



MODIFICATION REPORT for Modification Proposal P178

'Reduction in the BSC withdrawal timescale for Parties who have settled the vast majority of their trading debts'

Prepared by: ELEXON on behalf of the BSC Panel

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RECOMMENDATIONS

Having considered and taken into due account the contents of the draft P178 Modification Report, the Balancing and Settlement Code Panel ('the Panel') recommends:

- **that the Proposed Modification P178 should not be made;**
- **that the Alternative Modification P178 should not be made;**
- **an Implementation Date (in the event that the Authority determines that either the Proposed Modification or Alternative Modification should be made) of 29 June 2005 if an Authority decision is received on or before 9 March 2005, or 2 November 2005 if the Authority decision is received after 9 March 2005 but on or before 6 July 2005; and**
- **the proposed text for modifying the Code, as set out in the Modification Report.**

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¹ The current version of the Balancing and Settlement Code can be found at <http://www.elexon.co.uk/bscrelateddocs/BSC/default.aspx>

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SUMMARY OF IMPACTED PARTIES AND DOCUMENTS

The following parties/documents have been identified as impacted by Modification Proposal P178.

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

*P178 has no direct impact upon Parties' systems, processes or documentation. However, under P178 a Non-Supplier Trading Party would be able to achieve an earlier withdrawal from the Code following the 2nd Reconciliation Settlement Run – providing that the Party left a cash deposit to cover its estimated future liabilities. Where this deposit was not sufficient, this could result in the shortfall amount being recovered from all remaining Parties.

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

1.1 Modification Proposal

Modification Proposal P178 'Reduction in the BSC withdrawal timescales for Parties who have settled the vast majority of their trading debts' ('P178') was raised by Uskmouth Power Company Limited ('the Proposer') on 4 October 2004. The defect identified by, and the solution proposed within, the Modification Proposal were previously considered by the Settlement Standing Modification Group (SSMG) as Issue 12 at a meeting held on 27 September 2004 (Reference 1).

1.1.1 Background: current withdrawal criteria

The current criteria for withdrawal from the Balancing and Settlement Code ('the Code') are contained in paragraph A5.1.3 of the Code.

Two of these criteria are that a BSC Party ('Party') may not withdraw if (at 1700 hours on the day which is 2 Business Days prior to the Withdrawal Date):

- The Final Reconciliation ('RF') Settlement Run has not been carried out in relation to the Party's last Settlement Day, or if the Payment Date for any Reconciliation Charges resulting from that RF Run has not yet passed; or
- The final determination has not been carried out in respect of BSCCo Charges for the BSC (financial) Year in which the Party's last Settlement Day fell, or if the due date for payment of any BSCCo Charges resulting from that determination has not yet passed.

Since Parties may not withdraw before the RF Payment Date, they must therefore wait approximately 14 months² to withdraw, even if all other criteria in A5.1.3 have been met at an earlier date (e.g. the Party has no outstanding sums payable, no Default capable of remedy and no registered Meters or BM Units). As the existing withdrawal timescale will always span the end of a BSC Year (12 months), under the current process the final determination of each Withdrawing Party's BSCCo Charges will therefore have been carried out by its Withdrawal Date.

The aim of the existing criteria is to ensure that a Party has settled its financial liabilities relating to its period of trading before it withdraws from the Code (see below).

Reconciliation Charges

Under the normal Settlement timetable the final Reconciliation Charges of a Party which has ceased trading will be known at the RF run for its last Settlement Day, by which point its estimated energy volumes will have been replaced with actual volumes in Settlement. Parties which have ceased trading may therefore still accrue Reconciliation Charges up to RF as the result of their previous energy volumes passing through the Settlement process.

Parties may also accrue Reconciliation Charges after RF as a result of a Post-Final ('DF') Settlement Run or Extra-Settlement Determination (ESD) relating to a Trading Dispute. Under the existing Code arrangements it is therefore possible that a Party may continue to accrue Reconciliation Charges even after its withdrawal.

² 291 Business Days after the Party's last trades.

BSCCo Charges

A Party's share of Monthly Net Main Costs is a proportion of its share of Annual Net Main Costs for the BSC Year. This proportion is adjusted from month to month according to the Party's weighted cumulative average Main Funding Share (based on its latest Initial Settlement ('SF') Run energy volumes), BSCCo's latest forecast of the full year costs, and the number of months remaining in the BSC Year. A Party's final share of Annual Net Main Costs is therefore not known until the final determination of actual BSCCo Charges following the end of the BSC Year. Parties which have ceased trading part-way through a BSC Year will therefore still accrue Monthly Net Main Costs up to the final determination of BSCCo Charges for that year.

Moreover, a Party which ceases trading part-way through a BSC Year will also be liable for any future adjustments in its share of Annual Default Costs³ as a result of any additional Defaults by other Parties during the remainder of that year.

Under the existing Code arrangements, a Party which had ceased trading would also continue to accrue the Base Monthly Charge (a fixed amount) for each month in which it remained a Party to the Code.⁴

Existing process followed in event of non-payment of charges

If a Party to the Code fails to pay any of its accrued Reconciliation Charges or BSCCo Charges, it is placed in Default under Section H3 of the Code and pursued for payment by BSCCo. With the exception of a Party which is in Default under Section H3.1.1(g) (due to being insolvent or in administration), the Party is prevented from withdrawing from the Code during the period in which it is in Default. The Panel may also take steps to suspend the Party's right to trade for the duration of its Default in accordance with H3.2.2. The unpaid charges of the Defaulting Party are recouped from all other Parties to the Code as a 'bad debt', although these Parties may subsequently be refunded if payment is later obtained.

If a Party which has withdrawn from the Code following the RF Payment Date for its last Settlement Day fails to pay any subsequent Reconciliation Charges for which it becomes liable as a result of a DF run or ESD, the Party remains liable for these amounts under paragraph A5.3.3(b) of the Code and is pursued for payment by BSCCo.⁵ The unpaid charges of the withdrawn Party are recouped from all remaining Parties as a 'bad debt', although these Parties may subsequently be refunded if payment is later obtained.

1.1.2 Defect identified by Modification Proposal

The Modification Proposal identifies three perceived defects in the current requirement to remain a Party to the Code until RF:

a) Inappropriate requirement for Non-Supplier Trading Parties

The Proposer suggests that the current 14-month timescale seems to have been designed around the Supplier Volume Allocation (SVA) reconciliation process. The Proposer argues that there appears to be no compelling reason to treat Non-Supplier Trading Parties in the same way as Suppliers, since such

³ Annual Default Costs are the costs under which the unpaid amounts of a Party in Default are recovered by BSCCo from all other Parties.

⁴ Definitions of BSCCo Charges, Specified BSC Charges, Annual Net Main Costs and Annual Default Costs can be found in Section D of the Code. The Base Monthly Charge may be revised from time to time by the Panel, and is currently set at £250 per calendar month.

⁵ A5.3.3(b) states that withdrawal from the Code does not release a Party from 'any rights and liabilities (whether actual, contingent, accrued or otherwise) of a Party which may accrue pursuant to any Reconciliation Settlement Run or Extra Settlement Determination relating to any Settlement Day up to and including the last Settlement Day'.

Parties will have settled the vast majority of their Reconciliation Charges by the 2nd Reconciliation ('R2') Settlement Run and their remaining future charges will therefore be small.⁶

b) Legal risk of ongoing Code obligations

Parties to the Code who are seeking to withdraw and are no longer operational in the market (e.g. have ceased trading, terminated all other contracts and transferred all physical assets), continue to be bound by any new obligations introduced via a Code modification prior to RF. The Proposer argues that this creates unwarranted ongoing legal liabilities for Non-Supplier Trading Parties. In addition, the Proposer argues that Parties who are no longer trading or are in administration will not necessarily have the staff or expertise to monitor such liabilities.

c) Administrative inefficiencies for Parties, FAA and BSCCo

The Proposer argues that the current withdrawal timescale results in administrative inefficiencies for the following market participants:

- **Withdrawing Non-Supplier Trading Parties**, through the need to manage invoices for small amounts of Reconciliation Charges between R2 and RF. The Proposer argues that the current timescale prevents a non-operational Party from paying its bills and exiting the market in a timely manner. The Proposer also suggests that the current arrangements may result in unintentional payment Defaults by non-operational Parties due to a lack of resources to monitor invoices (for example, where the Party is in administration) rather than an actual lack of capital.
- **Other Parties**, where any Reconciliation Charges which are not recovered from Parties in Default are recouped from all other Parties.
- **The Funds Administration Agent (FAA)**, through the need to invoice a Non-Supplier Trading Party for small amounts of Reconciliation Charges between R2 and RF.
- **BSCCo**, through time spent in pursuing the unpaid amounts of Parties in Default and in providing advice to non-operational Parties regarding their obligations between R2 and RF.

1.1.3 Solution proposed by Modification Proposal

To address these perceived defects, P178 proposes to allow Non-Supplier Trading Parties to withdraw from the Code following R2 on a voluntary basis, providing that:

- The Withdrawing Party meets all other withdrawal criteria; and
- The Withdrawing Party lodges a refundable cash 'withdrawal deposit' with the FAA as security against its estimated Reconciliation Charges between R2 and RF.

1.1.4 Proposer's view of Modification Proposal against Applicable BSC Objectives

The Proposer believes that P178 would better facilitate the achievement of Applicable BSC Objectives (c) and (d).⁷

⁶ A Non-Supplier Trading Party is defined in Section M2.3A.7 of the Code as a Trading Party which (at the time of its last Settlement Day) is not a Supplier, or a Subsidiary Party in a Metered Volume Reallocation Notification where the Lead Party is a Supplier. Annex X-1 defines a Supplier as a Trading Party which has one or more SVA Metering Systems. In order to be counted as a Non-Supplier Trading Party, a Party must meet these criteria in respect of each of its Settlement Days for which a RF run has yet to be performed.

⁷ Applicable BSC Objectives (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' and (d) 'Promoting efficiency in the implementation and administration of the balancing and settlement arrangements'.

The Proposer argues that ease of exit is as important as ease of entry if the market is to encourage competition and keep the Code as a contract between Parties who are actually operational. The Proposer believes that P178 would:

- Provide a simpler and more timely withdrawal route for those Parties who have paid the vast majority of their bills by R2; and
- Reduce administrative costs to Withdrawing Parties, other Parties, the FAA and BSCCo – allowing resources to be more appropriately targeted on those Parties who are active in the market.

1.1.5 Process followed to date

The P178 Initial Written Assessment (IWA, Reference 2) was presented to the Panel Meeting held on 14 October 2004, where the Panel determined that P178 should be submitted to a two-month Assessment Procedure by the SSMG. Details of the Group's membership can be found in Annex 2.

During the two-month Assessment timetable the SSMG held two meetings (on 26 October and 24 November), issued an Assessment Procedure consultation (on 15 November 2004, Reference 3) and commissioned impact assessments from BSC Agents (Reference 4), BSCCo and the Transmission Company. Copies of the responses received can be found in the P178 Assessment Report in Annex 3.

The P178 Assessment Report was presented to the Panel at its meeting of 9 December 2004, where the Panel unanimously agreed with the recommendation of the SSMG that P178 proceed to the Report Phase with a provisional recommendation that neither the Proposed Modification nor Alternative Modification should be made.

The P178 draft Modification Report was issued for industry consultation on 14 December 2004, allowing 7 Business Days to respond. All respondents who commented unanimously agreed with the Panel's provisional recommendation, and with the proposed legal text and Implementation Dates. 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 P178 draft Modification Report (Reference 5) and these consultation responses at its meeting on 13 January 2005, and agreed the final recommendation to the Authority that neither the Proposed Modification nor the Alternative Modification should be made.

Legal text has been provided in respect of both the Proposed and Alternative Modifications, and is attached as Annex 1. Following the P178 Report Phase consultation, minor changes were made to the draft legal text as a result of a further review by BSCCo in order to correct typographical errors and clarify the interest attributable to the Reconciliation Charges deposit (see Section 3). These changes did not alter the SSMG's agreed solution or the intent of the text, and were agreed by the Panel at its meeting on 13 January 2005.

1.2 Proposed Modification

This section outlines the solution developed by the SSMG to support the Proposed Modification. More detail regarding the Group's rationale in developing these requirements can be found in the P178 Assessment Report in Annex 3.

1.2.1 Solution overview – the 'Reconciliation Charges deposit'

The solution developed by the SSMG for the Proposed Modification is to amend the Code's current requirement to remain a Party until RF, in order to allow any Non-Supplier Trading Party (including those in insolvency or administration) to withdraw from the Code at any time following the Payment Date for the R2 run relating to the Party's last Settlement Day. The Party would be entitled to exercise

this right to early withdrawal providing it met all other withdrawal criteria (see below) and left a refundable cash 'withdrawal deposit' with the FAA to cover its estimated Reconciliation Charges up to RF (hereafter referred to as the 'Reconciliation Charges deposit').

The Proposed Modification would also amend the current Code requirement for a Withdrawing Party to remain a Party until the final determination of BSCCo Charges for the BSC Year in which its last Settlement Day fell, such that a Non-Supplier Trading Party could withdraw after R2 having paid only those BSCCo Charges accrued by its Withdrawal Date. BSCCo would invoice the withdrawn Party for any further adjustments in its share of Annual Net Main Costs and Annual Default Costs following the final determination of BSCCo Charges at the end of the BSC Year.

1.2.2 Detailed solution

a) Withdrawal criteria

The shortened withdrawal process would be available to any Party, on a voluntary basis, where (at 1700 hours on the day which is 2 Business Days prior to its Withdrawal Date) it met the following withdrawal criteria:

- The Party was a Non-Supplier Trading Party as defined in paragraph M2.3A.7 of the Code (new P178 requirement);
- The Payment Date for the R2 Reconciliation Settlement Run relating to the Party's last Settlement Day had passed (P178 amendment of existing requirement in A5.1.3 to wait until the RF Payment Date);
- The Party had lodged a refundable cash deposit with the FAA to cover its estimated future payable Reconciliation Charges up to RF (new P178 requirement);
- The Party had paid all BSCCo Charges accrued by its Withdrawal Date (P178 amendment of existing requirement in A5.1.3 to wait until the end of the BSC Year);
- The Party had paid all other outstanding sums accrued and payable by that Party, whether or not due for payment or the subject of a dispute, but which may exclude the Base Monthly Charge if so determined by the Panel (existing A5.1.3 requirement);
- The Party had no registered Metering Systems or BM Units, except for Base BM Units (existing A5.1.3 requirement);
- The Party had no outstanding Default capable of remedy, excluding where the Party was in Default solely by virtue of its insolvency or being in administration (existing A5.1.3 requirement);
- The Party was not subject to any Licence condition and/or Exemption condition requiring it to remain a Party (existing A5.1.3 requirement); and
- If the Party was an Interconnector Administrator or Interconnector Error Administrator, a replacement Interconnector Administrator or Interconnector Error Administrator had been appointed (existing A5.1.3 requirement).

No further Code criteria would be applied, although the Withdrawing Party would also be required to comply with the existing withdrawal steps set out in BSCP65 'Registration of Parties and Exit Procedures' – such as ensuring that it has no Energy Contract Volume Notifications or Metered Volume Reallocation Notifications in place beyond its point of deregistration, and cancelling any Settlement Reports via BSCP41 'Report Requests and Authorisation'.

Please note that the Reconciliation Charges deposit would be entirely separate to any Credit Cover which the Non-Supplier Trading Party might have lodged prior to its withdrawal. Under the Proposed

Modification, a withdrawing Non-Supplier Trading Party would therefore be able to reclaim all of its previous Credit Cover as under the current process for withdrawal at RF – but would be required separately to lodge the Reconciliation Charges deposit.

b) Timing of withdrawal

The earliest eligible Withdrawal Date of a Non-Supplier Trading Party under the Proposed Modification would therefore be 3 Business Days after the R2 Payment Date for its last Settlement Day.⁸ Such Parties could choose to use the P178 process to withdraw at this point or on any other subsequent calendar day prior to the RF Payment Date. Alternatively, a Non-Supplier Trading Party could choose to remain a Party until RF, and then withdraw using the Code's existing withdrawal process without the requirement to lodge a cash deposit.

c) Calculation of Reconciliation Charges deposit

Following receipt of a Non-Supplier Trading Party's Withdrawal Notice, and providing that the Party met all other withdrawal criteria, BSCCo would calculate the Party's Reconciliation Charges deposit amount based on an estimate of the Party's future payable Reconciliation Charges up to RF. This would be based on the Code's existing P152 Credit Cover calculation in M2.3A, adapted to take into account only the R3 and/or RF Settlement runs as applicable.⁹

The Reconciliation Charges deposit amount left by a Withdrawing Party under P178 would be calculated by BSCCo as follows:

$$\sum_{x \in (3, F)} NR_{xSP} * \frac{\sum_{Rx(j)} \max(RxC_j, 0)}{RxSP}$$

RxSP is the count of all Settlement Periods falling any time up to a year before the date on which the Non-Supplier Trading Party in question ceased trading for which the Rx Reconciliation Run has been performed or if this number is less than 1440 (30 days) then 1440.

ΣRx(j) represents summation over all Settlement Periods falling within a year before the date on which the Non-Supplier Trading Party in question ceased trading for which the Rx Reconciliation Run has been performed or if the number of Settlement Periods in this sum is less than 1440, then the summation over the last 1440 Settlement Periods for which the Rx Reconciliation Run has been performed.

RxCj represents the Reconciliation Charges (as defined in N6.4.3) payable by the Non-Supplier Trading Party (summed across its accounts) due to the Rx Reconciliation Run in the relevant Settlement Period.

NRxSP represents the count of all Settlement Periods up to and including the date on which the Non-Supplier Trading Party ceased trading for which the Rx Reconciliation Run has not been performed.

Essentially, the purpose of the above calculation is to derive the Party's average historical positive Reconciliation Charge at R3 and/or RF, and then apply this value to all of the Party's Settlement Periods for which that run has not occurred.

⁸ Approximately 3 months or 85 Working Days after the Party's last trades.

⁹ Modification Proposal P152 'Reduction of Credit Cover for a Trading Party in Default which has ceased trading and which has paid all accrued Trading Charges'. Following implementation of P152 Alternative, a Non-Supplier Trading Party which is no longer trading and which is in Default solely under H3.1.1(g) may choose to reduce its Credit Cover to an amount estimated to cover its future payable Reconciliation Charges.

d) Administration of Reconciliation Charges deposit

The FAA would hold the deposit as 'pre-payment' towards the Reconciliation Charges payable by the withdrawn Party as a result of any future R3 and RF Reconciliation Settlement Runs in respect of each of the Party's Settlement Days.

At the Payment Date for each R3 and/or RF run, in relation to each Settlement Day, the FAA would therefore debit the Party's Reconciliation Charges deposit with the following:

- Amount payable by the Party in respect of Reconciliation Charges (as calculated in accordance with existing paragraph N6.4 of the Code, including any interest relating to those charges) for the Settlement Day as a result of that R3 or RF run; and
- The Value Added Tax (VAT) applicable to the payable Reconciliation Charges amount.

Where a R3 or RF run resulted in Reconciliation Charges being payable to the Party, these would be credited to the deposit at the relevant Payment Date along with any VAT applicable to the amount.

No Advice Notes would be issued to the Party following its Withdrawal Date, although the FAA would still be required to issue Confirmation Notices in order to comply with its legal obligation to issue VAT invoices. A final statement detailing the FAA's debits from/credits to the Reconciliation Charges deposit would be provided to the Party following the RF Payment Date for its last Settlement Day, along with any surplus deposit money and the interest accrued by the deposit during the period in which it was held by the FAA.¹⁰

If any surplus deposit money could not be returned to the Party (due to it having wound up its operations as a company), this money would be redistributed to all remaining Parties via their Default Funding Shares.

e) 'Ratchet' mechanism for Reconciliation Charges deposit

If the Reconciliation Charges deposit proved to be insufficient to cover the actual Reconciliation Charges payable by the Party, an additional pre-payment deposit amount would be requested by the FAA (the 'ratchet request') at the point the deficit occurred.

The requested ratchet amount would be as follows:

*Deficit amount * 11 (set multiple based on maximum possible number of months remaining until RF).*

Payment of the ratchet request would be mandatory for the withdrawn Party. In the event of a non-payment, the FAA would resume issuing Advice Notes to the Party for any Reconciliation Charges not covered by the original deposit amount. Under existing paragraph A5.3.3(b) of the Code the withdrawn Party would remain liable for these charges and could be pursued for non-payment by BSCCo. However, if the money could not be recovered it would be recouped from all remaining Parties via their Default Funding Shares.

Please note that payment of the Party's actual Reconciliation Charges, rather than the ratchet estimation of these charges, would be pursued.

f) Remaining BSCCo Charges

The withdrawing Non-Supplier Trading Party would cease to pay all Specified BSC Charges (including the Base Monthly Charge) from its Withdrawal Date. Where the Party's Withdrawal Date occurred part-way through the BSC Year in which its last Settlement Day fell, BSCCo would invoice the Party for any

¹⁰ Interest in relation to the Reconciliation Charges deposit would be calculated on a daily basis by the FAA, but would be paid to the Party following RF as a one-off sum.

further adjustments in its share of Annual Net Main Costs and Annual Default Costs following the final determination of BSCCo Charges for that BSC Year.

Under A5.3.3(b) of the Code the withdrawn Party would remain liable for payment of these charges, and BSCCo would seek to pursue any non-payment. However, any costs unpaid by the Party would be recovered via all remaining Parties' General Funding Shares on a default basis.

Where the final annual determination of BSCCo Charges resulted in amounts payable to the withdrawn Party in respect of that BSC Year, BSCCo would seek to issue a rebate to the Party. If this repayment could not be made (due to the Party having wound up its operations as a company), the money would be redistributed to all remaining Parties via their General Funding Shares on a default basis.

Please note that a Party's BSCCo Charges could not be paid using the Reconciliation Charges deposit held by the FAA, which is unable to hold money for purposes other than Credit Cover or Trading Charges. The SSMG therefore developed an Alternative Modification under which a withdrawing Non-Supplier Trading Party would be required to lodge an additional deposit with BSCCo to cover such costs (see Section 1.5).

1.3 Issues raised by the Proposed Modification

The following issues raised by the Proposed Modification were considered by the SSMG during the Assessment Procedure for P178:

- The eligibility for, and timing of, early withdrawal;
- The administration of the Reconciliation Charges deposit by the FAA;
- Potential Reconciliation Charges deposit calculation options;
- VAT issues relating to the Reconciliation Charges deposit;
- The withdrawn Party's exit from future legal obligations under the Code;
- The risk of underestimation of the withdrawn Party's actual Reconciliation Charges;
- The risk of Trading Disputes entering Settlement after R2; and
- The outstanding BSCCo Charges of the withdrawn Party.

For further details regarding these issues, please refer to the P178 Assessment Report in Annex 3.

1.4 SSMG's assessment of whether the Proposed Modification would better facilitate the Applicable BSC Objectives

Majority view against Proposed Modification

The majority view of the SSMG is that the Proposed Modification would not better facilitate the achievement of the Applicable BSC Objectives and, specifically, that it would have a negative impact on Applicable BSC Objectives (c) and (d).

The arguments put forward against Objective (c) were as follows:

- It is not possible to accurately estimate a Non-Supplier Trading Party's future Reconciliation Charges between R2 and RF. The SSMG has been unable to identify a more accurate methodology for this estimation than basing it on the Withdrawing Party's historic Reconciliation Charges, which may not be reflective of its future level of liabilities – not least since these can be significantly affected by any Trading Disputes entering Settlement after R2,

the number and materiality of which cannot be predicted. This view is consistent with the arguments previously expressed by the Modification Groups for P127, P132 and P152.¹¹

- The P178 Reconciliation Charges deposit calculation therefore contains the risk that a withdrawing Non-Supplier Trading Party's future charges could be materially underestimated. Although P178 contains a 'ratchet' mechanism for requesting an additional pre-payment in the event of any shortfall, there is the risk that the withdrawn Party either refuses or is unable to pay this increased amount – leading to it being recouped from all remaining Parties.
- A non-operational Non-Supplier Trading Party, which is planning to withdraw at RF under the current withdrawal timescales, may already simplify its exit without increasing the risks to other Parties. Under the existing route such Parties may already lodge cash with the FAA as pre-payment towards their Trading Charges, and reduce their Credit Cover to the Minimum Eligible Amount (or amount estimated to cover future Reconciliation Charges, if in insolvency or administration). The requirement to remain a Party until RF would therefore not appear to be a barrier to competition.
- The Code is a multilateral contract, and the aim of the current withdrawal timescales is to protect the market against the potential 'bad debts' of any one Party. The current arrangements are applied equally to all (a 'level playing field'), and therefore do not unduly discriminate against any one class of Party. Competition would be adversely affected if Parties were able to withdraw after R2 with the potential risk that their future charges might not be paid and might be recovered from remaining Parties – since this could create benefits for Non-Suppliers at the expense of the rest of the market (a potential 'cross-subsidy').
- A potential barrier to exit is not necessarily a barrier to entering the market, since Parties sign up to the Code with the expectation that the market will prove profitable and therefore that they will be in it for the long term. Moreover, the current withdrawal timescales may be viewed as less of a barrier to entry than the potential impact of allowing some Parties' early withdrawal.
- The withdrawal deposit under the Proposed Modification does not include an estimation of the future adjustments in a Withdrawing Party's share of BSCCo Charges. Although these would be invoiced to the Party, there is the risk that they would not be paid and would be recovered from remaining Parties – strengthening the argument that the Proposed Modification would create a cross-subsidy.
- Despite the Reconciliation Charges deposit, a withdrawing Non-Supplier Trading Party would not be able to achieve a final financial settlement at R2 under the Proposed Modification – since it might still receive a ratchet request (up to RF), invoices for BSCCo Charges (up to the end of the BSC Year) or invoices for further DF runs or ESDs in respect of any of its Settlement Days (beyond RF).

The arguments put forward against Objective (d) were as follows:

- The requirement to issue Confirmation Notices for VAT purposes after R2 would reduce any potential administrative cost and efficiency savings for the FAA. Moreover, any potential savings for the FAA would be outweighed by the costs of implementing and operating the processes for the Reconciliation Charges deposit.
- Any potential benefits to BSCCo of not having to chase Parties, or process payment Defaults, for small amounts of Reconciliation Charges between R2 and RF would be outweighed by the ELEXON implementation and operational costs for the Proposed Modification.

¹¹ Modification Proposals P127 'Optional de-registration by insolvent Party' and P132 'Redefinition of Credit Cover Requirements to account for Reconciliation Charges'.

- One member of the SSMG stated their view that the proposed P178 processes would be inefficient, and that the simplest, most efficient and least-risk way to leave the Code was under the current arrangements.

Minority view in support of Proposed Modification

The Proposer's Representative continued to believe that the Proposed Modification would better facilitate the achievement of both Applicable BSC Objectives (c) and (d).

The arguments put forward in support of Objective (c) were as follows:

- The Proposed Modification would remove barriers to exit for Non-Supplier Trading Parties by introducing a simpler and more timely withdrawal route for those Parties who had paid the vast majority of their Reconciliation Charges by R2, and whose future Reconciliation Charges and risk to the market would therefore be small.
- The Proposed Modification would reduce the effort required for Withdrawing Parties to process invoices for small amounts of Reconciliation Charges between R2 and RF, and to monitor the ongoing or changing legal liabilities of a contract under which their company is no longer operational. It would also remove the administrative costs to the FAA of issuing Advice Notes.
- Compared with the current arrangements, the Proposed Modification would reduce the risk of unpaid Reconciliation Charges being recouped from other Parties – since these would have been pre-paid.

The arguments put forward in support of Objective (d) were as follows:

- The Proposed Modification would reduce the effort required for BSCCo to pursue small amounts of money and manage any unintentional payment Defaults between R2 and RF – allowing it to more appropriately target resources on those Parties who are operational in the market.

1.5 Alternative Modification

This section outlines the solution requirements developed by the SSMG to support the Alternative Modification. More detail regarding the Group's rationale in developing these requirements can be found in the P178 Assessment Report in Annex 3.

1.5.1 Solution overview – the 'BSCCo Charges deposit'

The Alternative Modification developed by the SSMG is the same as the Proposed Modification outlined in Section 1.2, except for the addition of two further withdrawal criteria in Section A5.1.3 of the Code. These are that a Non-Supplier Trading Party withdrawing after R2 must also have:

- Paid the Base Monthly Charge for each calendar month commencing after its Withdrawal Date but prior to the Payment Date for the RF run for its final Settlement Day; and
- Lodged a refundable cash deposit with BSCCo to cover the estimated future adjustments in its share of Annual Net Main Costs in the BSC Year in which its last Settlement Day fell (hereafter referred to as the 'BSCCo Charges deposit').

1.5.2 Detailed solution

a) Payment of Base Monthly Charge

Under the Alternative Modification, a Non-Supplier Trading Party withdrawing after R2 would be required to pay the Base Monthly Charge for each month where, under the pre-P178 withdrawal timescales, it would have been required to remain a Party to the Code (i.e. up to RF).

b) Calculation of BSCCo Charges deposit

Following receipt of a Non-Supplier Trading Party's Withdrawal Notice, and providing that the Party met all other withdrawal criteria, BSCCo would calculate the Party's BSCCo Charges deposit as follows:

*(Estimated Annual Net Main Costs * Party's average Main Funding Share in BSC Year) – BSCCo Charges paid by the Party prior to its Withdrawal Date.*

The estimated Annual Net Main Costs would be based on BSCCo's Annual Budget for that BSC Year.

c) Non-physical traders and Parties not trading in BSC Year

The above calculation would return a BSCCo Charges deposit amount of zero for non-physical traders (who do not have Main Funding Shares) and any Party which had not traded in that BSC Year (since its last Settlement Day would have fallen in the previous BSC Year). Since such Parties would not be subject to any further adjustments in their share of Annual Net Main Costs, they would only be required to lodge the Reconciliation Charges deposit and pay the Base Monthly Charge for the months remaining until RF.

d) Administration of BSCCo Charges deposit

At the payment due date for each remaining invoice month of the BSC Year, BSCCo would either debit or credit the Party's BSCCo Charges deposit with the following:

- The difference between the amount already paid by the Party in respect of its share of Annual Net Main Costs for the BSC Year and the latest estimate or actual amount payable by the Party; and
- The VAT applicable to the debited/credited amount.

BSCCo would still be required to issue invoices to the withdrawn Party in order to comply with its obligations regarding VAT. Since BSCCo is already required to produce a statement of the final determination of each Party's BSCCo Charges for that BSC Year (see Section D4.6 of the Code), this would also serve as the Party's final statement of the debits from/credits to its deposit.

Any remaining deposit money would be returned to the Party following the final reconciliation of BSCCo Charges for that BSC Year. No interest would be paid to the Party in respect of the period in which its BSCCo Charges deposit was held by BSCCo. If any surplus money could not be returned to the Party (due to it having wound up its operations as a company), this money would be redistributed to all remaining Parties via their General Funding Shares on a default basis.

If the Party's deposit proved to be insufficient to cover its actual share of BSCCo Charges, the Party would be invoiced by BSCCo for the deficit amount following the final determination of charges at the end of the BSC Year. Under paragraph A5.3.3(b) of the Code the withdrawn Party would remain liable for these charges and could be pursued for non-payment by BSCCo. However, if the money could not be recovered it would be recouped from all remaining Parties via their General Funding Shares on a default basis.

Please note that a deficit in a Party's BSCCo Charges deposit could not be covered using a surplus in its Reconciliation Charges deposit and vice versa, since BSCCo and the FAA may only hold money for BSCCo Charges and Credit Cover/Trading Charges respectively.

e) Remaining Annual Default Costs

The Party's share of Annual Default Costs would not be included in the BSCCo Charges deposit calculation (since this could not be predicted). However, where the Party's actual share of actual

BSCCo Charges for the BSC Year exceeded its original deposit amount the shortfall would be invoiced to the Party following the final determination of BSCCo Charges for the BSC Year (see above).

1.6 Issues raised by the Alternative Modification

The following issue raised by the Alternative Modification was considered by the SSMG during the Assessment Procedure for P178:

- The calculation and administration of the BSCCo Charges deposit.

For further detail regarding this issue, please refer to the P178 Assessment Report in Annex 3.

1.7 SSMG's assessment of whether the Alternative Modification would better facilitate the Applicable BSC Objectives

The majority view of the SSMG is that the Alternative Modification is superior to the Proposed Modification, for the following reasons:

- The Alternative Modification would reduce the risk of non-payment of some elements of a Withdrawing Party's BSCCo Charges through the addition of a second pre-payment deposit; and
- The Alternative Modification would reduce the administrative effort required by the Withdrawing Party in managing invoices for some elements of BSCCo Charges after R2.

One member of the Group abstained on the grounds that they were unsure whether the Alternative was better than the Proposed Modification due to the increased ELEXON implementation costs it would entail.

However, the majority view of the SSMG was that the Alternative Modification would not better facilitate the achievement of the Applicable BSC Objectives *when compared with the current Code baseline*. Although these members agreed that the Alternative would have a less detrimental impact on the Applicable BSC Objectives than the Proposed Modification, they considered that it would still negatively impact Objectives (c) and (d) – since it would still retain the other disadvantages of the Proposed Modification (see below).

Majority view against Objectives (c) and (d)

The arguments put forward against Objective (c) were as follows:

- It is not possible to accurately estimate a Non-Supplier Trading Party's future Reconciliation Charges between R2 and RF, or its remaining adjustments in its share of BSCCo Charges for the BSC Year. The SSMG has been unable to identify a more accurate methodology for the estimation of the deposits than basing them on the Withdrawing Party's historic Reconciliation Charges, historic Main Funding Shares and BSCCo's Annual Budget, which may not be reflective of the actual future level of liabilities.
- In the case of Reconciliation Charges, these can be significantly affected by any Trading Disputes entering Settlement after R2, the number and materiality of which cannot be predicted. The P178 Reconciliation Charges deposit calculation therefore contains the risk that a withdrawing Non-Supplier Trading Party's future charges could be materially underestimated. Although P178 contains a 'ratchet' mechanism for requesting an additional pre-payment in the event of any shortfall, there is the risk that the withdrawn Party either refuses or is unable to pay this increased amount – leading to it being recouped across all remaining Parties.
- A non-operational Non-Supplier Trading Party, which is planning to withdraw at RF under the current withdrawal timescales, may already simplify its exit without increasing the risks to other

Parties. Under the existing route such Parties may already lodge cash with the FAA as pre-payment towards their Trading Charges, and reduce their Credit Cover to the Minimum Eligible Amount (or amount estimated to cover future Reconciliation Charges, if in insolvency or administration). The requirement to remain a Party until RF would therefore not appear to be a barrier to competition.

- In the case of BSCCo Charges, a budget overspend by BSCCo (due to unforeseen circumstances) may lead to a shortfall between the withdrawn Party's BSCCo Charges deposit and its actual liabilities. There is therefore the risk that, if the withdrawn Party refuses or is unable to pay its increased BSCCo Charges, this shortfall would be recouped from all remaining Parties.
- Moreover, the Withdrawing Party's share of Annual Default Costs could not be predicted since these would depend upon the number of Parties being placed in Default during the BSC Year. Any necessary additional invoicing for these costs following the end of the BSC Year would therefore reduce the administrative savings for the withdrawn Party, whilst containing the risk that they would not be paid and would be recouped across all remaining Parties.
- The Code is a multilateral contract, and the aim of the current withdrawal timescales is to protect the market against the potential 'bad debts' of any one Party. The current arrangements are applied equally to all (a 'level playing field'), and therefore do not unduly discriminate against any one class of Party. Competition would be adversely affected if Parties were able to withdraw after R2 with the potential risk that their future charges might not be paid and might be recovered from remaining Parties – since this could create benefits for Non-Suppliers at the expense of the rest of the market (a potential 'cross-subsidy').
- A potential barrier to exit is not necessarily a barrier to entering the market, since Parties sign up to the Code with the expectation that the market will prove profitable and therefore that they will be in it for the long term. Moreover, the current withdrawal timescales may be viewed as less of a barrier to entry than the potential impact of allowing some Parties' early withdrawal.
- Although the Alternative Modification reduces the risk of non-payment of some elements of BSCCo Charges, it therefore still does not provide adequate protection to remaining Parties when compared with the current arrangements.
- Despite the pre-payment deposits, a withdrawing Non-Supplier Trading Party would not be able to achieve a final financial settlement at R2 under the Alternative Modification – since it might still receive a ratchet request for the Reconciliation Charges deposit (up to RF), invoices for further DF runs or ESDs in respect of any of its Settlement Days (after RF), or invoices for any outstanding BSCCo Charges such as Annual Default Costs (following the end of the BSC Year).

The arguments put forward against Objective (d) were as follows:

- The requirement to issue VAT invoices after R2 would reduce any potential administrative cost and efficiency savings for the FAA and BSCCo. Moreover, any potential savings for the FAA and BSCCo in not having to chase Parties for charges between R2 and RF would be outweighed by the costs of implementing and operating the processes for the Reconciliation Charges and BSCCo Charges deposits.

Minority view in support of Objectives (c) and (d)

The Proposer's Representative believed 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.

The arguments put forward in support of Objective (c) were as follows:

- As for the Proposed Modification, the Alternative Modification would remove barriers to exit by introducing a simpler and more timely withdrawal route for those Parties who had paid the vast majority of their Reconciliation Charges by R2, and whose future Reconciliation Charges and risk to the market would therefore be small.
- As for the Proposed Modification, the Alternative would reduce the effort required for Withdrawing Parties to process invoices for small amounts of Reconciliation Charges between R2 and RF, and to monitor the ongoing or changing legal liabilities of a contract under which their company is no longer operational. It would also remove the administrative costs to the FAA of issuing Advice Notes.
- As for the Proposed Modification, the Alternative would reduce the risk (compared with the current arrangements) of unpaid Reconciliation Charges being recouped from other Parties, since these would have been pre-paid.
- The Alternative Modification would also have the advantage over the Proposed Modification of reducing the administrative effort required by the Withdrawing Party to manage invoices for some elements of BSCCo Charges after R2 – thus going further towards removing barriers to a timely exit for Non-Supplier Trading Parties.

The arguments put forward in support of Objective (d) were as follows:

- Compared with the Proposed Modification, the Alternative (by including pre-payment of BSCCo Charges) would further reduce the effort required for BSCCo to pursue small amounts of money and manage any unintentional payment Defaults between R2 and RF – allowing it to more appropriately target resources on those Parties who are operational in the market.

1.8 Governance and regulatory framework assessment

The SSMG noted the informal advice received by BSCCo that, although outside the vires of the Code and therefore of the scope of P178, a Party which fully 'wound up' its operations as a company after withdrawing from the Code at R2 might be non-compliant with its wider obligations under VAT law (see P178 Assessment Report for more detail).

2 COSTS¹²

PROGRESSING MODIFICATION PROPOSAL

Meeting Cost	£1,500
Legal/Expert Cost	£1,000
Impact Assessment Cost	£5,000
ELEXON Resource	50 man days £9,840

2.1 Implementation costs – Proposed Modification

IMPLEMENTATION COSTS – Proposed Modification P178

		Stand Alone Cost	P178 (Proposed) Incremental Cost	Tolerance
Service Provider¹³ Cost	Change Specific Cost	£2,700	£2,700	+/- 0%
	Release Cost	£0		+/- 0%
	Incremental Release Cost	£0	£0	+/- 0%
	Total Service Provider Cost	£2,700	£2,700	+/- 0%
Implementation Cost	External Audit	£0	£0	+/- 0%
	Design Clarifications	£0	£0	+/- 0%
	Additional Resource Costs	£0	£0	+/- 0%
	Additional Testing and Audit Support Costs	£0		+/- 0%
Total Demand Led Implementation Cost	£2,700	£2,700	+/- 0%	

¹² Clarification of the meanings of the cost terms in this section can be found in Annex 5 of this report.

¹³ BSC Agent and non-BSC Agent Service Provider and software costs.

ELEXON Implementation Resource Cost		182 man days £40,040	102 man days £22,440	+/- 10%
Total Implementation Cost		£42,740	£25,140	+/- 10%

ONGOING SUPPORT AND MAINTENANCE COSTS – Proposed Modification P178

	Stand Alone Cost	P178 (Proposed) Incremental Cost	Tolerance
Service Provider Operation Cost	£375 per withdrawal	£375 per withdrawal	+/- 0%
Service Provider Maintenance Cost	£0	£0	+/- 0%
ELEXON Operational Cost	£440 (2 man days) per withdrawal	£440 (2 man days) per withdrawal	+/- 10%

2.2 Implementation costs – Alternative Modification

IMPLEMENTATION COSTS – Alternative Modification P178

		Stand Alone Cost	P178 (Alternative) Incremental Cost	Tolerance
Service Provider Cost	Change Specific Cost	£2,700	£2,700	+/- 0%
	Release Cost	£0		+/- 0%
	Incremental Release Cost	£0	£0	+/- 0%
	Total Service Provider Cost	£2,700	£2,700	+/- 0%
Implementation Cost	External Audit	£0	£0	+/- 0%
	Design Clarifications	£0	£0	+/- 0%
	Additional Resource Costs	£0	£0	+/- 0%
	Additional Testing and Audit Support Costs	£0		+/- 0%

Total Demand Led Implementation Cost		£2,700	£2,700	+/- 0%
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ELEXON Implementation Resource Cost		188 man days £41,360	108 man days £23,760	+/- 10%
Total Implementation Cost		£44,060	£26,460	+/- 10%

ONGOING SUPPORT AND MAINTENANCE COSTS – Alternative Modification

	Stand Alone Cost	P178 (Alternative) Incremental Cost	Tolerance
Service Provider Operation Cost	£375 per withdrawal	£375 per withdrawal	+/- 0%
Service Provider Maintenance Cost	£0	£0	+/- 0%
ELEXON Operational Cost	£1,320 (6 man days) per withdrawal	£1,320 (6 man days) per withdrawal	+/- 10%

3 RATIONALE FOR PANEL'S RECOMMENDATIONS

3.1 Recommendation to the Authority

The Panel considered the P178 Assessment Report at its meeting held on 9 December 2004, and unanimously agreed the provisional recommendation that neither the Proposed Modification nor Alternative Modification should be made. The Panel unanimously agreed with the arguments of the SSMG as set out in Sections 1.4 and 1.7 above.

The Panel's provisional recommendation was consulted upon as part of the P178 draft Modification Report. At its meeting of 13 January 2005 the Panel considered this report and the responses received to the consultation (see Section 6), and agreed the final recommendation to the Authority that neither the Proposed Modification nor the Alternative Modification should be made.

3.2 Implementation Date

The Panel unanimously agreed with the Implementation Dates proposed by the SSMG for the Proposed and Alternative Modifications (see Section 9).

3.3 Legal text

Following the P178 Report Phase consultation, minor changes were made to the draft legal text as a result of a further review by BSCCo as follows:

Annex D-6 (Alternative Modification only)

- Correction of typographical error in 1.1 – missing paragraph number;
- Addition of missing definition in 1.3 – P'_{pm}.

Section N (Proposed and Alternative Modifications)

- Insertion of clarification in 6.4A.1 that the FAA receives payment of the Reconciliation Charges deposit on behalf of the BSC Clearer;
- Amendment of 6.4A.3-6.4A.5 to clarify that the interest attributable to the Reconciliation Charges deposit relates to the full original deposit amount lodged by the Party and not just the amount remaining after RF;
- Correction of style error in 7.1.5 and 7.1.6 – sub-paragraph headings (i) and (ii) corrected to (a) and (b) for consistency with standard Code conventions.

The Panel agreed these changes at its meeting on 13 January 2005, noting that the amendments did not alter the SSMG's agreed solution or the intent of the text. The final version of the legal text for the Proposed and Alternative Modifications can be found in Annex 1.

4 IMPACT ON BSC SYSTEMS AND PARTIES

During the Assessment Procedure, an assessment was undertaken in respect of BSC Systems and Parties. The following have been identified as impacted by P178.

4.1 BSCCo

ELEXON function	Impact of Proposed Modification	Impact of Alternative
Customer Services Management	<p>Implementation effort:</p> <p>Support to CVA Programme in implementation of amendments to BSCP65, attendance at walkthroughs, plus changes to local working instructions.</p> <p>Operational effort:</p> <p>Overall operational responsibility for management of P178 withdrawal process, including determination of whether each Withdrawing Party is a Non-Supplier Trading Party and requesting the calculation of its deposit amount.</p>	As for Proposed Modification.
CVA Operations	<p>Implementation effort:</p> <p>Input into review process for BSCCo and BSC Agent documentation changes, attendance at walkthroughs, changes to local working instructions, and introduction of a record of all Parties withdrawing after R2.</p> <p>Operational effort:</p> <p>Overall operational responsibility for management of P178 Reconciliation Charges deposit calculation and administration of deposit by the FAA.</p>	As for Proposed Modification.
Market Monitoring	<p>Implementation effort:</p> <p>Addition of P178 Reconciliation Charges deposit calculation to TOMAS system and documentation.</p> <p>Operational effort:</p> <p>Operational responsibility for running P178 Reconciliation Charges deposit calculation for each Withdrawing Party using TOMAS.</p>	As for Proposed Modification.

ELEXON function	Impact of Proposed Modification	Impact of Alternative
Finance	<p>Implementation effort:</p> <p>Minor changes to local working instructions, introduction of a spreadsheet record of all Parties withdrawing after R2 (in order to track future BSCCo Charges), and support to CVA Programme in implementation of amendments to BSCP301.</p> <p>Operational effort:</p> <p>Operational responsibility for invoicing/pursuing any BSCCo Charges accrued by a Party post-withdrawal, including allocation of any unpaid charges to remaining BSC Parties.</p>	<p>Implementation effort:</p> <p>Development of a new local working instruction detailing BSCCo's management of the BSCCo Charges deposit, introduction of new spreadsheet records relating to this deposit, support to CVA Programme in implementation of amendments to BSCP301, and attendance at walkthroughs.</p> <p>Operational effort:</p> <p>Operational responsibility for management of the BSCCo Charges deposit and Base Monthly Charge payments, and for allocating any unpaid charges to remaining BSC Parties.</p>
CVA Programme	<p>Implementation effort:</p> <p>Management of P178 implementation, including amendment of documentation, progression of Code Subsidiary Document changes through review cycle and Panel Committee approval, and undertaking walkthroughs of new P178 withdrawal process.</p> <p>Operational effort:</p> <p>None.</p>	As for Proposed Modification.
Corporate Assurance	<p>Implementation effort:</p> <p>Provision of implementation assurance to CVA Programme.</p> <p>Operational effort:</p> <p>None.</p>	As for Proposed Modification.

4.2 BSC Systems

4.2.1 BSC software

P178 has no impact on any BSC software, since the Reconciliation Charges deposit would be administered by the FAA using existing software functionality and a combination of new and existing manual processes. Please note that the implementation and operational effort by the CRA and FAA would be the same for both the Proposed and Alternative Modifications.

4.2.2 BSC Agent processes

a) CRA

Implementation effort

The following changes would be required to support the implementation of both the Proposed and Alternative Modifications:

- Addition of the dates for the R2 and R3 runs for the Withdrawing Party's last Settlement Day to the withdrawal checklist provided to BSCCo in accordance with BSCP65, in order for BSCCo to confirm that the Party is eligible to withdraw and to run the Reconciliation Charges deposit calculation using these dates (this information is currently only provided by the CRA in relation to RF); and
- Amendment to CRA local working instructions to reflect the above additional withdrawal checks.

All other information on the withdrawal checklist would remain unchanged.

No changes to CRA systems would be required to maintain the IDs of those Parties which had withdrawn at R2, in order to allocate subsequent adjustments in Settlement data, since this functionality already exists for Parties which withdraw at RF but may be subject to further DF runs or ESDs.

Operational effort

None.

b) FAA

The following changes and activities would be required to support the implementation and operation of both the Proposed and Alternative Modifications:

Implementation effort

- Amendment of documentation to record the FAA's management of the P178 Reconciliation Charges deposit (see Section 5).

Operational effort

- Increase in the daily management of pre-payment funds;
- Management of the 'ratchet request' (assumed to be an infrequent occurrence);
- Increase in the processing of Default Funding Shares for either recouping a shortfall (in the event of non-payment) or redistributing a surplus (in the event that the Party no longer exists) in the withdrawn Party's Reconciliation Charges deposit;

- Additional manual task to suppress the issue of Advice Notes to a Party which withdraws after R2; and
- Production of a final statement for each Party withdrawing after R2, containing details of the debits from/credits to its Reconciliation Charges deposit.

4.3 Parties and Party Agents

4.3.1 Parties

P178 has no direct impact upon Parties' systems, processes or documentation.

A Non-Supplier Trading Party would be able to achieve an earlier withdrawal from the Code following R2 – providing that the Party met the P178 withdrawal criteria, including lodging cash as security against its future financial liabilities. However, any Reconciliation Charges or BSCCo Charges which could not be recovered from the Party as a result of its early withdrawal would be recouped from all remaining Parties.

4.3.2 Party Agents

P178 has no impact on any Party Agents.

5 IMPACT ON CODE AND DOCUMENTATION

5.1 Balancing and Settlement Code

Code Section	Impact of Proposed Modification	Impact of Alternative Modification
Section A 'Parties and Participation'	Introduction of a shortened withdrawal process for Non-Supplier Trading Parties, along with requirement to lodge Reconciliation Charges deposit and pay all BSCCo Charges accrued to date.	As for Proposed Modification, plus additional requirement to lodge BSCCo Charges deposit and pay Base Monthly Charge for each month between the Party's Withdrawal Date and the RF Payment Date for its last Settlement Day.
Section D 'BSC Cost Recovery and Participation Charges'	Clarification that a Non-Supplier Trading Party which has withdrawn under P178 will continue to be invoiced for any subsequent adjustments in its share of BSCCo Charges for that BSC Year.	Introduction of process for lodging, drawing from and returning the BSCCo Charges deposit.
Section N	Documentation of process for lodging, drawing from and returning the Reconciliation Charges deposit (including the ratchet mechanism). Amendment to reflect suppression of Advice Notes for a Party which withdraws after R2.	As for Proposed Modification.

Code Section	Impact of Proposed Modification	Impact of Alternative Modification
Annex X-1 'General Glossary'	Definition of new terms 'Withdrawn Non-Supplier Trading Party', 'Reconciliation Charges Deposit' and 'Reconciliation Deposit Ratchet'.	As for Proposed Modification, plus new definition of 'BSCCo Charges Deposit'.

5.2 Code Subsidiary Documents

Item	Impact of Proposed Modification	Impact of Alternative Modification
BSCP65 'Registration of Parties and Exit Procedures'	Introduction of a shortened withdrawal process for Non-Supplier Trading Parties (including changes to withdrawal checklist), along with requirement to lodge Reconciliation Charges deposit and pay all BSCCo Charges accrued by its Withdrawal Date.	As for Proposed Modification, plus additional requirement to lodge BSCCo Charges deposit.
BSCP301 'Clearing, Invoicing and Payment'	Documentation of process for lodging, drawing from and returning the Reconciliation Charges deposit. Amendment to reflect suppression of Advice Notes for a Party which withdraws after R2.	As for Proposed Modification.
FAA Service Description	See above.	As for Proposed Modification.

5.3 Impact on other configurable items

Item	Impact of Proposed Modification	Alternative Modification
FAA URS	Documentation of process for managing P178 Reconciliation Charges deposit and ratchet request.	As for Proposed Modification.
EPFAL Interface Definition and Design Part 1 ¹⁴	As above.	As for Proposed Modification.

5.4 BSCCo Memorandum and Articles of Association

No impact.

5.5 Impact on Core Industry Documents and supporting arrangements

No impact.

¹⁴ EPFAL is the company which provides the FAA agent service.

6 SUMMARY OF REPORT PHASE CONSULTATION RESPONSES

6 responses (representing 41 Parties) were received to the P178 Report Phase consultation. One respondent had no comment on any of the questions raised by the consultation.

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

Q	Consultation question	Yes	No	No comment
1.	Do you agree with the Panel's provisional recommendation to the Authority, as set out in the draft Modification Report, that the Proposed Modification P178 should not be made?	5 (40)	0	1 (1)
2.	Do you agree with the Panel's provisional recommendation to the Authority, as set out in the draft Modification Report, that the Alternative Modification P178 should not be made?	5 (40)	0	1 (1)
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?	3 (30)	0	3 (11)
4.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P178, as set out in the draft Modification Report?	5 (40)	0	1 (1)

6.1 Panel's provisional recommendation

6.1.1 Proposed Modification

All respondents who commented agreed with the Panel's provisional recommendation that the Proposed Modification should not be made.

One respondent argued that new Parties are more likely to accede to the Code if they have the assurance that fellow participants are in for the longer term (and hence are more likely to settle their outstanding bills), rather than join, trade for a few weeks, and then leave. The respondent therefore believed that the Proposed Modification would be detrimental to competition. The respondent also believed that the Proposed Modification would have a negative effect on the efficiency of the Code – arguing that the proposed deposit mechanism would result in more work and costs for BSCCo, and would introduce additional unnecessary complexity into the trading arrangements.

One respondent stated that their main concern with both the Proposed and Alternative Modifications was that there could be no accurate methodology for estimating a Party's future liabilities, with the result that remaining Parties could be exposed to a bad debt. The respondent believed that this could not be seen to better facilitate competition in the generation and supply of electricity.

Another respondent similarly argued that there could be no guarantee that remaining Parties would not become liable for any unforeseen charges incurred after one Party's early withdrawal. This respondent believed that the Trading Dispute resulting from the Emergency Instruction issued on 19 May 2004 (the

rectification of which is currently deferred under P181) represents an example of how it is not possible to predict all future charges.¹⁵

One respondent stated that on reflection, having considered the contents of the draft Modification Report, they did not believe the Proposed Modification would better facilitate the achievement of the Applicable BSC Objectives. The view of this respondent was therefore altered from that expressed during the P178 Assessment Procedure consultation, where the respondent had been in support of the Proposed Modification.

6.1.2 Alternative Modification

All respondents who commented agreed with the Panel's provisional recommendation that the Alternative Modification should not be made.

One respondent believed that the Alternative Modification would not remedy either the damage to competition or the inefficiencies created by the Proposed Modification.

Two respondents stated that the Alternative should not be made, since it contained the same risk of an inaccurate estimation of future charges.

6.2 Draft legal text

All respondents who commented agreed with the draft legal text provided in respect of the Proposed and Alternative Modifications.

However, following the P178 Report Phase consultation, minor changes were made to the draft legal text as a result of a further review by BSCCo in order to correct typographical errors and clarify the interest attributable to the Reconciliation Charges deposit (see Section 3). These changes did not alter the SSMG's agreed solution or the intent of the text, and were agreed by the Panel at its meeting on 13 January 2005.

6.3 Recommended Implementation Date

Notwithstanding their lack of support for P178, all respondents who commented agreed with the proposed Implementation Dates for the Proposed and Alternative Modifications (see Section 9).

6.4 Further comments

No respondents made any further comments on P178.

6.5 Comments and views of the Panel

The Panel noted that the Proposer, who had expressed their support for both the Proposed Modification and the Alternative Modification during the Assessment Procedure, had not responded to the Report Phase consultation. The Panel also noted that one respondent who had supported P178 during the Assessment Procedure consultation had subsequently altered their view, such that their Report Phase consultation response was in favour of the Panel's recommendation to reject both the Proposed and Alternative Modifications. The Panel noted that the P178 Report Phase consultation responses were therefore unanimous that neither the Proposed nor Alternative Modifications should be made.

¹⁵ Modification Proposal P181'NGC Emergency Instruction re Damhead Creek 19.05.04: Deferral of Settlement Process'.

7 SUMMARY OF TRANSMISSION COMPANY ANALYSIS

7.1 Analysis

A Transmission Company impact assessment and analysis was commissioned by the SSMG during the Assessment Procedure for P178.

The Transmission Company did not believe P178 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 expressed its view that further Modification Group consideration of the potential risks and benefits was required before concluding whether P178 would better facilitate the achievement of the Applicable BSC Objectives. This further consideration was undertaken by the SSMG at its final meeting.

For more information regarding the Transmission Company's response, please refer to the P178 Assessment Report in Annex 3.

7.2 Comments and views of the Panel

The Panel noted the analysis and views of the Transmission Company.

8 SUMMARY OF EXTERNAL ADVICE

None was commissioned. However, during the Assessment Procedure, BSCCo sought informal advice from ELEXON's tax advisor regarding the potential VAT implications of the P178 deposit for a withdrawn Party. The advice received was that a Party which fully 'wound up' its operations as a company after withdrawing from the Code at R2 might be non-compliant with its wider obligations under VAT law (see P178 Assessment Report for more detail).

9 IMPLEMENTATION APPROACH

The Panel noted the implementation costs for the Proposed and Alternative Modifications as outlined in Section 2. The Panel noted that, as a documentation-only change, the BSC Agent costs for P178 would be the same whether the modification was implemented as part of scheduled release or as a stand-alone project. However, the Panel noted that the ELEXON resource effort would differ, and therefore unanimously agreed with the view of the SSMG that P178 should be implemented with other changes as part of an existing scheduled release, in order to incur only 'incremental' rather than 'stand-alone' costs.

The Panel noted that the implementation lead time would be the same for the Proposed and Alternative Modifications, and noted BSCCo's advice that the first available release to deliver P178 would be June 2005. The Panel therefore unanimously agreed with the following provisional Implementation Dates for both the Proposed and Alternative Modifications, as recommended by the SSMG:

- 29 June 2005, if an Authority decision is received on or before 9 March 2005; or
- 2 November 2005 if the Authority decision is received after 9 March 2005 but on or before 6 July 2005.

The Panel noted that, since all withdrawal criteria must be met 2 Business Days prior to a Party's Withdrawal Date, the earliest Withdrawal Date for a Non-Supplier Trading Party which met all P178 criteria would be 2 Business Days following the Implementation Date.

The Panel noted that some members of the SSMG had expressed disappointment in the level of costs quoted for the implementation and operation of the Proposed Modification, since these members of the Group considered the activities involved to be existing processes (for example, the FAA already administers 'pre-payments' for Trading Charges, whilst BSCCo already manages the withdrawal process and P152 calculation). The Panel noted BSCCo's clarification that the Proposed Modification would be an extension of these existing functions, and would therefore require the documentation and operation of additional processes as outlined in Sections 4 and 5 (for example, an addition in the daily management of pre-payment funds by the FAA, additional withdrawal criteria checks by BSCCo, and additional effort by BSCCo in calculating the Reconciliation Charges deposit).

In respect of the Alternative Modification, the Panel noted that the increased costs reflected the additional ELEXON effort required to manage the BSCCo Charges deposit. The Panel noted that this would be an entirely new process, since there is no existing process for advance payment of BSCCo Charges.

10 DOCUMENT CONTROL

10.1 Authorities

Version	Date	Author	Reviewer	Change Reference
0.1	13/12/04	Kathryn Coffin	Sarah Parsons	For technical review
0.2	14/12/04	Kathryn Coffin	BSC Parties/ other interested parties	For consultation
0.3	30/12/04	Kathryn Coffin	Sarah Parsons	For technical review
0.4	04/01/05	Kathryn Coffin	Change Delivery	For quality review
0.5	06/01/05	Change Delivery	BSC Panel	For Panel review & approval
1.0	14/01/05	BSC Panel		For Authority decision

10.2 References

Ref	Document	Owner	Issue date	Version
1	Panel Paper 84/001(g): 'Issue 12 – Timescales for withdrawal from the BSC' ELEXON - BSC Panel Paper Meeting number 084 - 14/10/04	BSCCo	08/10/04	1.0
2	Initial Written Assessment for Modification Proposal P178 'Reduction in the BSC withdrawal timescale for Parties who have settled the vast majority of their trading debts' ELEXON - Modification Proposal 178	BSCCo	08/10/04	1.0
3	Assessment Consultation for Modification Proposal P178 'Reduction in the BSC withdrawal timescale for Parties who have settled the vast majority of their trading debts' ELEXON - Modification Proposal 178	BSCCo	15/11/04	1.0
4	Requirements Specification for Modification Proposal P178 'Reduction in the BSC withdrawal timescales for Parties who have settled the vast majority of their trading debts' ELEXON - Modification Proposal 178	BSCCo	12/11/04	1.0

Ref	Document	Owner	Issue date	Version
5	Draft Modification Report for Modification Proposal P178 'Reduction in the BSC withdrawal timescale for Parties who have settled the vast majority of their trading debts' ELEXON - Modification Proposal 178	BSCCo	06/01/05	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.

Please note that, following the P178 Report Phase consultation, minor changes have been made to the legal text by BSCCo in order to correct typographical errors and clarify the interest payable on the Reconciliation Charges deposit (see Section 3). These changes do not alter the SSMG's agreed solution or the intent of the text, and were agreed by the Panel at its meeting on 13 January 2005.

ANNEX 2 MODIFICATION GROUP DETAILS

Member	Organisation	26/10/04	24/11/04
Roger Salomone	ELEXON (Chair)	✓	
Dena Harris	ELEXON (Chair)		✓
Kathryn Coffin	ELEXON (Lead Analyst)	✓	✓
Lisa Waters	Waters Wye Associates (Proposer's Representative)	✓	✓
Helen Bray	EDF	✓	
Garth Graham	Scottish and Southern Energy		✓
Mark Manley	British Gas Trading	✓	✓
Neil Smith	EON	✓	✓
Louisa Stuart-Smith	Npower	✓	✓

Attendee	Organisation	26/10/04	24/11/04
Steve Mackay	Ofgem	✓	✓
Ben Willis	Npower	✓	
Tom Woods	FAA	✓	
Melanie Henry	ELEXON (Lawyer)		✓
Mike Bishop	ELEXON (technical support)	✓	
Anh Chu	ELEXON (technical support)		✓
Charlotte Hutchinson	ELEXON (technical support)	✓	✓

For details of the SSMG's Terms of Reference for the P178 Assessment Procedure, please refer to the P178 Assessment Report in Annex 3.

ANNEX 3 ASSESSMENT REPORT

The P178 Assessment Report is included as Annex 3A, and is attached as a separate document.

ANNEX 4 REPORT PHASE CONSULTATION REPONSES

Copies of the responses received to the consultation regarding the P178 draft Modification Report are included as Annex 4A, and are attached as a separate document.

For copies of the responses received to the P178 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 any one Modification's implementation.
- **Incremental Cost** - the cost of adding that Modification Proposal to the scope of an existing release. This cost would also represent the potential saving if the Modification Proposal was removed from the scope of a release before development had started.
- **Tolerance** – the predicted limits of how certain the cost estimates included in the template are. The tolerance will be dependent on the complexity and certainty of the solution and the time allowed for the provision of an impact assessment by the Service Provider(s).

The cost breakdowns are shown below 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.

SERVICE PROVIDER¹⁶ COSTS	
Change Specific Cost	Cost of the Service Provider(s) Systems development and other activities relating specifically to the Modification Proposal.
Release Cost	Fixed cost associated with the development of the Service Provider(s) Systems as part of a release. This cost encompasses all the activities that would be undertaken regardless of the number or complexity of changes in the scope of a release. These activities include Project Management, the production of testing and deployment specifications and reports and various other standard release activities.
Incremental Release Cost	Additional costs on top of base Release Costs for delivering the specific Modification Proposal. For instance, the production of a Test Strategy and Test Report requires a certain amount of effort regardless of the number of changes to be tested, but the addition of a specific Modification Proposal may increase the scope of the Test Strategy and Test Report and hence incur additional costs.

¹⁶ A Service Provider can be a BSC Agent or a non-BSC Agent, which provides a service or software as part of the BSC and BSC Agent Systems. The Service Provider cost will be the sum of the costs for all Service Providers who are impacted by the release.

IMPLEMENTATION COSTS	
External Audit	Allowance for the cost of external audit of the delivery of the release. For CVA BSC Systems Releases this is typically estimated as 5% of the total Service Provider Costs, with a tolerance of +/- 20%. At present the SVA Programme does not use an external auditor, so there is no External Audit cost associated with an SVA BSC Systems Release.
Design Clarifications	Allowance to cover the potential cost of making any amendments to the proposed solution to clarify any ambiguities identified during implementation. This is typically estimated as 2.5% of the total Service Provider Costs, with a tolerance of +/- 100%.
Additional Resource Costs	<p>Any short-term resource requirements in addition to the ELEXON resource available. For CVA BSC Systems releases, this is typically only necessary if the proposed solution for a Modification Proposal would require more extensive testing than normal, procurements or 'in-house' development.</p> <p>For SVA BSC Systems releases, this will include the management and operation of the Acceptance Testing and the associated testing environment.</p> <p>This cost relates solely to the short-term employment of contract staff to assist in the implementation of the release.</p>
Additional Testing and Audit Support Costs	Allowance for external assistance from the Service Provider(s) with testing, test environment and audit activities. Includes such activities as the creation of test environments and the operation of the Participant Test Service (PTS). For CVA BSC Systems releases, this is typically estimated as £40k per release with at tolerance of +/-25%. For SVA BSC Systems releases this is estimated on a Modification Proposal basis.

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.