduction in the number of GC/DC breaches, and therefore in the administrative effort incurred by Parties in redeclaring their BM Unit Metered Volume estimates.

P186 would have no impact on any Party Agents.

5 IMPACT ON CODE AND DOCUMENTATION

5.1 Balancing and Settlement Code

Table 5 – Impact of P186 on the Code

Code Section	Impact of Proposed Modification	Impact of Alternative Modification
Section K 'Classification and Registration of Metering Systems and BM Units'	Section K3.4.3: Removal of the 0.5MW absolute volume limit on GC/DC breaches.	Section K3.4.3: Replacement of the current 0.5MW/1% limits on GC/DC breaches with new percentage and lower/upper MW limits.

5.2 Code Subsidiary Documents

No impact identified. Although BSCP15 'BM Unit Registration' details the processes by which GC and DC values are submitted and redeclared, it refers to the Code for the specific criteria which trigger these processes.

5.3 BSCCo Memorandum and Articles of Association

No impact identified.

5.4 Impact on Core Industry Documents and supporting arrangements

No impact identified.

6 SUMMARY OF CONSULTATION RESPONSES

9 responses (representing 41 Parties) were received to the P186 Report Phase consultation.

A summary of the consultation responses is provided below, whilst full copies of the responses are attached as Annex 4.

Table 6 – Summary of P186 Report Phase consultation responses

NB: Bracketed numbers represent the number of Parties represented by respondents.

	Consultation question	Yes	No
1.	Do you agree with the Panel's provisional recommendation to the Authority, as set out in the draft Modification Report, that the Alternative Modification P186 should be made?	8 (36)	1 (5)*
2.	Do you agree with the Panel's provisional recommendation to the Authority, as set out in the draft Modification Report, that the Proposed Modification P186 should not be made?	8 (36)	1 (5)
3.	Do you agree with the Panel's view that the legal text provided in the draft Modification Report correctly addresses the defect or issue identified in the Modification Proposal?	9 (41)	0

* This respondent initially stated that they supported the Panel's recommendation, but subsequently clarified their response (see Section 6.1).

	Consultation question	Yes	No
4.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P186, as set out in the draft Modification Report?	9 (41)	0

6.1 Panel's provisional recommendation

6.1.1 Alternative Modification

a) Majority view

A majority of respondents agreed with the Panel's provisional recommendation that the Alternative Modification should be made.

The arguments expressed by respondents in favour of the Alternative Modification were that:

- The Alternative Modification would offer greater administrative savings to Parties and BSCCo than the Proposed Modification, since it would benefit all Parties regardless of size;
- The lower 2MW limit would be key to achieving the benefits of the Alternative Modification, since it would eliminate the significant administrative effort required at present in monitoring and redeclaring GC/DC values where the amounts involved are not material; and
- The lower and upper MW thresholds under the Alternative Modification would limit the possible variance between a BM Unit's declared GC/DC value and actual Metered Volume to between 2MW and 10MW – in comparison to the Proposed Modification, which could allow significant variations to develop without remedy and could create a potential risk to Credit Cover.

b) Minority view

One respondent, who had not responded to the P186 Assessment Procedure consultation, initially stated that they supported the Panel's recommendation in favour of the Alternative Modification. However, this was queried by BSCCo since their response also disagreed with the Panel's recommendation that the Proposed Modification should not be made. The respondent clarified that they believed the Proposed Modification would better facilitate the achievement of the Applicable BSC Objectives when compared to the Alternative Modification, and that the Proposed Modification should therefore be made (see Section 6.1.2 below). The respondent also clarified that they believed the Alternative Modification would better facilitate the achievement of the Applicable BSC Objectives when compared to the current Code baseline.

6.1.2 Proposed Modification

a) Majority view

A majority of respondents agreed with the Panel's provisional recommendation that the Proposed Modification should not be made.

The arguments expressed by respondents against the Proposed Modification were that:

- The application of an uncapped percentage threshold under the Proposed Modification could potentially lead to under-provision of Credit Cover by some BM Units; and
- The Proposed Modification would offer no benefit to BM Units with a capacity of less than 50MW, and would not address the issue of the high number of low-magnitude breaches by small BM Units.

However, three of these respondents stated their view that, although inferior to the Alternative Modification, the Proposed Modification would still better facilitate the achievement of the Applicable BSC Objectives when compared with the current Code baseline.

b) Minority view

One respondent, who had not responded to the Assessment Procedure consultation, disagreed with the Panel's provisional recommendation that the Proposed Modification should not be made. This respondent subsequently clarified to BSCCo that they believed the 1% threshold under the Proposed Modification to be more appropriate than the Alternative Modification, since it would treat all BM Units proportionally. The respondent clarified that, although they believed the Alternative Modification to be superior to the current Code baseline, they believed that the Proposed Modification would better facilitate the achievement of the Applicable BSC Objectives when compared to the Alternative. The respondent therefore believed that the Proposed Modification should be made.

6.2 Draft legal text

All respondents agreed with the legal text contained in the draft Modification Report. However, one respondent stated that, although the proposed text delivered the agreed solution, they shared the reservations of some Modification Group members that it was not as clear as possible.

During the Assessment Procedure one member of the Modification Group had agreed that the Alternative Modification legal text was technically correct, but had proposed some alternative phrasing which they felt would give clearer effect to its intention. BSCCo's legal opinion had been that the original wording was the more robust. The Modification Group member noted that the difference of opinion related to points of style, and stated that they were therefore comfortable to proceed with the text proposed by BSCCo. All members of the Modification Group agreed the text which was put forward to the Panel in the Assessment Report, and which was subsequently included unchanged in the draft Modification Report.

No further comments regarding the legal text were made by any other respondents to the Report Phase consultation. BSCCo's view is therefore that no changes are required to the text.

6.3 Recommended Implementation Date

All respondents agreed with the 10 Working Day Implementation Date recommended by the Panel for the Proposed and Alternative Modifications. One respondent stated that this approach was appropriate as no BSC System changes would be required. Two respondents considered that P186 should be implemented as soon as possible, in order to maximise its potential cost savings for BSCCo and Parties.

6.4 Further comments

Two respondents made further comments on P186.

One respondent reiterated their view (previously expressed during the Assessment Procedure) that the Alternative Modification's upper MW cap was not required – but stated that they supported its inclusion as a 'prudence measure', since it offered additional reassurance to Parties that the relaxation of GC/DC thresholds would have no adverse impact on the provision of Credit Cover.

Another respondent expressed support for two potential alternative proposals which had not been progressed by the Modification Group, as follows:

- The respondent argued that a preferable option would be to change the existing rules so that a BM Unit would only be required to redeclare its GC/DC value if it was in breach by more than *both* 0.5MW and 1%. This option was considered by the Modification Group during the

Assessment Procedure, but was rejected as there would be no upper cap and since the Group believed that these thresholds would still be too onerous.

- The respondent also suggested that another potential proposal would be to impose redeclaration of GC/DC values on the basis of recorded Metered Volumes – either automatically through BSC Systems or by authorising BSCCo to modify GC/DC. This option was not considered by the Modification Group since it lies outside the scope of P186.

The same respondent suggested that the analysis undertaken by the Modification Group demonstrates that there is systematic non-adherence to the current GC/DC redeclaration rules, and that Parties therefore appear to be deliberately or negligently misestimating their GC/DC values. Although the respondent believed both the Proposed and Alternative Modifications to be superior to the existing thresholds, they suggested that P186 might worsen this perceived non-adherence. The respondent also suggested that relaxing the redeclaration thresholds could impact the P/C Status of a BM Unit.

During the Assessment Procedure, the Modification Group undertook analysis which demonstrated that Parties appear incentivised to declare the least-negative DC possible in order to avoid an overestimation of their Energy Indebtedness. The Group agreed that this, coupled with what they perceived to be the unduly onerous redeclaration thresholds, results in the current high number of DC breaches. The majority of Modification Group members believed that the number of such breaches would therefore be reduced under P186. No members of the Group suggested that Parties are deliberately flouting the Code's redeclaration requirements.

The Modification Group did not believe that the proposed relaxation of GC/DC redeclaration thresholds under P186 would impact the P/C Status of BM Units, since it believed that there would be few BM Units whose declared GC and DC were close enough in value that this could be an issue.

6.5 Comments and views of the Panel

The Panel noted the contents of the Report Phase consultation responses at its meeting held on 12 May 2005. The Panel noted BSCCo's advice that, with the exception of one respondent, the responses mirrored the arguments expressed during the Assessment Procedure consultation. The Panel noted that the points made by the respondent who disagreed with its provisional recommendations contained no new arguments within the scope of P186. One member of the Panel stated that they noted the comments of the respondent, but that their views in favour of the Alternative Modification remained unchanged.

The Panel noted that the comments of one respondent regarding the legal text related to points of style, and noted BSCCo's legal view that no change to the text was required. The Panel unanimously agreed that no changes were required to the legal text as a result of the Report Phase consultation.

7 SUMMARY OF TRANSMISSION COMPANY ANALYSIS

7.1 Analysis

A Transmission Company impact assessment and analysis was commissioned by the Modification Group during the Assessment Procedure for P186.

The Transmission Company did not believe P186 would have any impact on its ability to discharge its responsibilities under the Transmission Licence, its systems or processes, or any Core Industry Document.

The Transmission Company supported the view of the Modification Group that the Proposed Modification would better facilitate the achievement of Applicable BSC Objectives (c) and (d) compared with the current Code baseline. However, the Transmission Company noted the view of the Group that

the Alternative Modification could deliver greater cost and efficiency savings than the Proposed Modification.

For more information regarding the Transmission Company's response, please refer to the P186 Assessment Report in Annex 3.

7.2 Comments and views of the Panel

The Panel noted the view of the Transmission Company that P186 would have no impact on its processes.

8 SUMMARY OF EXTERNAL ADVICE

None commissioned.

9 IMPLEMENTATION APPROACH

The Panel unanimously agreed with the Modification Group's recommended Implementation Date for both the Proposed and Alternative Modifications of 10 Working Days following an Authority decision.

The Panel noted that, if P186 was approved, the new GC/DC redeclaration thresholds would therefore come into effect part-way through a BSC Season on a calendar day basis. Since BSCCo's fortnightly monitoring compares a BM Unit's GC/DC values with its most positive/negative Metered Volume in a BSC Season, the new P186 thresholds would therefore be applied retrospectively to the start of the season. The Panel noted that the Modification Group did not believe this to be an issue, since the new thresholds would be a relaxation of current obligations and as such should only have a positive impact on Parties. The Panel agreed with the view of the Group that it was desirable to implement P186 as soon as possible, rather than delay the achievement of any benefits until the next BSC Season.

10 DOCUMENT CONTROL

10.1 Authorities

Version	Date	Author	Reviewer	Change Reference
0.1	19 April 2005	Kathryn Coffin	Sarah Parsons	For technical review
0.2	19 April 2005	Kathryn Coffin	Interested parties	For consultation
0.3	3 May 2005	Kathryn Coffin	Sarah Parsons	For technical review
0.4	4 May 2005	Kathryn Coffin	Change Delivery	For quality review
0.5	6 May 2005	Change Delivery	BSC Panel	For Panel approval
1.0	12 May 2005	BSC Panel		For Authority decision

10.2 References

Ref	Document	Owner	Issue date	Version
1	Initial Written Assessment for Modification Proposal P186 ELEXON - Modification Proposal 186	BSCCo	04/02/05	1.0
2	Assessment Consultation for Modification Proposal P186 ELEXON - Modification Proposal 186	BSCCo	07/03/05	1.0
3	Assessment Report for Modification Proposal P186 ELEXON - Modification Proposal 186	BSCCo	08/04/05	1.0
4	Draft Modification Report for Modification Proposal P186 ELEXON - Modification Proposal 186	BSCCo	06/05/05	0.5

ANNEX 1 LEGAL TEXT

Legal text for the Proposed Modification is included as Annex 1A, and is attached as a separate document.

Legal text for the Alternative Modification is attached as Annex 1B.

ANNEX 2 MODIFICATION GROUP DETAILS

Member	Organisation	22/02/05	23/03/05
Tom Bowcutt	ELEXON (Chair)	✓	✓
Kathryn Coffin	ELEXON (lead analyst)	✓	✓
Ben Willis	Npower (Proposer's Representative)	✓	✓
Andrew Colley	Scottish and Southern	✓	
Mark Manley	British Gas Trading	☎	✓
Man Kwong Liu	SAIC Ltd	✓	✓
Neil Smith	E.ON	✓	✓
Steve Drummond	EDF Trading	✓	

Attendee	Organisation	22/02/05	22/03/05
Liz Chester	Ofgem		✓
Ndidi Njoku	Ofgem		✓
Dave Wilkerson	ELEXON (technical support)	✓	✓
Roger Harris	ELEXON (technical support)	✓	
Gareth Evans	Total Gas & Power Limited	✓	✓
David Lane	Cornwall Consulting		✓

For details of the Modification Group's Terms of Reference for the P186 Assessment Procedure, please refer to the P186 Assessment Report in Annex 3.

ANNEX 3 ASSESSMENT REPORT

The P186 Assessment Report is included as Annex 3A, and is attached as a separate document.

ANNEX 4 REPORT PHASE CONSULTATION RESPONSES

Copies of the responses received to the consultation regarding the P186 draft Modification Report are included as Annex 4A, and are attached as a separate document.

For copies of the responses received to the P186 Assessment Consultation, please refer to Annex 3B.

ANNEX 5 CLARIFICATION OF COSTS

There are several different types of costs relating to the implementation of Modification Proposals. ELEXON implements the majority of Approved Modifications under its CVA or SVA Release Programmes. These Programmes incur a base overhead which is broadly stable whatever the content of the Release. On top of this each Approved Modification incurs an incremental implementation cost. The table of estimated costs of implementing the Proposed/Alternative Modification given in Section 2 of this report has three columns:

- **Stand Alone Cost** – the cost of delivering the Modification as a stand-alone project outside of a CVA or SVA Release, or the cost of a CVA or SVA Release with no other changes included in the Release scope. This is the estimated maximum cost that could be attributed to the implementation of any one Modification.

- **Incremental Cost** - the cost of adding the Modification to the scope of an existing Release. This cost would also represent the potential saving if the Modification was to be removed from the scope of a Release before development had started.

- **Tolerance** – the predicted limits of how certain the cost estimates included in the template are. The tolerance will be dependent on the complexity and certainty of the solution and the time allowed for the provision of an impact assessment by the Service Provider(s).

The cost breakdowns are shown on the following pages.

PROGRESSING MODIFICATION PROPOSAL	
Meeting Cost	This is the cost associated with holding Modification Group meetings and is based on an estimate of the travel expenses claimed by Modification Group members.
Legal/Expert Cost	This is the cost associated with obtaining external expert advice, usually legal advice.
Impact Assessment Cost	Service Provider Impact Assessments are covered by a pre-determined monthly contractual charge. Therefore the cost included in this report is an estimate based on the level of impact assessment that the Modification is expected to require and may not reflect the actual cost attributed to the Modification, which will be based on a percentage of the contractual impact assessment costs for each month that it is assessed.
ELEXON Resource	This is the ELEXON Resource requirement to progress the Modification Proposal through the Modification Procedures. This is estimated using a standard formula based on the length of the Modification Procedures concerned.

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

ELEXON IMPLEMENTATION RESOURCE COSTS
Cost quoted in man days multiplied by project average daily rate, which represents the resources utilised by ELEXON in supporting the implementation of the Release. This cost is typically funded from the "ELEXON Operational" budget using existing staff, but there may be instances where the total resources required to deliver a Release exceeds the level of available ELEXON resources, in which case additional Demand Led Resources will be required. The ELEXON Implementation Resource Cost will typically have a tolerance of +/- 5% associated with it.

ONGOING SUPPORT AND MAINTENANCE COSTS	
ELEXON Operational Cost	Cost, in man days per annum multiplied by project average daily rate, of operating the revised systems and processes post implementation.
Service Provider Operation Cost	Cost in £ per annum payable to the Service Provider(s) to cover staffing requirements, software or hardware licensing fees, communications charges or any hardware storage fees associated with the ongoing operation of the revised systems and processes.
Service Provider Maintenance Cost	Cost quoted in £ per annum payable to the Service Provider(s) to cover the maintenance of the amended BSC Systems. Note that from 1 January 2005, Service Provider Maintenance costs will be covered by a fixed contractual charge and so any Modification Proposals implemented after this date will not incur an ongoing Service Provider Maintenance cost.