

## Draft MODIFICATION REPORT for Modification Proposal P139 Removal of Trading Unit restriction on Interconnector Users

Prepared by: ELEXON on behalf of the Balancing and Settlement Code Panel (the 'Panel')

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This document has been distributed in accordance with Section F2.1.10<sup>1</sup> of the Balancing and Settlement Code.

### RECOMMENDATIONS

On the basis of the analysis, consultation and assessment undertaken in respect of this Modification Proposal during the Modification Procedure and the resultant findings of this report, the Panel recommends to the Authority that:

- **Proposed Modification P139 should be made;**
- **The Implementation Date for Proposed Modification P139 should be:**
  - **30 June 2004, should the Authority determination be received before 19 March 2004; or**
  - **Should an Authority determination be received on or after this date, but prior to 20 July 2004 then the Implementation Date should be 3 November 2004.**

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<sup>1</sup> The current version of the Balancing and Settlement Code (the 'Code') can be found at [www.elexon.co.uk/ta/bsc/el\\_docs/bsc\\_code.html](http://www.elexon.co.uk/ta/bsc/el_docs/bsc_code.html)

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### SUMMARY OF IMPACTED PARTIES AND DOCUMENTS

The following parties/documents have been identified as being potentially impacted by Modification Proposal P139.

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

<b>Cost of implementing Proposed Modification:</b>	
<b>Change specific</b>	£0 + 35 ELEXON Man days
<b>Operational/maintenance</b>	£0 + 40 ELEXON Man days
<b>Total:</b>	<b>£ 0+75 ELEXON man days</b>

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

## 1.1 Modification Proposal

Modification Proposal P139 was raised by EDF Trading Ltd on 21 August 2003 (reference 1). P139 seeks to lift the restriction on Interconnector BM Units forming multiple BM Unit Trading Units<sup>2</sup> within England and Wales. Currently Section K 5.7.1 of the Balancing and Settlement Code (the 'Code') explicitly excludes Interconnector BM Units from forming Trading Units:

*"An Interconnector BM Unit may not belong to a Trading Unit other than a Sole Trading Unit."*

P139 was raised to allow Interconnector Users to realise Trading Unit benefits. These benefits occur as several forms of charging<sup>3</sup> are levied on a net basis for BM Units forming part of a Trading Unit. For example, if 1000 MW export was contracted on the Interconnector from France to UK and at the same time 500 MW import was contracted from UK to France, there would currently be charges made on the gross value of 1500 MW. Under P139, an Interconnector Trading Unit could be formed, the charges would then be due for those Interconnector BM Units (participating in the Trading Unit) in such a way as if the charges were based on the 'net' value. In the example above the charges would correspond to 500 MW, equivalent to the actual metered Interconnector flow and the amount 'seen' by the System Operator.

The Proposer believes that, by removing the restriction on Interconnector BM Units forming Trading Units, an unnecessary and unfair financial burden on existing and new Interconnector Users would be removed. It is also suggested that P139 would provide Interconnector Users with similar opportunities, for the formation of a Trading Unit, as afforded to other Trading Parties in England and Wales operating from the same site. As such, P139 would remove discrimination in this context, facilitate more efficient and competitive trading activity between neighbouring systems and remove the potential for duplicate charging of BSUoS charges. Therefore, the Proposer believes implementation of P139 would better facilitate achievement of Applicable BSC Objectives (a), (c) and (d).

*"a) the efficient discharge by the licensee of the obligations imposed upon it by this licence;*

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

*d) promoting efficiency in the implementation and administration of the balancing and settlement arrangements."*

ELEXON presented an Initial Written Assessment (IWA) (reference 2) to the Balancing & Settlement Code Panel ('the Panel') at its meeting on 11 September 2003. The Panel agreed with the recommendation in the IWA that P139 be submitted to a three month Assessment Procedure to be carried out by the Settlement Standing Modification Group (SSMG).

The SSMG met four times during the Assessment Procedure and conducted industry consultation and Party, BSC Agent and Transmission Company impact assessment. The Assessment Report (Reference 8) for P139 was considered by the Panel at its meeting on the 11 December 2003. At the meeting, the Panel supported the recommendations of the SSMG and submitted P139 to the Report Phase with a recommendation to the Authority that Proposed Modification P139 should be made. The Panel agreed

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<sup>2</sup> Every BM Unit is in a Trading Unit, even if that is a Trading Unit that comprises only the one BM Unit, in which case the Trading Unit is called a Sole Trading Unit. In this document, Trading Unit is used to refer to Trading Units that are not Sole Trading Units.

<sup>3</sup> The different charges and benefits afforded Trading Units are considered in detail within the P139 Assessment Report (Reference 8).

that a draft Modification Report based on its provisional views should be issued for industry consultation.

## 1.2 Proposed Modification

If approved, Proposed Modification P139 would introduce the following changes:

- Remove the current restriction (Section K 5.7.1) preventing Interconnector BM Units from belonging to a Trading Unit other than a sole Trading Unit. Interconnector BM Units would then be able to form Trading Units with other Interconnector BM Units on the same Interconnector.
- Introduce a new Class of Trading Unit (Annex K-2) for Interconnector BM Units.
- Ensure the Production/ Consumption status (P/C Status) of Interconnector BM Units would not change by virtue of belonging to a Trading Unit.

## 1.3 Issues raised by the Proposed Modification

The Terms of Reference agreed by the Panel for the assessment of P139 set out the issues raised by P139. The Terms of Reference were provided in the P139 Assessment Report (Reference 8), and formed the basis of the detailed deliberations of the SSMG (provided in the P139 Assessment Report). These issues are not detailed further in this Modification Report but included the following:

- Principles of Trading Units;
- Criteria for Interconnector Trading Units;
- Impact on P/C Status;
- Impact on Superposition;
- Consistency with the European Directives on Interconnector Use;
- Whether the defect is within the Scope of the BSC;
- Analysis of net benefits potentially afforded to Interconnector Trading Units; and
- Implementation timescales.

## 1.4 Assessment of how the Proposed Modification will better facilitate the Applicable BSC Objectives

On the basis of their assessment, as detailed in the Assessment Report for P139 (reference 8), the SSMG concluded the following:

- The potential to enable Interconnector BM Units to form non-sole Trading Units represents a material issue;
- The current limitations, disallowing non-Sole Trading Units for Interconnector BM Units, are discriminatory;
- Simply removing the current limitation may create an ambiguity in the interpretation of electrical proximity and possibly introduce another instance of discrimination between Interconnector BM Units and other BM Unit types. Hence, Applicable BSC Objective (c) may not be better achieved;
- Limiting Interconnector Trading Units to Interconnector BM Units on the same Interconnector, although restricting trading options to some extent, would alleviate the current restriction.

Furthermore, it would avoid introducing an inconsistency into the arrangements for cross border transfers and would facilitate better achievement of Applicable BSC Objective (c)<sup>4</sup>;

- Creating a new treatment for Interconnector Trading Units would introduce additional complexity, although, in the light of the materiality considerations, would deliver the main benefit and, thus, remove any material element of discrimination. Hence, Applicable BSC Objective (c)<sup>4</sup> would be better achieved, but Applicable BSC Objective (d)<sup>5</sup> would not be better achieved (due to increased complexity associated with the introduction of a new Class of Trading Unit);
- The SSMG agreed that P139 would not influence achievement of Applicable BSC Objective (a)<sup>6</sup>.

On balance, it was the majority view of the SSMG that P139 would:

**Provide Interconnector BM Units Trading Unit opportunities comparable to those afforded to other BM Unit types, thus addressing any discrimination in this area and facilitating competition. Furthermore, by restricting Interconnector BM Units to forming Trading Units with Interconnector BM Units on the same Interconnector, consistency would be maintained in the arrangements for cross border transfers, whilst the basic concept of the Trading Unit would be retained and minimal impact imposed. As such Proposed Modification P139 would, overall, better facilitate achievement of the Applicable BSC Objectives (in particular Applicable BSC Objective (c)<sup>4</sup>) and should be made.**

Contrary to the majority view of the group, one SSMG member held the view that, if there is an inappropriate or inconsistent methodology for calculating BSUoS liabilities for Interconnector Users, the issue should be resolved outside of the BSC. It was the view of this SSMG member that the other benefits delivered by the proposal were negligible and would not better facilitate competition in the generation and supply of electricity. The majority of the SSMG agreed that the main benefits afforded Interconnector BM Units would be in the area of BSUoS charging. However, it was noted that there were also benefits to be realised under both BSCCo charging and, in some cases, Transmission losses, although the materiality in these areas would be less than that associated with net BSUoS charging.

Contrary to the majority view of the group, one SSMG member held the view that, it would not be appropriate for Interconnector BM Units associated with Interconnector circuits where flows onto or off of the Interconnector are at geographically separated points to form Trading Units (as would be the case under Proposed Modification P139 for multi circuit Interconnectors). As such, this SSMG member, whilst offering support for removal of the Trading Unit restriction for some Interconnectors, did not believe Proposed Modification P139 (which would allow all Interconnector BM Units to form Trading Units with other BM Units on the same Interconnector) would better facilitate achievement of the Applicable BSC Objectives.

## 1.5 Governance and regulatory framework assessment

The SSMG considered whether Proposed Modification P139 would be consistent with the European Directive on access to the network for cross-border exchanges in electricity (Reference 7). The SSMG agreed that P139 would be consistent with the Directive.

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<sup>4</sup> (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.

<sup>5</sup> (d) Promoting efficiency in the implementation and administration of the balancing and settlement arrangements.

<sup>6</sup> (a) The efficient discharge by the licensee of the obligations imposed upon it by this licence.

## 1.6 Alternative Modification

No Alternative Modification P139 was developed. An alternative solution, suggested by one consultation respondent, whereby all Interconnector BM Units on the same Interconnector would be mandated as forming a Trading Unit, was considered by the SSMG. However, the SSMG agreed that mandating Trading Unit status to Interconnector BM Units was undesirable. Furthermore, the apportionment of net benefits via the underlying contractual arrangements between Trading Unit members helps to facilitate competition. If Trading Unit status were mandated this underlying contracting may not take place. Therefore, the SSMG agreed that this alternative solution would not better facilitate the Applicable BSC Objectives as compared to the Proposed Modification, and as such did not constitute an Alternative Modification.

## 2 RATIONALE FOR PANEL'S RECOMMENDATIONS

The Panel supported the rationale for the recommendations made by the SSMG with regard to P139 and on the basis of this rationale; the Panel recommends that Proposed Modification P139 should be made.

The majority of Panel members supported the majority view of the SSMG that Proposed Modification P139 would better facilitate achievement of the Applicable BSC Objectives and should be made. It was the majority view of the Panel that, Proposed Modification P139 would provide Interconnector BM Units Trading Unit opportunities comparable to those afforded to other BM Unit types, thus addressing any discrimination in this area and facilitating competition. Furthermore, by restricting Interconnector BM Units to forming Trading Units with Interconnector BM Units on the same Interconnector, consistency would be maintained in the arrangements for cross border transfers, whilst the basic concept of the Trading Unit would be retained and minimal impact imposed. As such Proposed Modification P139 would, overall, better facilitate achievement of the Applicable BSC Objectives (in particular Applicable BSC Objective (c)<sup>7</sup>) and should be made.

Contrary to the majority, one Panel member indicated the view that Proposed Modification P139 would not better facilitate achievement of the Applicable BSC Objectives and should not be made. This Panel member stated that the use of Interconnectors is volatile in comparison to other BM Unit types, as Interconnector use can vary in size and direction over relatively short time periods. The Panel member expressed concern that this volatility in Interconnector use would not sit comfortably with the kind of long term agreements involved with Trading Unit status i.e. that Interconnector BM Units may be constantly moved in and out of Trading Units. The Panel member questioned whether there could be a negative impact on Settlement accuracy as a result. In response, another Panel member indicated that the existing timescales for registration of Trading Units would apply (involving Panel approval) and that there would not be an impact on Settlement accuracy as a result of registration or de-registration of Trading Units.

The Panel supported the proposed Implementation Dates recommended by the SSMG. In accordance with responses to impact assessment, the SSMG agreed that the Implementation Date for Proposed Modification P139 should allow a 14 week lead time following an Authority decision in order to progress the document and process changes through the industry review and approval process. Furthermore, the SSMG agreed that the recommended Implementation Dates should be consistent with the BSC Systems Release strategy.

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<sup>7</sup> (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.

Therefore, the Panel agreed that the recommended Implementation Date for Proposed Modification P139 should be:

- 30 June 2004, should the Authority determination be received before 19 March 2004; or
- Should an Authority determination be received on or after this date, but prior to 20 July 2004 then the Implementation Date should be 3 November 2004.

### **3 IMPACT ON BSC SYSTEMS AND PARTIES**

An assessment has been undertaken in respect of BSC Systems and Parties and the following have been identified as potentially being impacted by the Proposed Modification.

#### **3.1 BSCCo Systems and Processes**

##### **3.1.1 Service Delivery: Support registration of Interconnector Trading Units**

ELEXON, the Customer Services Management team, may need to amend Local Working Instructions (LWIs) to reflect changed registration procedures for Trading Units.

Appropriate mechanisms for internal and external education of stakeholders regarding the new principles and practices introduced under P139 may also be necessary.

An estimated total effort of 40 ELEXON man-days, in the first year post implementation, would be required to support the registration of Interconnector Trading Units.

##### **3.1.2 Change Delivery: Requirement to support implementation**

ELEXON, the CVA Programme, would be required to support the implementation of process and documentation changes necessary to give effect to P139.

BSCP31-“Registration of Trading Units” would be updated and there would be associated industry review and walkthrough testing. The Business Process Model would need to be amended to reflect updated processes for registering a Trading Unit.

The estimated effort in order to implement these changes is 35 ELEXON man-days. An approximate lead time of 14 weeks would be required to progress the changes through the industry review and approval process.

#### **3.2 BSC Systems**

BSC Agent impact assessment of Proposed Modification P139 was commissioned and no impact on BSC Systems was identified. The results of BSC Agent impact assessment are included in Annex 5, it should be noted that Proposed Modification P139 is represented by option 1.

#### **3.3 Parties and Party Agents**

Party and Party Agent impact assessment of Proposed Modification P139 was commissioned and limited impact was identified. The results of Party and Party Agent impact assessment are included in Annex 6

##### **3.3.1 Ability to form multiple BM Unit Interconnector Trading Units**

Parties should note that the intent of P139 is to lift the current restriction on Interconnector BM Units forming multiple BM Unit Trading Units. As Interconnector BM Units would be limited to forming non-Sole Trading Units with BM Units on the same Interconnector this would only directly affect Interconnector Users.

The P/C Status of an Interconnector BM Unit electing to form part of a multiple BM Unit Trading Unit would not change. Therefore, P139 would not impact on the approach whereby a pair of Interconnector BM Units is used in order to separate imports and exports.

### **3.3.2 BSUoS Charging**

As indicated in the Transmission Company analysis of P139, currently, in accordance with section 9.3 of The Statement of the Use of System Charging Methodology, BM Units that are registered in Trading Units will be charged BSUoS charges on a net Trading Unit basis. Thus, if P139 were approved, this would apply to Interconnector BMU's. The Transmission Company's initial analysis of BSUoS charges from 2002/03 indicated that over an annual period, this could potentially reduce Interconnector BM Unit's share of BSUoS charges by approximately £1M (as the charging base will be reduced). Any reduction in Interconnector BM Unit's share of BSUoS charges resulting from the formation of Interconnector Trading Units would be shared among all users.

## **4 IMPACT ON CODE AND DOCUMENTATION**

### **4.1 Balancing and Settlement Code**

#### **4.1.1 Section K: Classification and Registration of BM Units**

Restriction on Interconnector BM Units forming non-Sole Trading Units removed.

#### **4.1.2 Annex K-2:**

New class of Trading Unit introduced for Interconnector BM Units on the same Interconnector.

### **4.2 Code Subsidiary Documents**

#### **4.2.1 BSCP31: 'Registration of Trading Units'**

Amendments would be required to reference Interconnector Trading Units and the criteria for their creation. New forms would be necessary as information required for the application may differ to that required for the current Trading Unit Classes.

### **4.3 Impact on Core Industry Documents and supporting arrangements**

An assessment of the potential impact on Core industry Document was conducted and no impact was identified. Potential interactions with Use of Interconnector Agreements and the Statement of the Use of System Charging Methodology were identified during initial assessment of P139 (Reference 2). Further assessment of the potential impact on these documents did not identify a requirement for amendment of these documents.

## 5 SUMMARY OF CONSULTATION

### 5.1.1 Report Phase Consultation

To be added following consultation

## 6 SUMMARY OF TRANSMISSION COMPANY ANALYSIS

### 6.1 Analysis

This section summarises the results of Transmission Company analysis of Proposed Modification P139.

The Transmission Company indicated that the Proposed Modification would not impact its ability to discharge its obligations under the Transmission Licence. Furthermore, the Transmission Company indicated the view that Proposed Modification P139 would better facilitate achievement of Applicable BSC Objective c) 'promoting effective competition in the generation and supply of electricity' by allowing Interconnector Parties to form Trading Units in the same way as other classes of user who are electrically close.

Limited potential impact on Transmission Systems and processes as a result of Proposed Modification P139 was identified and as such minimal costs were highlighted.

The Transmission Company noted references to Transmission Company charges (specifically BSUoS and TNUoS) in the consultation document. It was the view of the Transmission Company that it would not be appropriate to consider these issues when assessing whether the Proposed Modification better facilitates the Applicable BSC Objectives, as Transmission Company charges are outside of the vires of the BSC. However, the Transmission Company highlighted that currently, in accordance with section 9.3 of The Statement of the Use of System Charging Methodology, BM Units that are registered in Trading Units will be charged BSUoS charges on a net Trading Unit basis. Thus, if P139 were approved, this would apply to Interconnector BMU's. The Transmission Company's initial analysis of BSUoS charges from 2002/03 indicated that over an annual period, this could potentially reduce Interconnector BM Unit's share of BSUoS charges by approximately £1M (as the charging base will be reduced), and this would be shared among all users.

## DOCUMENT CONTROL

### 6.2 Authorities

Version	Date	Author	Reviewer	Change Reference
0.1	12/12/03	Change Delivery	Change Delivery	Initial Draft
0.2	17/12/03	Change Delivery	Industry	Updated following peer Review

### 6.3 References

Ref	Document	Owner	Issue date	Version
1	Modification Proposal P139		21/08/03	1.0
2	P139 Initial Written Assessment (IWA P139)	ELEXON	04/09/03	1.0
3	Requirements Specification for Modification Proposal P139 'Removal of Trading Unit restriction on Interconnector Users'	SSMG	28/10/03	1.0
4	The Statement of Use of System Charges	Transmission Company	01/04/03	3.0
5	BSCP 31-'Registration of Trading Units'	ELEXON	12/09/2003	7.0
6	Modification Proposal P139 Consultation Document (CD139)	SSMG	28/10/03	1.0
7	Regulation (EEC) No .../2003 of the European Parliament and of the Council on Conditions for access to the Network for Cross-Border exchanges in Electricity.	European Parliament	26/06/3	
8	Assessment Report for Modification Proposal P139 Removal of Trading Unit restriction on Interconnector Users (P139AR)	SSMG	5/12/03	1.0

## ANNEX 1 DRAFT LEGAL TEXT

For the draft Legal Text to give effect to Proposed Modification P139 see Attachment 1.

## ANNEX 2 MODIFICATION GROUP DETAILS

P139 progressed through the Assessment Procedure by the SSMG and the membership is detailed in the table below.

Member	Organisation	Role
Roger Salomone	ELEXON	Chairman
Tom Bowcutt	ELEXON	Lead Analyst
Steve Drummond	EDF Trading (Proposer)	Member
Maurice Smith	Campbell Carr	Member
Paul Jones	Powergen	Member
Mark Pearce	National Grid	Member
Mark Manley	Centrica	Member
Joanne Ellis	Cornwall Consulting	Member

In addition the following attendees were present at one or more meetings during the Assessment Procedure:

Member	Organisation	Role
Richard Hall	ELEXON	Change Delivery
Jerome Williams	Ofgem	Attendee
David Edwards	Ofgem	Attendee
Sanjukta Round	Cornwall Consulting	Attendee
Robert Barnett	Campbell Carr	Attendee

The SSMG met 4 times during the three-month Assessment Procedure for P139.

## ANNEX 3 CONSULTATION RESPONSES

For responses to Report Phase consultations on P139 see Attachment 2 (to be added following consultation).

## ANNEX 4 TRANSMISSION COMPANY ANALYSIS

For Transmission Company of P139 see Attachment 3.

## ANNEX 5 BSC AGENT IMPACT ASSESSMENTS

For BSC Agent impact assessment of P139 see Attachment 4. NB: Proposed Modification P139 is represented by option 1.

## ANNEX 6 PARTY IMPACT ASSESSMENTS

For Party impact assessments of P139 see Attachment 5.